Raspadskaya Open Joint Stock Company

(an open joint stock company organised under the laws of the Russian Federation)

Offering of 140,757,885 ordinary shares
Offering price: USD 2.25 per ordinary share

This offering memorandum relates to an offering of 140,757,885 ordinary shares of nominal value RR 0.004 per share (each a "Share" and together the "Shares") in the share capital of Raspadskaya Open Joint Stock Company (the "Company"). The Shares are being offered by Corber Enterprises Limited (the "Selling Shareholder") for placement to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside of the United States in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act"), and outside of Australia, Japan and the Republic of South Africa.

The Shares are listed on the list "V" of the Russian Trading System stock exchange (the "RTS") under the symbol "RASP" and on the list "V" of the Moscow Interbank Currency Exchange (the "MICEX") under the symbol "RASP". Trading in the Shares on the RTS and the MICEX is expected to start immediately after the completion of this offering. Prior to completion of this offering, there will not be any public market for the Shares.

This offering memorandum is intended for use only in connection with an offer and sale of the Shares outside of the United States pursuant to Regulation S under the Securities Act. The Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority in any State of the United States and may not be offered or sold within the United States except pursuant to Regulation S under the Securities Act. The Shares are being sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S. Under the Securities Act, purchasers of the shares may not offer, sell, pledge or otherwise transfer the shares in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This offering memorandum is for information purposes only and is not a prospectus prepared or filed with any registration or other governmental authorities in connection with the registration of the issue, the offer or sale of the Shares described in this offering memorandum.

The Shares will be eligible for any dividend declared for the financial year ended 31 December 2006 and subsequent years. See "Dividend Policy." In certain circumstances, dividends on the Shares are subject to deduction of Russian withholding taxes. See "Material Tax Considerations."

Investment in the Shares involves a high degree of risk. For a discussion of certain factors regarding our business and the Shares which should be considered by potential investors in making an investment decision, see "Risk Factors" beginning on page 11.

Global Coordinators

Credit Suisse **Deutsche UFG**

Joint Lead Managers and Joint Bookrunners

Credit Suisse **Deutsche UFG** **Morgan Stanley**

Co-Manager

Natexis Bleichroeder

The date of this offering memorandum is 10 November 2006

IMPORTANT INFORMATION

General

This offering memorandum is confidential. Potential investors may only use this offering memorandum solely for the purpose of considering the purchase of the Shares outside the United States pursuant to an exemption from the registration requirements of the Securities Act. Potential investors may not reproduce or distribute or forward this offering memorandum, in whole or in part, and may not disclose any of the contents of this offering memorandum or use any information herein for any purpose other than considering any investment in the Shares. Each potential investor shall be deemed to agree to the foregoing by accepting delivery of this offering memorandum.

We and other sources identified herein have provided the information contained in this offering memorandum. We confirm that all the information contained in this offering memorandum is in all material respects true and accurate and not misleading and does not omit anything which could, in the context of this offering, make any statements in this offering memorandum misleading. The joint lead managers and joint bookrunners (the "Joint Lead Managers") and the co-manager (the "Co-Manager") of this offering both referred to on the front cover of this offering memorandum (collectively, the "Managers") make no representation or warranty, express or implied, as to the accuracy or completeness of such information and accept no responsibility therefor. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the Managers.

No person has been authorised to give any information or to make any representation other than those contained in this offering memorandum in connection with this offering or sale of the Shares offered hereby and, if given or made, potential investors should not rely on such information or representation as having been authorised by us, the Selling Shareholder or the Managers. Neither the delivery of this offering memorandum nor any sale made in connection with this offering hereunder shall, under any circumstances, create any implication that our affairs remain unchanged since the date of this offering memorandum or that the information contained in this offering memorandum is correct at any time subsequent to its date.

The level of information disclosure in this offering memorandum does not comply with disclosure requirements applicable to offerings in the United States, the United Kingdom, the Russian Federation or other jurisdictions by the relevant regulatory and/or listing authorities and, accordingly, neither we, the Selling Shareholder, nor the Managers or their respective officers, directors, employees, affiliates, representatives, advisers or agents accept any responsibility for the compliance of this offering memorandum with the disclosure standards in jurisdictions where potential investors may be located.

The Managers and their officers, directors, employees, affiliates, representatives, advisers or agents expressly disclaim, to the fullest extent permitted by law, any and all liability for representations, express or implied, whether contained in or omitted from this offering memorandum or any other written or oral communications with the recipient in relation to the evaluation of their proposed investment in the Shares and/or relating to or resulting from the use of such information and communications by any potential investors or any of their affiliates, advisers or representatives. Neither the Managers nor their advisers have separately verified the information contained in this offering memorandum.

This offering memorandum is selective and is subject to updating, expansion, revision and amendment. It does not purport to be all-inclusive or necessarily contain all the information that potential investors may require in order to make an informed investment decision. The information set forth in this offering memorandum is only accurate as of the date on the front cover of this offering memorandum. No obligation is accepted either by us, the Selling Shareholder or the Managers to provide any recipients of this offering memorandum with access to any additional information, to update this offering memorandum, provide any additional information or to correct any inaccuracies therein that may become apparent. In no circumstances will we, the Selling Shareholder or the Managers be responsible for any costs, losses or expenses incurred by any recipient in connection with any due diligence conducted in respect of the Company and its subsidiaries or for any other costs or expenses incurred by the recipient in connection with the proposed acquisition of any of the Shares.

Each person contemplating making an investment in the Shares must make its own investigation and analysis of our financial condition, affairs and creditworthiness, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment.

This offering memorandum does not constitute an offer or an invitation by or on behalf of us, the Selling Shareholder or the Managers to subscribe for or purchase any of the Shares in any jurisdiction where the offer and sale is not permitted under applicable law. The distribution of this offering memorandum and the offering or sale of the Shares in certain jurisdictions is restricted by law. Neither we nor the Selling Shareholder nor the Managers represent that this offering memorandum may be lawfully distributed, or that Shares may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Accordingly, the Shares may not be offered or sold, directly or indirectly, and this offering memorandum may not be distributed or published in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. We, the Selling Shareholder and the Managers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any restrictions imposed by such laws and jurisdiction. For a further description of certain restrictions on offers and sales of the Shares and on distribution of this offering memorandum, see "—Selling Restrictions" and "Settlement and Delivery."

Certain provisions of various documents and other agreements are summarised in this offering memorandum. Such summaries are qualified in their entirety by reference to the texts of the original documents.

This offering memorandum, or any prior or subsequent communication of any prospective investor from or with us, the Selling Shareholder or the Managers or any professional adviser of any of the foregoing in connection with this offering, is not and shall not be relied upon as legal, financial, investment or tax advice. Prospective investors should obtain their own tax advice in connection with this offering. This offering memorandum replaces and supersedes any prior document and/or other correspondence that was circulated to potential investors with respect to the Shares prior to the date of this offering memorandum. The Managers are acting solely for the Company and the Selling Shareholder and are not responsible for providing advice to any other person in respect of this offering.

Selling Restrictions

European Economic Area

To the extent that the offer of the Shares is made in any European Economic Area Member State (the "Member State") that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive") before the date of publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Member State in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that Member State in accordance with the Prospectus Directive), the offer (including any offer pursuant to this offering memorandum) is only addressed to qualified investors in that Member State within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require us to publish a prospectus pursuant to the Prospectus Directive.

Finland

This offering memorandum does not constitute a public offer or an advertisement of securities to the public in the Republic of Finland ("Finland"). The Shares will not and may not be offered, sold, advertised or otherwise marketed in Finland under circumstances that would constitute a public offering of securities under Finnish law. Any offer or sale of the Shares in Finland will be made pursuant to a private placement exemption as defined under Article 3(2) of the Prospectus Directive and the Finnish Securities Markets Act (1989/495, as amended) and any regulation made thereunder, as supplemented and amended from time to time. This offering memorandum has not been approved by or dispatched to the Finnish Financial Supervision Authority.

France

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the Shares that has been approved by the *Autorité des marchés financiers* or by the competent authority of another Member State and notified to the *Autorité des marchés financiers*; no Shares have been offered or sold nor will be offered or sold, directly or indirectly, to the public in France; the prospectus or any other offering material relating to the Shares have not been distributed or caused to be distributed and will not be distributed or caused to be distributed to the public in France; such offers, sales and distributions have been and shall only be made in France to persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) and/or a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French *Code monétaire et financier*. The direct or indirect distribution to the public in France of any so acquired Shares may be made only as provided by Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French *Code monétaire et financier* and applicable regulations thereunder.

Italy

No prospectus has been nor will be published in Italy in connection with this offering of the Shares and this offering has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa*, the CONSOB) pursuant to Italian securities legislation. Accordingly, the Managers have represented and agreed that the Shares may not and will not be offered, sold or delivered, nor may or will copies of this offering memorandum or any other documents relating to the Shares be distributed in Italy, except (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended, (the Regulation No. 11522), or (ii) in other circumstances which are exempted from the rules on investment solicitation pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "Italian Finance Law") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the Shares or distribution of copies of this offering memorandum or any other document relating to the Shares in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Finance Law, Legislative Decree No. 385 of 1 September 1993, as amended (the "Italian Banking Law"), Regulation No. 11522, and any other applicable laws and regulations; (ii) in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing the Shares in this offering is solely responsible for ensuring that any offer or resale of the Shares it purchased in this offering occurs in compliance with applicable laws and regulations.

This offering memorandum and the information contained therein are intended only for the use of its recipient and, unless in circumstances which are exempted from the rules on investment solicitation pursuant to Article 100 of the Italian Finance Law and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended, is not to be distributed, for any reason, to any third party resident or located in Italy. No person resident or located in Italy other than the original recipients of this offering memorandum may rely on it or its content.

Italy has only partially implemented the Prospectus Directive; the provisions under the heading "European Economic Area" above shall apply with respect to Italy only to the extent that the relevant provisions of the Prospectus Directive have already been implemented in Italy.

Insofar as the requirements above are based on laws, which are superseded at any time pursuant to the implementation of the Prospectus Directive in Italy, such requirements shall be replaced by the applicable requirements under the relevant implementing measures of the Prospectus Directive in Italy.

Sweden

This offering memorandum has not, and will not be registered with the Swedish financial supervisory authority. Accordingly, this offering memorandum may not be made available, nor may the Shares otherwise be marketed and offered for sale, in Sweden other than in circumstances which are deemed not to be an offer to the public in Sweden under the Financial Instruments Trading Act (1991:980).

Switzerland

The Shares may not and will not be publicly offered, distributed or re-distributed in the Swiss Confederation ("Switzerland"), and neither this offering memorandum nor any other solicitation for investments in the Shares may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations or of Article 2 of the Federal Act on Investment Funds of 18 March 1994. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the Managers' prior written consent. This offering memorandum is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations and may not comply with the information standards required thereunder. We will not apply for a listing of the Shares on any Swiss stock exchange or other Swiss regulated market, and this offering memorandum may not comply with the information required under the relevant listing rules. The Shares have not and will not be registered with the Swiss Federal Banking Commission and have not and will not be authorised under the Federal Act on Investment Funds of 18 March 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Investment Funds of 18 March 1994 does not extend to acquirers of the Shares.

United Kingdom

We have not authorised any offer or sale of Shares to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Section 102B of the Financial Services and Markets Act 2000 (as amended) (the "FSMA"). Shares may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the FSMA.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the sale of the Shares has only been communicated or caused to be communicated and will only be communicated or cause to be communicated in circumstances in which section 21(1) of the FSMA does not apply.

This offering memorandum is being distributed only to, and must not be passed, either directly or indirectly, to any person other than persons who (i) are outside the United Kingdom; or (ii) have professional experience in matters relating to investments, which fall within Article 19 (1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (iii) high net worth entities, and other persons to whom it may otherwise be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). This offering memorandum must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

United States

The Shares have not been, and will not be, registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction and may not be offered or sold in the United States except pursuant to Regulation S under the Securities Act and all applicable state securities laws. The Shares are being sold outside the United States in offshore transactions as defined in, and in reliance, on Regulation S.

Other Restricted Jurisdictions

The Shares will not be offered or sold in or to any resident of, and no offer to buy the Shares will be solicited in or from any resident of, Australia, the Republic of South Africa or Japan in connection with the offering, and neither this offering memorandum nor any confirmation of sale shall be delivered to any address in any such country.

For United Arab Emirates residents only

The information contained in this offering memorandum does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise, and is not intended to be a public offer and is addressed only to persons who are sophisticated investors. Further, the information contained in this offering memorandum is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

General

The distribution of this offering memorandum and the offering of the Shares in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required to inform themselves about and to observe any such restrictions.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum are not historical facts and are "forward-looking." Forward-looking statements appear in various locations, including, without limitation, under the headings "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry," "Our Company" and "Report of IMC." Forward-looking statements are not historical facts and can often be identified by the use of terms like "estimates," "projects," "anticipates," "expects," "intends," "believes," "will," "may," "should" or the negative of these terms. All forward-looking statements, including discussions of strategy, plans, objectives, goals and future events or performance, involve risks and uncertainties. Examples of forward-looking statements include:

- future prices and demand for our products and demand for our customers' products;
- coal mine reserves potential;
- production forecasts of coal;
- trends in the coal industry and domestic and international coal market conditions;
- risks in coal mining;
- future expansion plans and capital expenditures;
- our relationship with, and other conditions affecting, our customers;
- competition;
- railroad and other transportation performance and costs;
- availability of specialist and qualified workers; and
- weather conditions or other catastrophic weather-related damage.

While these statements are based on sources believed to be reliable and on our management's current knowledge and best belief, they are merely estimates or predictions and cannot be relied upon. We cannot assure you that future results will be achieved. The risks and uncertainties that may cause our actual results to differ materially from the results indicated, expressed or implied in the forward-looking statements used in this offering memorandum include:

- risks relating to changes in political, economic and social conditions in Russia;
- risks relating to Russian legislation, regulation and taxation, including laws, regulations, decrees and decisions governing the Russian coal mining industry, the environment and currency and exchange controls relating to Russian entities and their official interpretation by governmental and other regulatory bodies and by Russian courts; and
- other risks and uncertainties.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

ENFORCEABILITY OF CIVIL LIABILITIES

We are an open joint stock company organised under the laws of the Russian Federation. Substantially all of our directors and executive officers named in this offering memorandum reside outside the United States and the United Kingdom. All or a substantial portion of their and our assets are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, it may not be possible for you to:

- effect service of process within the United Kingdom upon us or any of our directors and executive officers named in this offering memorandum; or
- enforce, in the United Kingdom or other Western jurisdictions, court judgments obtained in courts of the United Kingdom or those of other Western jurisdictions, as the case may be, against us or any of our directors and executive officers named in this offering memorandum in any action.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may be recognised and enforced by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. We are not aware of any treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom and the Russian Federation or between the Russian Federation and most other Western jurisdictions. However, we are aware of at least one instance in which Russian courts have recognised and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether Russian courts will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of such judgment or completely deprive the plaintiff of effective legal recourse.

The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). Consequently, Russian courts should, on the basis of the rules of the New York Convention, generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom or in any other jurisdiction which is party to such convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

Moreover, it may be difficult to enforce foreign judgments or arbitral awards in the Russian Federation due to:

- the inexperience of Russian courts in international commercial transactions;
- official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors; and
- Russian courts' inability to enforce such awards and corruption.

As of September 2002, the new arbitrazh procedural code of the Russian Federation (the "Arbitrazh Procedural Code") entered into force. The Arbitrazh Procedural Code sets up an exhaustive list of grounds for Russian courts to refuse recognition and enforcement of any foreign arbitral awards. The Arbitrazh Procedural Code and other Russian procedural legislation are subject to further changes; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may be met with resistance or a lack of understanding by Russian courts or other officials, thereby causing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This offering memorandum includes the following financial statements and financial information:

- Our audited consolidated financial statements for the years ended 31 December 2005, 2004 and 2003 prepared in accordance with International Financial Reporting Standards ("IFRS"). Ernst & Young LLC, our independent auditors, in their audit report expressed a qualified opinion on these financial statements. The opinion was qualified for a scope limitation related to observation of physical inventories as of 31 December 2002.
- Our unaudited historical interim condensed consolidated financial statements for the six-month periods ended 30 June 2006 and 2005 prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" ("IAS 34"). Ernst & Young LLC rendered a review report on these financial statements.
- Our pro forma consolidated financial information for the years ended 31 December 2005 and 2004. Ernst & Young LLC issued an examination report on this financial information.
- Our unaudited pro forma consolidated financial information for the six-month periods ended 30 June 2006 and 2005. Ernst & Young LLC rendered a review report on this financial information.

Market data used in this offering memorandum, including without limitation under the caption "Industry," have been extracted from official and industry sources and other sources we believe to be reliable. Throughout this offering memorandum, we have also set forth certain statistics, including statistics in respect of product sales volumes and market share, from industry sources and other sources we believe to be reliable. We accept responsibility for accurately reproducing such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In this offering memorandum, references to "US dollars," "USD" or "$" are to the currency of the United States, references to "roubles" or "RR" are to the currency of the Russian Federation and references to "euro" and "€" are to the currency of the member states of the European Union participating in the European Monetary Union.

Our functional currency is the rouble as it reflects the economic substance of our underlying events and circumstances. Solely for the convenience of the reader, certain information derived from the consolidated financial statements and other financial information included in this offering memorandum has been translated into US dollars. The US dollar amounts have been translated from the rouble amounts at the annual average rates of RR 28.29 = $1.00 for year ended 31 December 2005, RR 28.82 = $1.00 for the year ended 31 December 2004 and RR 30.69 = $1.00 for the year ended 31 December 2003, which were the rates published by the Central Bank of Russia (the "Central Bank").

The following table shows, for the periods indicated, certain information regarding the exchange rate between the rouble and the US dollar, based on the official exchange rate quoted by the Central Bank. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this offering memorandum. Fluctuations in the exchange rates between the rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	Exchange Rates Roubles per US dollar			
Years ended 31 December	**Low**	**High**	**Period Average**(1)	**Period End**
2001	28.16	30.30	29.17	30.14
2002	30.14	31.86	31.35	31.78
2003	29.25	31.88	30.69	29.45
2004	27.75	29.45	28.82	27.75
2005	27.46	29.00	28.29	28.78
Months				
January 2006	27.97	28.78	28.23	28.12
February 2006	28.10	28.26	28.20	28.12
March 2006	27.66	28.12	27.87	27.76
April 2006	27.27	27.77	27.56	27.27
May 2006	26.92	27.24	27.05	26.98
June 2006	26.71	27.10	26.98	27.08
July 2006	26.84	27.06	26.92	26.87
August 2006	26.67	26.84	27.76	26.74
September 2006	26.64	26.80	26.75	26.78
October 2006	26.73	26.97	26.86	26.75

(1) The average of the exchange rates on the last business day of each month for the relevant annual periods, and on each business day for which the Central Bank quotes the rouble to US dollar exchange rate for the relevant monthly period.

No representation is made that the rouble or the US dollar amounts in this offering memorandum could have been converted into US dollars or roubles, as the case may be, at any particular rate or at all. The rouble is generally not convertible outside Russia. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the rouble. Certain amounts and percentages that appear in this offering memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the mathematical aggregation of the figures which precede them, and figures expressed as percentages in the text may not total 100% when aggregated.

As used in this offering memorandum, references to terms such as "we," "us," "our," "Raspadskaya" or the "Company" and similar plural pronouns refer to the consolidated operations of Raspadskaya Open Joint Stock Company, taken as a whole, unless the context suggests otherwise.

In addition, this offering memorandum sets forth certain pro forma information, on both a financial and operational basis, that takes into account the MUK Group Acquisition (as defined below). The operational pro forma information included in this offering memorandum is based upon Company data taking into account the business of Open Joint Stock Company MUK-96 ("MUK-96") and Closed Joint Stock Company Razrez Raspadsky ("Razrez Raspadsky") for the periods indicated. We note that our pro forma consolidated information contained elsewhere in this offering memorandum 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.

WHERE INVESTORS CAN FIND MORE INFORMATION

Further information may be obtained directly from us by a request in person, in writing or by telephone at our representative office located at 43-2, Lomonosovsky avenue, 119192, Moscow, Russian Federation, tel.: +7 495 147 1516, fax: +7 495 147 1517, Attention: Oleg Kuzakov, Investor Relations or by e-mail at IR@raspadskaya.ru.

SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. This summary is not complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information about us, including the section entitled "Risk Factors," "Our Company" and our financial statements and the accompanying notes thereto, appearing elsewhere in this offering memorandum.

Company Overview

We are Russia's second-largest coking coal producer based upon production volume and have the largest reserves of coking coal in Russia. For the year ended 31 December 2005, we produced, on a pro forma basis, 9.7 million tonnes of raw coal as compared to 10.6 million tonnes of raw coal for the year ended 31 December 2004. For the six months ended 30 June 2006, we produced, on a pro forma basis, 5.1 million tonnes of raw coal as compared to 4.9 million tonnes of raw coal for the six months ended 30 June 2005. We conduct our business through 11 key subsidiaries located in the Kemerovo region of the Russian Federation in the Kuznetsky coal basin (the "Kuzbass"). Our mining operations include two active underground mines that are comprised of five operational longwall faces, one active open-pit mine, a coal preparation plant, one underground mine under construction, as well as industrial, maintenance and transportation infrastructure. We have leading market positions in Russia with respect to the coal that we produce, which primarily consists of several different types of coking coal, including coal that is classified under the Russian classification system as grades Zh (fat), GZh (gas fat) and GZhO (gas fat semi-lean). We believe that our coal concentrate from these grades would be considered semi-hard coking coal under the international classification system based on its aggregate characteristics, including ash, reflectance, plasticity and volatility. According to IMC, as of 30 June 2006, we had total proved and probable reserves of approximately 781.5 million tonnes.

For the year ended 31 December 2005, we sold, on a pro forma basis, 5.6 million tonnes of coal concentrate as compared to 6.0 million tonnes of coal concentrate for the year ended 31 December 2004. For the six months ended 30 June 2006, we sold, on a pro forma basis, 3.2 million tonnes of coal concentrate as compared to 2.7 million tonnes of coal concentrate for the six months ended 30 June 2005. For the year ended 31 December 2005, we sold, on a pro forma basis, 1.9 million tonnes of raw coal as compared to 2.9 million tonnes of raw coal for the year ended 31 December 2004. For the six months ended 30 June 2006, we sold, on a pro forma basis, 0.7 million tonnes of raw coal as compared to 1.0 million tonnes of raw coal for the six months ended 30 June 2005. We had revenues, on a pro forma basis, of $541.2 million for the year ended 31 December 2005 as compared to $420.7 million for the year ended 31 December 2004 and revenues, on a pro forma basis, of $218.3 million for the six months ended 30 June 2006 as compared to $313.7 million for the six months ended 30 June 2005. For the year ended 31 December 2005, our EBITDA, on a pro forma basis, was $321.9 million as compared to $258.8 million for the year ended 31 December 2004.

Competitive Strengths

We believe our key competitive strengths are as follows:

- Russia's second-largest coking coal producer;
- Largest high quality coking coal reserve base in Russia;
- Low cost and high efficiency coking coal production;
- Integrated business operations located at a single complex;
- Ability to prepare our own coal concentrate;
- Experienced management team;
- Focus on sustainability of our business; and
- Strong financial position.

For a more detailed description of our strengths, please see the section entitled "Our Business—Our Strengths" included elsewhere in this offering memorandum.

Business Strategy

Our key strategies include the following:

- Increase production and reserves;
- Enlarge export operations;
- Strengthen our market position in Russia and Ukraine;
- Maintain financial discipline and relentless focus on profitability; and
- Further enhance our corporate governance and health, safety and environmental standards.

For a more detailed description of our strategies, please see the section entitled "Our Business—Our Strategy" included elsewhere in this offering memorandum.

Reorganisation and Significant Developments

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 acquiring 100% equity interests in Closed Joint Stock Company Raspadskaya Preparation Plant ("Raspadskaya Preparation Plant"), Closed Joint Stock Company Raspadskaya Coal Company ("Raspadskaya Coal Company"), Limited Liability Company Raspadsky Ugol ("Raspadsky Ugol") and Closed Joint Stock Company Raspadskaya Koksovaya ("Raspadskaya Koksovaya") (each an "Acquired Company," and collectively, the "Acquired Companies") and acquiring a 100% equity interest in MUK-96 and its 99% owned subsidiary Razrez Raspadsky (the "MUK Group Acquisition") from the Selling Shareholder.

On 2 November 2006, Razrez Raspadsky acquired, via an auction process, the licence for the Raspadsky IX-XI area which is adjacent to the Glukhovsky deposit of the Raspadsky black coal deposit. Razrez Raspadsky paid approximately RR 126.0 million (approximately $4.7 million) for such licence. We believe the Raspadsky IX-XI area has reserves equal to approximately 111.0 million tonnes of coking coal that would be classified as B+C1 under the Russian methodology. Moreover, the Raspadsky IX-XI area also contains approximately 7.0 million tonnes that would be classified as C1 resources under the Russian methodology. We believe the coal grades GZh (gas fat), GZhO (gas fat semi-lean) and Zh (fat) found at the Raspadsky IX-XI area would be considered semi-hard coking coal under the international classification system. The licence is valid for 20 years, subject to adjustments. The licence requires the construction of an open-pit mine with a capacity to produce at least 1.0 million tonnes of raw coal per year, beginning within 10 years of Razrez Raspadsky registering such licence.

Additionally, our wholly-owned subsidiary, Raspadskaya Preparation Plant, commenced operations of Stage I of its preparation plant in the fourth quarter of 2005.

Risk Factors

In evaluating an investment in the Shares, prospective investors should carefully consider, along with the other information in this offering memorandum, the specific risks and factors set forth under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this offering memorandum.

We are an open joint stock company organised under the laws of the Russian Federation. We are registered in the Unified State Register of Legal Entities under principal state registration number 1024201389772. Our registered office is located in Mezhdurechensk, Mira Street, 106, Kemerovo region, Russian Federation, 652870. Our principal executive office is also located at that address. Our telephone number at our principal executive office is +7 38475 46000. Our website address is www.raspadskaya.com. No information found on our website is to be considered part of this offering memorandum.

THE OFFERING

The following summary contains basic information about the Shares and this offering. It does not contain all of the information that may be important to you. For a more complete understanding of the Shares, please refer to the sections of this offering memorandum entitled "Description of Share Capital and Certain Requirements of Russian Legislation."

Company	Raspadskaya Open Joint Stock Company, an open joint stock company organised under the laws of the Russian Federation.
Selling Shareholder	Corber Enterprises Limited, a legal entity organised under the laws of the Republic of Cyprus. As of the date hereof, the Selling Shareholder owned approximately 98% of our share capital. After this offering, the Selling Shareholder will own approximately 80% of our share capital.
The Offering	The Selling Shareholder is offering 140,757,885 Shares for sale. The Shares are being offered to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside of the United States in reliance on Regulation S under the Securities Act, and outside of Australia, Japan and the Republic of South Africa.
Offering Price	The offering price is USD 2.25 per Share.
Closing Date	On or about 24 November 2006 (the "Closing Date").
Share Capital	As of the date hereof, our share capital consisted of approximately 781,988,250 issued and outstanding ordinary shares. All of our ordinary shares have the same nominal value of RR 0.004 and grant identical rights to each holder. See "Description of Share Capital and Certain Requirements of Russian Legislation."
Lock-Up	Subject to certain exceptions, neither we, nor the Selling Shareholder, nor any of our or its directors or senior managers, nor any person acting on our, its or their behalf will, for a period of 180 days after the Closing Date, without the prior written consent of the Joint Lead Managers, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any of our shares or securities convertible or exchangeable into or exercisable for any of our shares or warrants or other rights to purchase our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities.
Dividends	All our shareholders, including holders of the Shares, will be eligible to receive dividends declared in respect of a financial year. Our shareholders will receive dividends in roubles. The procedures for dividend payments are governed by Russian law and will depend, among other things, on our future earnings, net profit, financial condition, capital requirements and such other factors as our board of directors may consider relevant. There can be no assurance that in any given year a dividend will be declared. See "Dividend Policy."

Listing and Market for the Shares	The Shares are listed on the list “V” of the RTS under the symbol “RASP” and on the list “V” of the MICEX under the symbol “RASP”. Trading in the Shares on the RTS and the MICEX is expected to start immediately after the completion of this offering. Prior to completion of this offering, there will not be any public market for the Shares. The ISIN (International Security Identification Number) of the Shares is RU000A0B90N8.
Settlement and Delivery of Shares	You must pay for the Shares in US dollars or roubles. Shares for which payment has been received will be delivered to you on or about the Closing Date. In order to take delivery of the Shares, you must have either (a) a deposit account with ZAO “Depositary Clearing Company;” or (b) a deposit account with another Russian-licensed depositary that has, directly or through another company, an account with our shareholders’ register maintained by ZAO “Uzhno-Kusbassky Spetsializirovanniy Registrator,” Mezhdurechensk branch or a deposit account with ZAO “Depositary Clearing Company;” or (c) an account with our shareholders’ register. However, directly held Shares are ineligible for trading on the RTS or the MICEX. See “Settlement and Delivery.”
Form of Securities	Ordinary registered shares in book-entry (non-documentary) form.
Voting Rights	Each ordinary share is entitled to one vote. See “Description of Share Capital and Certain Requirements of Russian Legislation.”
Use of Proceeds	All the Shares offered hereby are being sold by the Selling Shareholder. We will not receive any of the proceeds from the sale of the Shares in this offering. For further information, see the section entitled “Use of Proceeds.”
Russian Capital Gains Tax	You may be subject to Russian tax that might be withheld on trades of the Shares. For further information, see the sections entitled “Risk Factors” and “Material Tax Considerations.”
Russian Withholding Tax on Dividends	Dividends paid to a non-resident holder of the Shares generally are subject to Russian withholding tax. Dividends paid to a non-resident holder that is a legal entity generally will be subject to Russian withholding tax at a rate of 15% subject to double taxation treaty conventions. Dividends paid to non-resident individuals are subject to Russian withholding tax at a rate of 30%, subject to existence of the double taxation treaties. For further information, see the sections entitled “Risk Factors” and “Material Tax Considerations.”
Directors and Related Interests	As of the date hereof, our directors and senior management beneficially owning more than 1% of our share capital in aggregate beneficially owned approximately 49% of our share capital. After this offering, our directors and senior management beneficially owning more than 1% of our share capital in aggregate beneficially will own approximately 40% of our share capital.
Risk Factors	See “Risk Factors” below for a discussion of certain risks involved in investing in the Shares.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The summary historical consolidated financial information set forth below shows our summary historical consolidated financial information as of and for the years ended 31 December 2005, 2004 and 2003 and as of and for the six months ended 30 June 2006 and 2005. Moreover, our historical consolidated financial information has been revised for the years ended 31 December 2004 and 2003 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 historical consolidated financial statements as if the acquisitions of such Acquired Companies occurred on the date such Acquired Companies were originally established.

The summary historical consolidated financial information set forth below has been extracted without adjustment from, and should be read in conjunction with, our audited historical consolidated financial statements, and the notes thereto included elsewhere in this offering memorandum. The summary historical consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum. Our historical consolidated financial statements for each of the three years ended and as at 31 December 2005, 2004 and 2003 have been prepared in accordance with IFRS and audited by Ernst & Young LLC. The unaudited historical condensed consolidated financial statements as of and for the six months ended 30 June 2006 and 2005 have been prepared in accordance with IAS 34. The information presented as of and for the six months ended 30 June 2006 is not necessarily an indication of the results for the year ending 31 December 2006.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(in US dollars thousands)				
Income Statement					
Continuing operations					
Revenue					
Sale of goods	216,394	310,544	534,291	378,920	125,990
Rendering of services	5,224	2,917	14,600	12,729	5,453
Total revenue	221,618	313,461	548,891	391,649	131,443
Cost of revenue	(134,724)	(165,454)	(315,422)	(214,658)	(101,428)
Gross Profit	86,894	148,007	233,469	176,991	30,015
Selling and distribution costs	(5,915)	(3,534)	(5,255)	(5,476)	(6,315)
General and administrative expenses	(16,558)	(11,382)	(25,587)	(16,986)	(14,602)
Social and social infrastructure maintenance expenses	(2,853)	(4,150)	(7,118)	(3,956)	(1,963)
Gain/(loss) on disposal of property, plant and equipment	(471)	(432)	(1,188)	133	(202)
Foreign exchange gains/(losses), net	(275)	135	113	(92)	(348)
Other operating income/(expenses), net	(1,201)	(3,764)	(9,639)	(811)	(2,090)
Profit from operations	59,621	124,880	184,795	149,803	4,495
Dividend income	—	—	93	—	—
Interest income	434	2,158	3,294	2,297	773
Interest expense	(4,221)	(3,038)	(5,665)	(4,715)	(1,167)
Profit before income taxes	55,834	124,000	182,517	147,385	4,101
Income tax expense	(16,246)	(31,369)	(49,909)	(39,241)	(2,018)
Profit after tax from continuing operations	39,588	92,631	132,608	108,144	2,083
Discontinued operation					
Gain/(loss) after tax from discontinued operation	—	—	—	(1,886)	237
Net profit	39,588	92,631	132,608	106,258	2,320
Balance Sheet					
Total assets	1,439,312		420,509	353,847	221,161
Total shareholders' equity (deficit)	774,106		(5,608)	(41,586)	(73,524)
Total liabilities	665,206		426,117	395,433	294,685

SUMMARY PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following summary pro forma consolidated financial information has been derived by the application of pro forma adjustments related to the MUK Group Acquisition to our historical consolidated financial statements included elsewhere in this offering memorandum. The pro forma consolidated financial information as of and for the years ended 31 December 2005 and 2004 and the unaudited pro forma consolidated financial information for the six months ended 30 June 2006 and 2005 give effect to the MUK Group Acquisition as if it had occurred on 1 January 2004. The pro forma adjustments are based upon available information, preliminary estimates and certain assumptions that we believe are reasonable based on information currently available. The pro forma consolidated financial information is presented for illustrative purposes only and should not be considered indicative of actual results that would have been achieved had the MUK Group Acquisition been consummated on 1 January 2004, or of our future operating or financial results. The unaudited pro forma consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum.

	Six months ended 30 June		Year ended 31 December	
	2006	2005	2005	2004
	(in US dollars thousands)			
Income Statement				
Revenue				
Sale of goods	216,394	310,544	531,765	413,276
Rendering of services	1,923	3,137	9,409	7,458
Total revenue	218,317	313,681	541,174	420,734
Cost of revenue	(114,291)	(127,947)	(251,964)	(210,792)
Gross Profit	104,026	185,734	289,210	209,942
Selling and distribution costs	(5,915)	(3,534)	(5,255)	(5,476)
General and administrative expenses	(18,779)	(14,183)	(30,190)	(20,550)
Social and social infrastructure maintenance expenses	(2,853)	(4,150)	(7,118)	(3,956)
Gain/(loss) on disposal of property, plant and equipment	(471)	(432)	(1,188)	133
Foreign exchange gains/(losses), net	694	(425)	(468)	894
Other operating income/(expenses), net	(879)	(4,252)	(10,307)	(1,665)
Profit from operations	75,823	158,758	234,684	179,322
Dividend income	—	—	93	—
Interest income	544	2,158	3,540	2,340
Interest expense	(5,291)	(4,843)	(9,092)	(8,094)
Profit before income taxes	71,076	156,073	229,225	173,568
Income tax expense	(20,131)	(39,760)	(63,813)	(45,618)
Net profit	50,945	116,313	165,412	127,950
Balance Sheet				
Total assets			1,362,118	1,355,369
Total shareholders' equity			708,134	698,327
Total liabilities			653,984	657,042

RISK FACTORS

Investing in the Shares involves a high degree of risk. Before purchasing the Shares, you should carefully consider all the information set forth in this offering memorandum and, in particular, the risks described below. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed. In that case, the trading price of the Shares could decline and you could lose all or part of your investment.

The risks and uncertainties below are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware and these risks could have the effects set forth above.

Risks Related to Our Business

Our business and results of operations are dependent on coal markets which may be cyclical in nature.

As the majority of our revenue is derived from sales of coal, our business and operating results are substantially dependent on the domestic and international demand. The domestic and international coal markets are cyclical and exhibit fluctuation in supply and demand from year to year and are subject to numerous factors beyond our control, including, but not limited to:

- the Russian and global economic conditions;
- the supply and demand for domestic and foreign coal;
- fluctuations in industries with high demand for coal, such as steel and coking industries, and domestic and foreign demand for steel and the continued financial viability of the domestic and/or foreign steel industry;
- the proximity to, capacity of, and cost of transportation facilities; and
- domestic and foreign governmental regulations and taxes.

Historically, the domestic and international markets for coal have at times experienced alternating periods of increased demand, causing insufficient production capacity, and higher prices and margins, as well as periods of excess supply, causing excess production, and lower prices and margins. Moreover, the vast majority of our coal is sold to metallurgical customers, and as such, our results are particularly reliant and dependent on the demand by such customers. There is no assurance that the domestic or international demand for coal will continue to grow, or that the domestic or international coal markets will not experience excess supply. Moreover, approximately 79%, of our total coal product sales, on a pro forma basis, for the year ended 31 December 2005 were pursuant to contracts entered into with our domestic customers. As such, although we do currently export coal to certain European countries, such as Ukraine, Hungary, Romania and Bulgaria, our business, financial condition and results of operations are highly dependent on the Russian market. Any significant downturn in the Russian economy, and in particular, with respect to the Russian metallurgical industry, could have a material adverse effect on our business and results of operations. Furthermore, a significant decline in demand for coal or its excess supply by other coal producers may have a material adverse effect on our business and results of operations.

Our results of operations may be affected by a decline or volatility in prices for coal.

Coal prices are subject to cyclical fluctuations from time to time due to imbalances between demand and supply. Fluctuations in prices directly affect our operating and financial performance. We have experienced substantial price fluctuations in the past and believe that such fluctuations will continue. For instance, the average selling price of our coal concentrate per tonne was $77.5 in 2005 as compared with an average selling price per tonne of $53.1 in 2004. The primary factor affecting domestic and international coal prices and coal consumption patterns is the overall supply and demand of coal. The demand for coking coal is primarily affected by global economic cycles and the requirements for coal from the steel and coking industries. Domestic and international shipping costs also have effects on the market demand for coal. The supply of coal on the other hand, is primarily affected by the geographical location of the coal supplies, their geological positioning and extraction technology, the volume of coal produced by the domestic and international coal suppliers, and the quality and price of competing sources of coal. Any reduction in the demand for our coal by the foreign or domestic steel and coking industries may cause a decline in our profitability. Moreover, the price we charge our metallurgical customers for our coal is directly linked to the global market conditions of the steel industry. A drop in global steel prices will result in a reduction in the price we can charge such metallurgical customers. In addition, certain Russian coking coal companies may sell their coal at below market prices which may cause a reduction in the overall pricing market condition for our coking coal. Any significant decline in domestic or export coal prices could materially and adversely affect our results of operations.

Our product delivery relies on Russia's railway transportation system.

Increases in transportation costs may adversely affect our ability to compete successfully both in the Russian domestic market and international export market. Currently, the Russian government sets railway tariffs based upon requests from the state-owned company, OAO Russian Railways ("Russian Railways"), which owns and operates the Russian federal system of railroads. The railway tariffs have been constantly increasing over the course of the last years and may continue to increase in the future. Moreover, in 2003, legislation was enacted which sets forth the framework for the privatisation of certain state-owned businesses, and, in 2004, their assets were contributed into the share capital of Russian Railways. Further reform of Russian Railways or other factors may result in increased railway transportation costs, which may adversely affect our results of operations.

All our total net sales of coal were derived from sales of coal transported by the Russian Federation's national railway system. Moreover, our production facilities are located at a considerable distance from our customers. The Russian railway system cannot fully satisfy Russia's coal transportation requirements, and discrepancies between capacity and demand for transportation exist in certain areas of the Russian Federation. While we have in the past generally been allocated sufficient railway capacity and acquired sufficient rail cars and locomotives to transport our coal and to reduce our dependence on rolling stock owned by Russian Railways, we have at times experienced delays in securing necessary capacity or rail cars. No assurance can be given that we will continue to be allocated an adequate number of rail cars, or that we will not experience any material delay in transporting our coal as a result of insufficient railway transport capacity or rail cars. Any such occurrences could adversely affect our business and results of operations.

Results of our operations depend on our ability to acquire licences for coal reserves or develop new deposits.

Our coal reserves decline as we produce coal. The future increase in our coal production will be affected by our acquisition of new subsoil licences, the development of new coal mining projects or the expansion of our existing underground and open-pit mines. However, we can not give any assurances that our planned development and expansion projects will result in additional economically recoverable coal reserves or that we will continue to succeed in developing new deposits.

Moreover, the acquisition and/or the development of new deposits in the Russian Federation require the approval of the Russian government. Delay or failure in securing the relevant Russian government approvals or licences as well as any adverse change in government policies may cause a significant adjustment to our development and acquisition plans, which may materially adversely affect our profitability and growth prospects.

Our licences and permits necessary for our operations may be suspended, amended or terminated prior to the end of their terms or may not be renewed.

Our business depends on the continuing validity of our licences, our compliance with the terms of our licences and the ability to secure new licences should this be required by our operations. Our licences that provide us with the right to use or mine natural resources currently expire in the period from March 2014 to July 2057. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licences are issued are often inconsistent with legislation.

The Russian government periodically reviews compliance of Russian mining companies with the terms of their licences. If government regulators determine that the licence holder has failed to fulfill the specific terms of a licence or has operated in the licensed area in a manner that violates Russian law, they may impose fines or suspend, amend or initiate termination proceedings of the licence. In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example by initiating legal proceedings where the issuance of a licence may allegedly violate the civil rights or legal interests of a person or legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra-legal factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licences that we require may be invalidated or may not be issued or renewed. Licences that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict our ability to conduct our operations or to do so profitably.

As part of our obligations under licensing regulations and the terms of our licences, we are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor our operations, maintain appropriate filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect our activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources of the Russian Federation (the "Ministry of Natural Resources") has not issued any interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under Russia's legal system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, while we seek to comply with the terms of our subsoil licences and believe that we are currently in material compliance with the terms of such licences, there can be no assurance that our licences may not be suspended or terminated under Russian law, solely through a court of law. In the event that the licensing authorities in Russia discover a material violation, we may be required to suspend our operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on our business or results of operations. See "Regulation of Coal Mining Industry in the Russian Federation" included elsewhere in this offering memorandum for further regulatory information.

In particular, our factual coal production volumes in the Raspadskaya mine (including Razrez Raspadsky production) currently exceed, and exceeded in the last several years, the production volumes prescribed by the licensing agreement being a part of the Raspadskaya mine licence KEM No. 12677, our main coal production licence (the "Licence"). For instance, the Raspadskaya mine coal production volumes (including Razrez Raspadsky production) were 8.6 million tonnes in 2005, 9.7 million tonnes in 2004 and 8.6 million tonnes in 2003, while the Licence prescribes the annual production volumes of 6.5 million tonnes in these years. We believe that such excess in production is not a breach of a "material" term of the Licence and, as of now, no measures have been undertaken by Russian licensing authorities to suspend or terminate the Licence and we believe that the risk of such suspension or termination is remote. In the event that the licensing authorities treat such excess in production as a breach of a "material" term of the Licence, they can suspend or terminate the Licence, which could have a material adverse effect on our financial condition and results of operations.

Article 10 of the Law on Subsoil Resources of 21 February 1992, as amended (the "Subsoil Law") provides that a licence to use a field may be extended at the initiative of the licence holder where the licence holder complies with the terms of the licence and where the exploration, appraisal or development of the field requires completion or remediation operations need to occur. We intend to extend our licences as needed. However, in the event that the Russian government determines that the terms of a licence were not complied with, such extension may be denied.

Any or all of these factors may affect our ability to obtain, maintain or renew necessary licences. If we are unable to obtain, maintain or renew necessary licences or are only able to obtain or renew them with newly-introduced material restrictions, we may be unable to benefit fully from our reserves and our results of operations and prospects could be materially adversely affected. Moreover, any future changes in Russia's regulatory regime of the coal industry may impose additional costs on us. The current regulatory framework of the coal mining industry imposes certain costs on us, and any future regulations or legislation with respect to the coal mining industry could increase such costs or limit our ability to produce or sell coal, and any failure to comply with any such regulations or legislation could have a material adverse effect on our financial condition and results of operations.

We may have fewer coal reserves than our estimates indicate.

The coal reserve data, on which our production and capital expenditure plans are based, are estimates that were provided by us and reviewed and substantiated by IMC Economic & Energy Consulting Limited ("IMC"), an independent mining consultant. The accuracy of any reserve estimate depends on the quality and reliability of available data, engineering, geological interpretation and subjective judgment. Additionally, these estimates of reserves are based upon many assumptions that may turn out to be inaccurate and changes in such assumptions, as well as any subsequent mining, extracting and production, may result in material revisions in our coal estimates. Our actual results of operations may differ materially from our long-term business and operational plans based on the estimated coal reserve data. We can not assure you that we will not adjust our coal reserve estimates in the future, and in such event, our results of operations may be materially adversely affected.

Competition in Russia and the international coal industry is increasing and our business and prospects will be adversely affected if we are not able to compete effectively.

Competition in the coal industry is based on many factors, including price, production capacity, coal quality and characteristics, transportation capability and costs and brand name. Increased demand for coal attracted new investors to the coal producing industry, spurred the development of new mines and resulted in additional production capacity throughout the coal producing industry, all of which led to an increased competitive environment. Our coal business competes in the domestic and international markets with other domestic coal producers and certain major international coal mining companies. Some competitors may have greater financial, marketing, distribution and other resources than we do and more well-known company names in the domestic or international markets. There can be no assurance that we will continue to compete favourably due to coal quality improvements by our competitors or deterioration of coal reserve mining conditions. We cannot assure you that increased competition in the future, including new competitors that may emerge, will not have a material adverse effect on our results of operations and financial condition.

Moreover, our business requires us to be able to raise capital quickly to fund operations and to obtain financing for investment for a reasonable cost. Our competitors, some of which are large corporations, have access to more sources of capital than we do and may obtain financing at better rates than us. Their access to such capital may enable them to implement operational and investment projects, and could give them a competitive advantage over us and adversely affect our business, results of operations and financial condition.

Our production operations are subject to operational mining risks and conditions.

Our production operations are subject to hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property. As with all underground coal mining companies, our underground mining operations are affected by mining conditions such as:

- a deterioration in the quality or thickness of coal seams;
- pressure in mine openings;
- presence of water inflow;
- methane content;
- rock embedded in or overlying the coal deposit;
- propensity to spontaneous combustion; and
- other operational risks associated with industrial or engineering activity, such as mechanical breakdowns and the use of explosive materials.

In addition, hazards associated with our open-pit mining operations include:

- collapses of the open-pit wall;
- accidents associated with the operation of large open-pit mining and rock transportation equipment;

- accidents associated with the preparation and ignition of large-scale open-pit blasting operations;
- production disruptions due to weather conditions; and
- hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination.

Moreover, our coal preparation plant operations are affected by equipment failure.

We are at risk of experiencing any and all of these hazards. The occurrence of any of these hazards could delay production, increase production costs and result in injury to persons and damage to property, as well as impose liability for us. Moreover, although we have conducted geological investigations to evaluate such mining conditions and our mining plans address them, there can be no assurance that the occurrence of any adverse mining conditions would not result in an increase in our costs of production, a reduction of our coal output or the temporary suspension of our operations. For example, a fire occurred at the Raspadskaya mine on 17 June 2005 due to a bolt of lightening striking a surface unit used for the suction of a methane-air mixture at the Raspadskaya mine causing an underground fire. As such, although we have implemented safety measures for our production facilities and provided on-the-job training for our employees, there can be no full assurance that industry-related accidents will not occur in the future. See "Our Company—Health, Safety and Environment."

We do not carry the types of insurance coverage customary in other more developed countries for a business of our size and nature, and a significant event could materially adversely affect our business, results of operations and financial condition.

The insurance industry is not yet fully developed in Russia, and many forms of insurance protection common in other more developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. Currently, we carry insurance only for the equipment that is pledged under certain banking loans and there can be no assurance that such insurance will be adequate to cover losses that we may incur if such equipment becomes damaged. We also have no coverage for business interruption. We maintain only mandatory third-party liability insurance that is required under Russian law for Russian companies operating hazardous facilities, although such insurance may not be adequate to fully cover losses of such third parties. In the event that a significant event was to affect one of our production facilities, we could experience substantial property loss and significant disruptions in our production capacity, for which we would not be compensated. Moreover, depending on the severity of the damage, we may not be able to rebuild such damaged property in a timely fashion or at all. Any such loss or third-party claim for damages could have a material adverse effect on our business, results of operations and financial condition. For further detail, see "Our Company—Insurance."

There are significant differences between our pro forma consolidated financial information and our historical consolidated financial information.

This offering memorandum contains our examined pro forma consolidated financial information for the years ended 31 December 2005 and 2004 and our reviewed unaudited pro forma consolidated financial information for the six months ended 30 June 2006 and 2005 ("pro forma consolidated financial information"), our audited historical consolidated financial statements for the years ended 31 December 2005, 2004 and 2003 and our unaudited condensed consolidated financial information for the six months ended 30 June 2006 and 2005 ("historical consolidated financial statements").

Our pro forma consolidated financial information differs significantly from our historical consolidated financial statements, as our pro forma consolidated financial information has been derived by the application of pro forma adjustments related to the MUK Group Acquisition to our historical consolidated financial statements. The pro forma consolidated financial information gives effect to the MUK Group Acquisition as if it had occurred as of 1 January 2004. We note, however, that our pro forma consolidated financial information should not be relied upon exclusively 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.

In addition, 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 results of operations of ZAO "Raspadskaya" reflected in the historical consolidated financial statements. We believe that 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 our operating results. However, there is a risk that such pro forma consolidated financial information may not be indicative of our financial position or results of operations, taken as a whole.

This may be attributable to a number of factors, primarily, to the fact that 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 consolidated 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, depletion and amortisation 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. Therefore, there is a risk these assessments may not be indicative of the historical value of the assets acquired by us, and as such, may affect the adequacy of the information presented in our pro forma consolidated financial information.

Moreover, our pro forma consolidated financial information does not contain a cash flow statement and, therefore, discussions and analysis set forth in "Management Discussion and Analysis of Financial Condition and Results of Operations" are based on the historical consolidated cash flow statement of ZAO "Raspadskaya" which is not necessarily indicative of the trends occurred in our operations as it only includes part of our current business.

Accordingly, our pro forma consolidated information contained elsewhere in this offering memorandum is presented for illustrative purposes only and may not, because of its nature, be indicative of our financial position or results of operations. Our future results of operations and financial position may differ materially from the pro forma amounts reflected in our pro forma consolidated financial information. Prior to making an investment in the Shares, investors should read both the pro forma consolidated financial information and the historical consolidated financial statements and understand the differences between them.

Increasing costs of labour could significantly affect our financial condition and results of operations.

The cost of labour comprises a significant component of our production costs. Miners' wages in Russia have been steadily increasing over the last several years due to the growth of the mining industry, inflation and overall improvement of the Russian economy. For the years ended 31 December 2005 and 2004, our production employees payroll and payroll taxes, on a pro forma basis, amounted to 20% and 18%, respectively, of our production costs, with such percentage equaling approximately $51.9 million and $38.4 million, respectively. The rise in our employees' salary was the result of increased competition amongst coal companies in the Kemerovo region, thus, it has been necessary to increase employee's salaries in order to maintain the requisite number of skilled personnel needed to operate our business. If costs of labour continue to significantly rise, our business and prospects could be materially and adversely affected.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations may have a significant negative effect on our operating results.

Our operations and properties are subject to environmental, health and safety and other laws and regulations in the jurisdictions in which we operate. For instance, our operations generate certain amounts of pollutants and waste, some of which are hazardous. The discharge, storage and disposal of such hazardous waste are subject to environmental regulations, including some requiring the clean-up of contamination and reclamation. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

Under current Russian environmental legislation, we must make payments for air and water discharges as well as waste which are within specified limits as well as make increased payments for discharges and waste in excess of these limits. Our total payments associated with such pollution were approximately $0.3 million (RR 8.2 million) for the first six months ended 30 June 2006, $0.9 million (RR 25.7 million) in 2005, $0.7 million (RR 20.0 million) in 2004 and $0.2 million (RR 4.9 million) in 2003. Environmental regulations are currently under consideration in the Russian Federation and we are continually evaluating our obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations currently proposed or any future legislation cannot be reasonably estimated at present and could become material.

Although it has been enhanced since the Soviet era, environmental legislation in Russia is generally weaker and less stringently enforced than in the EU or the United States. More stringent standards may be introduced or enforcement increased in Russia in the future. In addition, as of 30 June 2006, we had made a site restoration provision of $0.6 million (RR 16.3 million) with respect to the Raspadskaya mine for site restoration activities to be conducted at our mining facilities. Any change in the current regulatory environment could result in actual costs and liabilities for which we have not provided or planned. Moreover, in the course of, or as a result of, an environmental investigation, regulatory authorities in Russia can issue an order reducing or halting production at a facility that has violated environmental standards. In the event that production at one of our facilities was partially or wholly prevented due to this type of sanction, our business could suffer significantly and our operating results would be negatively affected.

Furthermore, the implementation in Russia of the Kyoto Protocol to the United Nations Framework Convention on Climate Change from February 2005 may impose new and/or additional rules or more stringent environmental norms. Complying with any such requirements may entail additional capital expenditures or modifications in operating practices. The impact on us will depend on, among other factors, the base level against which permissible levels of emissions are to be measured and the allocation of quotas for such emissions, which is currently uncertain.

We depend heavily on our senior management and other key personnel.

Our future operating results depend in large part upon the continued contributions of key senior managers and technical personnel and our ability to train staff and attract employees with relevant expertise. The current General Director of Raspadskaya Coal Company, our management company, Gennady I. Kozovoy, assumed such position in April 2003, but previously served as Raspadskaya's General Director from December 1993 through June 2003. In addition, the chairman of our board of directors, Alexander S. Vagin, has served in such capacity since December 1993 and assumed the role of First Deputy General Director of Raspadskaya Coal Company in March 2004. Mr. Kozovoy and Mr. Vagin have extensive experience in the coal mining industry and have successfully transformed us into one of the largest coal mining companies in Russia. Due to Mr. Kozovoy's and Mr. Vagin's coal mining experience, we could be adversely affected if Mr. Kozovoy and Mr. Vagin ceased to actively participate in the management of our business or left the Company entirely.

In addition to the importance of Mr. Kozovoy and Mr. Vagin in our continued growth and success, the ability to maintain our competitive position and to implement our business strategy is dependent as well on our senior management and the ability to attract and retain skilled labour. If our competitors offer, for instance, better compensation or working conditions, we could potentially lose some of our key personnel. If we cannot attract, train, retain and motivate qualified personnel, we may be unable to successfully manage our growth or otherwise compete effectively in the Russian coal industry, which could adversely affect our business.

We are, and will be, controlled by the Controlling Shareholders (as defined below), and their interests or interests of their shareholders could conflict with our interests, interests of each other and/or the interests of the holders of the shares.

Following the offering, the Selling Shareholder will own approximately 80% of our shares. The Selling Shareholder is owned by Mastercroft Mining Limited ("Mastercroft"), a wholly-owned subsidiary of Evraz Group S.A. ("Evraz"), and Adroliv Investments Limited ("Adroliv"), ultimately owned by Mr. Kozovoy and Mr. Vagin (the "Management Shareholders," and, together with Evraz, the "Controlling Shareholders"), on a parity (50%/50%) basis. We believe that the involvement of the Controlling Shareholders in our operations has been, and will continue to be, important in the pursuit and implementation of our strategy. However, there can be no assurance that the Controlling Shareholders will remain our shareholders in the future. Our business and results of operation could be adversely affected if either of the Controlling Shareholders ceases to participate in our operations.

As a result of the Controlling Shareholders' interests, the Controlling Shareholders will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as they hold the majority of our shares, will control the election of the majority of the board of directors. Moreover, Adroliv and Mastercroft have entered into an amended and restated shareholders' agreement, dated 28 April 2006 (the "Shareholders' Agreement") which sets out certain provisions with respect to the management of us. See "Management—Shareholders' Agreement" for further information. The Controlling Shareholders will also be able to control or significantly influence the outcome of any vote on any proposed amendment to our charter, merger proposal, and any proposed substantial sale of assets or other major corporate transactions. Thus, the interests of the Controlling Shareholders could conflict with those of the other holders of our shares, which could adversely affect a prospective investor's investment in our shares. Any such conflict could have a material adverse effect on our business, financial condition, results of operations or prospects and the market price of the shares.

In addition, the interests of our Controlling Shareholders may conflict. While to date, the Controlling Shareholders have had a consensus approach with respect to our business and our future development, there can be no assurance that in future the Controlling Shareholders will not have different strategies in pursuing our development or any other conflicts of interests with respect to our business. Any such conflicts or deterioration in the relationship between our Controlling Shareholders may have a material adverse effect on our business, financial condition, results of operations or prospects and the market price of the shares.

Furthermore, Evraz currently owns a number of other Russian coking coal production companies, including a 50% equity interest in one of our main competitors, Yuzhkuzbassugol. To date, the partnership between Evraz and the Management Shareholders has been successful and Evraz has confirmed that we remain an important investment in the Russian mining industry. However, if Evraz's investment focus shifts in favour of Yuzhkuzbassugol or other coking coal companies, we may be deprived of the important benefits and resources that we derive from Evraz's current investment policy. Additionally, a shift in Evraz's focus in favour of Yuzhkuzbassugol may hinder our activities and operations and may prevent our further expansion.

Additionally, Evraz is one of our largest customers accounting for 24% and 26% of our total coal concentrate sales in terms of volume, on a pro forma basis, during the six months ended 30 June 2006 and year ended 31 December 2005, respectively. Furthermore, if Evraz ceases to be our shareholder or if its relationship with the Management Shareholders deteriorates, volumes of coal purchased by Evraz from us may decrease which may adversely affect our results of operations.

We must make significant capital expenditures in order to increase our production levels and improve overall efficiency. The inability to finance these and other expenditures could have a material adverse affect on our business, financial condition or results of operations.

Our business requires significant capital expenditures with respect to development, maintenance, production, transport, exploration and coal preparation. Our business plans require substantial capital expenditures for the foreseeable future for the purposes of, among other things, expanding certain of our producing companies and increasing production efficiency. Our ability to secure debt or equity financing in amounts sufficient to meet our financial needs could be adversely affected by many factors beyond our control, including but not limited to, economic conditions in Russia and the health of the Russian banking sector. If we are unable to raise the necessary financing, we will have to revise our planned capital expenditures. Such possible reduction could adversely affect our ability to expand our business and meet our production targets, and if the reductions are severe enough, they could adversely affect our ability to maintain our production at current levels.

A significant reduction in purchases by our largest customers could adversely affect our coal revenues.

Our three largest Russian customers, which are Magnitogorsk Iron & Steel Works ("MMK"), Evraz and Novolipetsk Steel ("NLMK"), accounted for approximately 84% of our total sales in terms of volume of domestic coal concentrate, on a pro forma basis, for the six months ended 30 June 2006. No assurance can be given that negotiations to extend existing coal supply contracts or enter into new contracts with those and other customers will be successful. Moreover, these customers may choose not to purchase coal from us in the future. However, we believe this risk has been mitigated by our recent signing of long-term supply contracts with MMK, Evraz and NLMK, which will allow for better security with respect to the demand for our coal products. If one or more of our largest customers were to significantly reduce their coal purchases from us, or if we were unable to sell coal to them on terms as favourable to us as currently set forth in our outstanding coal supply contracts, our total revenue and profitability could be materially adversely affected.

The forced liquidation of our subsidiaries due to negative assets could adversely affect our results of operations.

In accordance with Russian legislation, in the event that a company's net assets, as stated in the annual balance sheets prepared under Russian accounting standards, fall below the minimum share capital required by law, the company must voluntarily liquidate. If it fails to do so within a "reasonable period," the company's creditors may accelerate their claims or demand early performance of the company's obligations to them and demand payment of damages, and governmental authorities may seek the involuntary liquidation of the company. Courts have on occasion ordered the involuntary liquidation of a company for having negative net assets, even if the company had continued to fulfil its obligations and net assets in excess of the minimum amount at the time of liquidation. Some of our subsidiaries have had negative assets in the past, and currently some of our subsidiaries have negative assets. If any of our subsidiaries net assets fell below the minimum share capital required by law, and an involuntary liquidation were to occur, we would be forced to reorganise the operations we currently conduct through any such subsidiaries.

Deficiencies or ambiguities in privatisation legislation could be exploited to challenge our ownership of our business, which could materially affect our production capacity, financial condition and results of operations.

Our business includes a number of privatised companies, and we may seek to acquire additional companies that have been privatised. To the extent that privatisation legislation has been vague, internally inconsistent and in conflict with other legislation, including conflicts between federal and local privatisation legislation, most, if not all, privatisations are arguably deficient and therefore are vulnerable to attack. In July 2005, the statute of limitations for challenging transactions entered into in the course of a privatisation was reduced from ten years to three years. It is, however, still unclear whether Russian courts will apply this provision as an imperative provision applicable to all privatisations that occurred prior to the statute of limitations period or whether certain carve-outs from the statute of limitations will be introduced. In the event that any of our privatised companies are subject to attack as having been improperly privatised and we are unable to defeat such claims, we risk losing our ownership in the company or our assets, which could materially adversely affect our business, financial condition and results of operations.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may adversely affect our results of operations.

Russia enacted transfer pricing rules in 1999 which give the Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all transactions between affiliated parties (as defined under Russian law) and certain other types of transactions between parties that are not affiliated, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates from the market price by more than 20% within a short period of time. The Russian transfer pricing rules and provisions defining the affiliated party are vaguely drafted and are subject to interpretation by Russian tax authorities and courts. While we believe that the prices we use are in compliance with the provisions of the Russian tax law on transfer pricing, due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and propose adjustments. If such price adjustments are upheld by the Russian courts and become effective, our results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of underpaid prior tax and related interest and penalties, which would have a material adverse effect on our financial condition and results of operations.

If the Russian Federal Antimonopoly Service (the "FAS") were to conclude that we acquired, transferred or created a company in contravention of antimonopoly legislation, it could impose administrative sanctions and require the divestiture of such company or other assets.

Our business has grown substantially through the acquisitions of companies, many of which required the prior approval or subsequent notification of the FAS or its predecessor agencies. In part, relevant legislation in the Russian Federation restricts the acquisition, founding or transfer of companies in Russia by groups of companies or individuals acting in concert without this approval or notification. While we believe that we have complied with applicable regulations of the FAS, the legislation and regulations with respect to such matters are vague in certain parts and subject to varying interpretations and there can be no assurance that the FAS will not conclude that an acquisition or the creation of a new company was done in contravention of applicable legislation and competition has been reduced as a result. Any such finding could result in the imposition of administrative sanctions and require the divestiture of such newly acquired or created company or other assets, adversely affecting our business strategy and our results of operations.

Failure to approve an "interested party transaction" in accordance with Russian legislation and/or a successful challenge by minority shareholders to our past or future approval of such transactions could adversely affect our business and results of operations.

We own less than 100% equity in three of our subsidiaries. Under Russian law, certain transactions defined as "interested party transactions" require approval by disinterested directors or disinterested shareholders of the companies involved. "Interested party transactions" include transactions in which a member of the board of directors, an officer of a company or any person that owns, together with any affiliates of that person, at least 20% of a company's voting shares, or any person that is entitled to give binding instructions to a company, is interested, if that person, or that person's relatives or affiliates, is:

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or an officer of a company which is a party to, or a beneficiary of, a transaction with the company, whether director or as a representative or intermediary.

We and our subsidiaries engage in transactions which require "interested party transaction" approvals in accordance with Russian law. However, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. Although we have generally taken a reasonably conservative approach in applying these concepts, we cannot be certain that our application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to our business. Moreover, in some cases, our minority shareholders may not approve transactions with "interested parties" that require shareholders' approval or there may be an insufficient number of disinterested shareholders to constitute a quorum required for approval of transactions with "interested parties." In the event our minority shareholders do not approve "interested parties" or successfully challenge them, we could be limited in our operational flexibility in connection with such transactions and our results of operations could be materially adversely affected.

In addition, certain transactions between members of a consolidated corporate group may be considered "interested party transactions" under Russian law even when the companies involved are wholly-owned by the parent company. While we generally endeavour to obtain all corporate approvals required under Russian law to consummate transactions, we cannot be certain that all such corporate approvals are obtained in accordance with Russian law. In the event that a claim is filed in relation to certain transactions with or between our subsidiaries, such transactions are found to have been interested party transactions, and we are found to have failed to obtain the appropriate approvals for such transactions, these transactions may be declared invalid. The unwinding of any transactions concluded with or between our subsidiaries may adversely affect our business and results of operations.

The successful challenge of acquisitions by us of shares in our current subsidiaries, and any future subsidiaries, could have a material adverse effect on our business and results of operations.

The majority of our current assets have been acquired through the purchasing of shares of our now existing subsidiaries. However, as a result of such share acquisitions, we have in the past been potentially adversely affected by certain lawsuits initiated by minority shareholders of the companies that we acquired shares in. For instance, certain minority shareholders in our subsidiary, Open Joint Stock Company Tomusinskoye Cargo Handling Unit ("TCHU"), brought a lawsuit against TCHU as a result of the sale of TCHU shares to us based upon a claim that the price of such share purchase was inadequate. Although the court ruled against such minority shareholders, an adverse ruling could have invalidated such share purchase and had an adverse affect on our business. Moreover, any purchase of shares that we may have done in the past or might do in the future could be subject to similar lawsuits. Although we believe such share acquisitions complied with all applicable Russian laws, in the event that a claim is filed in relation to any such acquisition and such transaction is declared invalid and overturned, our business and results of operations could be materially adversely affected.

Acquisitions that we may seek in the future involve a number of inherent risks, any of which could cause us not to realise the anticipated benefits.

We may seek in the future to expand our operations and coal reserves through selective acquisitions. However, there is no assurance that we will be able to identify attractive targets in the future or that we will be able to acquire them on acceptable terms. Moreover, acquisitions pose significant risks to our existing operations, placing additional demands on our senior management, who are also responsible for managing our existing operations. We may also be unable to integrate the operations of the recently acquired business or to achieve identified operating and financial synergies anticipated to result from the acquisition. In addition, acquisitions may result in a significant increase in indebtedness.

Our business and results of operations could be adversely affected if the Russian government enacts protective trade restrictions on the export of Russian coal products.

We currently export our coal products to foreign countries, and our business strategy contemplates increasing our market share in Eastern Europe and entering the Southeast Asian markets. Moreover, the lack of trade restrictions with respect to the export of coal products currently found in Russia will allow us to more easily access such export markets. However, there can be no assurance that the Russian government will not enact future legislation that may prohibit or restrict the export of Russian coal to all or certain foreign countries. Any such future protective trade restriction may have a material adverse effect on our business and results of operations.

Our inability to refinance our existing indebtedness may have a material adverse affect on our business, financial condition and results of operations.

On 6 July 2006, we entered into a $300.0 million loan agreement with Natexis Banques Populaires and Bank Natexis (ZAO) acting as coordinating mandated lead arrangers and original lenders and Natexis Banques Populaires also acting as agent and bookrunner (the "Loan Agreement"). The Loan Agreement provides for interest to accrue at the rate of LIBOR + 0.85% per annum, with the repayment date being 30 June 2007, and is guaranteed by Evraz. We anticipate refinancing such facility prior to the repayment date. Our ability to pay principal and interest on and to refinance the outstanding indebtedness under such Loan Agreement depends upon our operating performance which will be affected by, among other things, general economic, financial, competitive, regulatory and other factors, some of which are beyond our control. In particular, economic conditions could cause the price of coal to decline which would lead to a diminishment of our revenue, and thus, hamper our ability to refinance such indebtedness. Moreover, we may not be able to refinance such indebtedness under the Loan Agreement on commercially reasonable terms, on terms acceptable to us or at all. A failure to refinance the outstanding indebtedness under the Loan Agreement could have a material adverse affect on our business, financial condition and results of operations.

Fluctuation of the rouble in real terms against the US dollar could affect our financial condition and results of operations.

Our coal products are typically priced in roubles for domestic sales and in US dollars for export sales, and our direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, while other costs, such as interest expense, are incurred in roubles, US dollars and other foreign currency such as the Euro. The mix of our revenues and costs is such that appreciation in real terms of the rouble against the US dollar tends to result in an increase in our costs relative to our revenues, while depreciation of the rouble against the US dollar in real terms tends to result in a decrease in our costs relative to our revenues. The rouble appreciated in real terms against the US dollar by 15.0% in 2003, 15.1% in 2004, 10.8% in 2005 and by 7.2% for the six months ended 30 June 2006, according to the Central Bank. If the rouble depreciates in real terms against the US dollar, we could have difficulty repaying or refinancing our foreign currency denominated indebtedness. The appreciation of the rouble results in losses in the value of dollar-denominated assets. Accordingly, fluctuations of the rouble in real terms against the US dollar could affect our financial condition and results of operations.

Our management information system, accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting, and any such shortcomings in these systems could have a material adverse affect on our business, financial condition and results of operations.

Our management information system and financial reporting function may be less developed in certain respects than those of coal producers in more developed markets and may not provide our management with as much or as accurate information as those in more developed markets. In addition, our system of internal control over financial reporting is not designed for the preparation of consolidated IFRS financial statements. For example, we do not have integrated information systems and each subsidiary has its own accounting platform and chart of accounts. Our subsidiaries prepare separate financial statements under Russian accounting standards for statutory purposes. The preparation of IFRS consolidated financial statements is a manual process that involves, first, the transformation of the statutory financial statements of our subsidiaries into IFRS financial statements through accounting adjustments and, second, a consolidation of all subsidiaries financial statements. This process is complicated and time-consuming, and it requires significant attention from our senior accounting personnel at our corporate headquarters and subsidiaries.

In addition, our independent auditors have communicated to us a number of material weaknesses in the system of internal control over the preparation of the IFRS financial statements, insufficient staffing of our IFRS department, and deficiencies in our information technology department. We have taken, and continue to take, steps to improve our accounting systems and internal controls, including the developments and documentation of control procedures over the financial statements closing process and hiring qualified personnel in the area of financial reporting. Despite these steps, and in light of planned growth, we may not be able to detect or prevent a material misstatement of our annual or interim IFRS consolidated financial statements or to ensure that our IFRS consolidated financial statements are prepared in a timely manner in accordance with the applicable requirements. Our inability to develop financial reporting function and system of internal controls may have a material adverse effect on our business, financial condition, prospects and results of operations.

We depend on our key accounting staff for the preparation of IFRS financial information. These persons may leave us, which could disrupt our ability to timely and accurately report IFRS financial information.

The preparation of our IFRS financial information is a difficult task requiring IFRS-experienced accounting personnel at each of our principal subsidiaries and at the corporate offices. However, only a small number of accounting personnel with IFRS expertise are available in Russia. Moreover, there is an increasing demand for such personnel as more Russian companies begin to prepare financial statements on the basis of IFRS or other international standards. Such competition, combined with our remote location, which such personnel may not find suitable in comparison to other opportunities, makes it difficult for us to hire and retain such personnel, and our key accounting staff may leave us. In addition, recently specialists from Evraz have been assisting us with our preparation of IFRS financial information. Any inability to hire or retain qualified accounting staff could adversely affect our business.

We have not independently verified information we have sourced from third parties.

We have sourced certain information relating to the coal industry contained in this offering memorandum from private companies and institutions, international organisations and Russian federal, regional and local governments and governmental agencies, and we have relied on the accuracy of this information without independent verification. Official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to the coal industry and Russia in this offering memorandum must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

RISKS RELATED TO THE POLITICAL ENVIRONMENT IN RUSSIA

Political and governmental instability could adversely affect the value of the shares.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy into a pluralist democracy with a market-oriented economy. Although it has developed institutions and a legal and regulatory system characteristic of parliamentary democracies, these institutions and systems lack a long-term institutional history and are not as firmly established as their Western counterparts. The course of political, economic and other reforms has in some respects been uneven, and the composition of the governments has at times been unstable. Shifts in government policy and regulation in the Russian Federation may be less predictable than in many Western democracies, and changes in government policy that could affect us or our investors may continue.

Future governmental changes, major policy shifts or lack of consensus internally between various branches of the government and powerful economic groups within could lead to political instability, which, in certain cases, could have a material adverse effect on our operations, financial condition, prospects and the value of our shares.

RISKS RELATED TO THE ECONOMIC SITUATION IN RUSSIA

Economic instability in Russia could adversely affect our business.

Since the dissolution of the Soviet Union in the early 1990s, Russia's economy has been undergoing a rapid transformation from a one-party state with a centrally planned economy to a pluralist democracy with a market oriented economy and has experienced at various times:

- significant declines in gross domestic product and consumption;
- hyperinflation;
- an unstable currency, including periods of significant decline in the value of the rouble against foreign currencies;
- high government debt relative to gross domestic product;
- significant decline in the gold and currency reserves of the Central Bank;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings and the use of fraudulent bankruptcy actions to take unlawful possession of property;
- frequent tax evasion;
- growth of black and grey market economies;
- pervasive capital flight;
- reported high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In August 1998, the Russian government decided to temporarily stop supporting the rouble, causing the currency to collapse, defaulted on much of its short-term domestic debt and imposed a ninety-day moratorium on foreign debt payments by Russian companies. The Russian government subsequently entered into protracted negotiations with its creditors to reschedule the terms of its domestic and foreign debt. The August 1998 financial crisis marked the beginning of an economic downturn that affected the entire Russian economy and resulted in Russia's equity market being the worst-performing equity market in the world in 1998. It is possible that Russia may default on its domestic or foreign debt in the future or take other actions that could adversely affect its financial stability. Should this occur, operating in such an economic environment could make it more difficult for us to obtain and maintain credit facilities, access international or domestic capital markets and obtain other financing to satisfy our future capital needs.

There can be no assurance that recent positive trends in the Russian economy, such as the increase in the gross domestic product, a relatively stable rouble, increase in foreign currency reserves, strong domestic demand, rising real wages and a reduced rate of inflation, will continue or will not reverse abruptly. Moreover, the Russian economy has benefited from high oil prices and fluctuations in international oil prices could adversely affect Russia's economy. Future downturns in the Russian economy are possible and could diminish demand for our coal products and could prevent us from executing our growth strategy.

Investors in emerging markets, such as Russia, are subject to greater risks than investors in more developed markets, including significant political, legal and economic risks and risks related to fluctuations in the global economy.

Investors in emerging markets, such as Russia, should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant political, legal and economic risks. Emerging economies, such as the Russian economies, are subject to rapid change and the information included herein may become outdated relatively quickly. Russia's economies, like other emerging economies, are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in Russia or other emerging economies could dampen foreign investment in these markets and adversely affect their economies. These developments could limit our access to capital, could adversely affect the purchasing power of our coal customers and, consequently, our business and could result in a decrease in the price of our shares.

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal, financial and tax advisors before making an investment in the shares.

Russia's physical infrastructure is in poor condition and further deterioration in the physical infrastructure could have a material adverse effect on our business.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded in recent years. Particularly affected are the rail and road networks, power generation and transmission, communications systems, building stock and seaports. For example, an outage occurred in May 2005 in Moscow, Moscow region, Tula, Kaluga and Ryasan regions. The outage heavily disrupted the functioning of many companies, entities enterprises and plants. Moreover, Russia experienced very low temperatures in January and February 2006, resulting in electricity and heating shortages.

The federal government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs, potentially adding costs to our business, while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The further deterioration of Russia's physical infrastructure may limit economic growth, disrupt the transportation of goods and supplies and can interrupt business operations, any or all of which could have a material adverse effect on our business and increase the costs of our operations.

We are only able to conduct banking transactions with a limited number of creditworthy Russian banks as the Russian banking system remains underdeveloped.

Russia's banking and other financial systems are not well developed or regulated and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind international banking standards. Moreover, many banks do not follow existing Central Bank regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

There are currently a limited number of creditworthy Russian banks with which we can conduct banking transactions. We have tried to reduce our risk by receiving and holding funds in a number of Russian banks, including Sberbank and Bank of Moscow. We regularly review the allocation of our cash reserves among these different banks in light of their credit rating and other information that is available to us. However, our ability to reduce bank risk in this manner is limited due to the relatively small number of creditworthy banks operating in Russia. Bank problems, additional bank failures and any downgrade of Russian banks by credit rating agencies may result in a crisis throughout the Russian banking sector. A prolonged or serious banking crisis or the bankruptcy of a number of banks, including banks in which we receive or hold our funds could adversely affect our business and our ability to complete banking transactions in Russia which could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO THE SOCIAL ENVIRONMENT IN RUSSIA

Political, social and other conflicts, and corruption, create an uncertain operating environment hindering our long-term planning ability and could materially adversely affect the value of investments in Russia.

The Russian Federation is a federation of sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous districts and an autonomous region. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently carrying out our business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflicts or terrorism. The intensification of violence or terrorism could have significant political consequences, including the imposition of a state of emergency in some parts or throughout the Russian Federation. These events could materially and adversely affect the investment environment in Russia and, therefore, the value of our shares.

The implementation of Russia's economic reforms has also led to social protest from time to time. For example, in early 2005, pensioners in cities across Russia protested the replacement of certain in-kind benefits with cash allowances. Such social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority and increased nationalism, including restrictions on foreign involvement in the Russian economy and increased violence. The escalation of social unrest could have a material adverse effect on our ability to conduct our business.

Moreover, Russian and international media have reported high levels of corruption in Russia. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further the interests of the government and individual officers or business groups. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. In addition, persons who are hostile to us and/or our management and/or our beneficial owners may allege, in the press or elsewhere, that we and/or our beneficial owners have engaged in illegal activities. Demands of corrupt officials, claims that we or our management or our beneficial owners have been involved in corruption or illegal activities or biased articles and negative publicity could adversely affect our ability to conduct our business and the value of investment in our shares.

The reversal of reform policies targeted at specific individuals or companies could harm our business as well as investments in Russia more generally.

President Putin took office as Prime Minister in 1999 and was elected President in 2000. Since Putin's coming to power, the political and economic situation in Russia has generally become more stable and conducive to investment. However, any significant struggle over the direction of future reforms, or the reversal of the reform programme, could lead to a deterioration in Russia's investment climate that might constrain our ability to obtain financing in the international capital markets, limit our sales in Russia or otherwise have a material adverse effect on our business, results of operations, financial condition and prospects. For instance, Russian authorities have prosecuted some Russian companies, their executive officers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and significant claims for unpaid taxes from, according to the Russian press, companies such as Yukos, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider programme of asset redistribution.

RISKS RELATED TO THE LEGAL AND REGULATORY ENVIRONMENT IN RUSSIA

Unlawful, selective or arbitrary government action may have an adverse effect on our business and the value of the shares.

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poors has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors could receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary governmental action, if directed at our operations in Russia, could lead to our business, results of operations and financial condition and the value of the shares being materially adversely affected.

Russia's developing legal system creates a number of uncertainties for our business.

Many aspects of Russia's legal system create uncertainties with respect to many of the legal and business decisions that we make, many of which do not exist in countries with more developed legal systems. The uncertainties we face include, among others:

- changes in laws that make it more difficult for us to conduct our business or prevent us from completing certain transactions;
- substantial gaps in the regulatory structure created by the delay or absence of implementing regulations for certain legislation;
- inconsistencies among laws, presidential decrees and ministerial orders and among local, regional and federal legislation and regulations;
- the lack of judicial and administrative guidance on interpreting applicable rules and the limited precedential value of judicial decisions;
- an understaffed, underfunded judiciary with limited experience in interpreting and applying market oriented legislation whose independence may be subject to economic, political and nationalistic influences;
- decrees, resolutions, regulations and decisions adopted without clear constitutional or legislative basis by governmental authorities and agencies with a high degree of discretion;
- federal or regional legislation and regulations may be applied retroactively; and
- weak enforcement procedures for court judgments.

Furthermore, several fundamental laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and, possibly, the constitutionality of laws and regulations in doubt and result in ambiguities, inconsistencies and anomalies. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights or to defend ourselves against claims by others. We cannot assure investors that regulators, judicial authorities or third parties will not challenge our internal procedures and by-laws or our compliance with applicable laws, decrees and regulations.

Lack of independence and experience of the judiciary, difficulty of enforcing Russian court decisions, Russia's unpredictable acknowledgement and enforcement of foreign court judgments or arbitral awards and governmental discretion in enforcing claims give rise to significant uncertainties.

The independence of the judicial system and its immunity from political, economic and nationalistic influences in Russia, for the most part, cannot be assured. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates their understanding. The Russian judicial system can be slow. Enforcement of court orders can in practice be very difficult in Russia. All these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. We may be subject to such claims and may not be able to receive a fair hearing. Moreover, court orders are not always enforced or followed by law enforcement agencies.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience of the courts in Russia in enforcing these provisions and due to political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our group's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on us.

In addition, the Russian Federation is not party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any of such jurisdictions, it is difficult to predict whether a Russian court will give direct effect to such judgment. However, the Russian Federation (as successor to the Soviet Union) is a party to the New York Convention. A foreign arbitral award obtained in a state that is party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation and non-violation of Russian public policy). There is also a risk that Russian procedural legislation will be changed by way of introducing further grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation. For further details, see "Enforceability of Civil Liabilities."

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The civil code of the Russian Federation (the "Civil Code") and the Russian legislation governing joint stock companies (the "Joint Stock Companies Law"), generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent." The person whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Joint Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, results of operations and financial condition. For further detail, see "Description of Share Capital and Certain Requirements of Russian Legislation—Liability of Shareholders."

Shareholder rights provisions under Russian law may impose additional costs on us, which could materially adversely affect our financial condition and results of operations.

Joint Stock Companies Law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Joint Stock Companies Law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganisation;
- the approval by shareholders of a "major transaction" which requires shareholders' approval is a transaction involving property worth more than 50% of the gross book value of our assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amending of our charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries') obligation to purchase shares in these circumstances, which is limited by Joint Stock Companies Law to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our cash flows, business, financial condition, results of operations and prospects.

Arbitrary, selective or unlawful state action, in particular by the tax authorities, could have a material adverse effect on our business.

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Possible state actions could include sudden and unexpected tax audits, criminal prosecutions and civil actions.

In particular, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to attack certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective. At the same time, responding to a statement that tax authorities should not "terrorise" taxpayers, President Putin recently approved amendments to the Tax Code to govern the procedure for tax inspections and to make the activities of tax authorities more transparent. However, some of the amendments reduce the rights of taxpayers, and there can be no assurance that the Russian Federal Tax Service will not become more aggressive in respect of future tax audits. In addition, as we are the large taxpayer in the region where we are located, any substantial decrease in our tax liabilities may be investigated by the tax authorities in more aggressive fashion than would usually be the case.

Arbitrary, selective or unlawful state action, if directed at us, could lead to the loss of key licences, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the value of the ordinary shares.

Changes and inconsistencies in the Russian tax system could adversely affect our business.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax or VAT, excise taxes, social and pension contributions, property tax and mineral extraction tax. All of these taxes are subject to change. The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in the ordinary shares.

Tax reform commenced in 1999 with the introduction of Part One of the Russian Tax Code, which sets out general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; the profits tax and mineral extraction tax chapters came into force on 1 January 2002; and the corporate property tax chapter of the Tax Code came into force on 1 January 2004.

In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often must resort to court proceedings to defend their position against the tax authorities. Different interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayer activities are subject to inspection for the three-year period immediately preceding the year in which the tax audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that effectively allowed the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the Tax Code if a court determines that the taxpayer has obstructed the course of tax inspection. Recent amendments to Part One of the Tax Code effective as of 1 January 2007 provide for the possibility of extension of the three-year term in cases where actions of the audited taxpayer created insurmountable obstructions to the tax authorities audit. Since the term "obstructed" is not properly defined in the Russian Law, the tax authorities may attempt to interpret this term broadly, effectively linking any difficulty experienced in the course of their tax audit with the obstruction by the taxpayer and using that as a basis to seek tax adjustment and penalties beyond the three-year term. In some instances, changes in the tax regulations have been given retroactive effect.

In its decision of 26 July 2001, the Constitutional Court also introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, this concept is increasingly used by the tax authorities to deny, for instance, the taxpayer the right to rely on the letter of the tax law. The tax authorities often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

There is no concept of a tax group in Russia, nor can a consolidated filing be made by Russian companies for tax purposes. Therefore, Russian companies and each of their Russian subsidiaries pay their own Russian taxes and cannot consolidate profits or losses on a group level.

In addition, payments of dividends between two Russian companies are currently subject to a withholding income tax of 9% at the time they are paid out of profits albeit that the effective rate of this tax may be lower than 9% if the company paying the dividends has received, in the same or a preceding tax period, dividends from other Russian companies. Withholding tax on dividends payable to any foreign company could not be reduced, but only according to the provisions of the respective double tax treaties. This may give rise to additional tax liabilities and inefficiencies in multi-level Russian groups.

The conditions mentioned above create tax risks in Russia that are more significant than those typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations and management resources. In addition to creating a substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing them to significant fines and penalties and enforcement measures, and could adversely affect our business, financial condition and results of operations. In addition, there can be no assurance that the current tax rates will not be increased or that new taxes will not be introduced. In some instances, the Russian tax authorities have applied new provisions retroactively in violation of Russian law. Increases in the taxes payable by us and the imposition of fines, penalties or interest charges, could have a material adverse effect on our business, financial condition, results of operations, future prospects and the value of the ordinary shares.

See also "—Arbitrary, selective or unlawful state action, in particular by the tax authorities, could have a material adverse effect on our business."

Difficulty in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered may have a material adverse effect on our business, prospects, results of operations or financial condition.

After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continuously over the following years; more than one hundred federal laws, presidential decrees and governmental resolutions were issued. Almost all Russian regions passed their own real estate legislation. Until recently, the land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose the land. In 2001, the Civil Code was amended and the new Russian Land Code, as well as a number of other federal laws regulating land use and ownership, was enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. We may not have properly obtained or registered the rights to our land plots and buildings, constructions and other real properties located therein. In addition, because of Russia's vast territory, difficulties associated with the country's transitional phase, the severe climatic conditions of, and difficult access to, the territory where our land plots and other real properties are located, the process of surveying and title registration may be complicated and last for many years. These uncertainties may have a material adverse effect on our cash flows, business, prospects, results of operations or financial condition.

In addition, in accordance with customary practice in the Kemerovo region, all of our land lease agreements with local authorities are on a short-term basis. We extend our land lease agreements on a regular basis and have not experienced problems in the past with extending such land lease agreements. However, there can be no assurance that in future all our land lease agreements will be extended without any delay or cost. Difficulties with extending our land lease agreements could have a material adverse effect on our licences, business, financial condition, results of operations and prospects.

Risks Related to the Offering, the Shares and the Trading Market

This offering may not result in a liquid market for our shares, and the share price may be highly volatile.

Before this offering there will be no public market for our shares. We expect that our shares will be traded on the RTS and the MICEX after the offering is complete. There can be no assurance that upon completion of this offering any active trading market for our shares will develop or be sustained and that investors will be able to resell their Shares at or above the offering price or at all. The liquidity of our shares may also be impaired if the Selling Shareholder is unsuccessful in placing all of the Shares.

The trading prices of our shares may be subject to wide fluctuations in response to many factors, including:

- actual or anticipated fluctuations in our operating results;
- changes in expectation as to our future financial performance;
- changes in securities analysts' financial estimates and projections;
- the operating and price performance of our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or other capital commitments;
- regulatory actions that may affect our operations; and
- general conditions in the coal mining industry or in the Russian Federation.

In addition, pursuant to the Federal Financial Markets Service (the "FFMS") regulations, our shares included in the quotation list "V" of the RTS and the MICEX shall be transferred to a higher quotation list of the RTS and the MICEX within six months following the admittance of our shares in the quotation list "V," subject to our compliance with the additional requirements of such a quotation list. If we fail to comply with these requirements or if we fail to transfer our shares from the quotation list "V" within the specified time period, our shares will be delisted from the quotation list "V" which might adversely affect the price and trading of our shares.

Investors may have difficulty repatriating cash distributions on the Shares.

Russian currency control laws currently allow dividends on shares to be paid in a foreign currency or in roubles to the account of a non-resident shareholder, or its nominees and, in the case of dividends paid in roubles, subject to the commercial risks described below, to be converted into US dollars or another convertible currency and repatriated without restrictions.

Although currently there is no restriction on the sale of the shares by a non-resident of Russia to another non-resident or to a Russian resident, Russian currency control laws provide that a payment for the shares to a Russian resident must be made in roubles unless provided otherwise in a regulation that may be issued by the Central Bank of Russia. Accordingly, should an investor wish to sell the Shares to a Russian resident, the investor would need to establish a rouble account into which the rouble proceeds of the sale would be deposited and converted into US dollars or another convertible currency and repatriated to the investor.

Future issuance or sale of shares may affect the market price of our shares.

Future sales of substantial amounts of our shares or the perception that such sales might occur could adversely affect the market price of our shares and may make it more difficult for you to sell your Shares at a time and price which you deem appropriate. In addition, any future issuance of shares by us involving the issuance of new shares may reduce the percentage ownership of our shareholders. Moreover, any newly issued preferred shares may have rights, privileges or preferences senior to those of the Shares.

Investors may be subject to Russian tax that might be withheld on trades of the Shares.

The tax treatment of the income from the sale of Russian entities' shares varies depending on whether the shares are sold by a foreign legal entity or a foreign individual.

Under existing Russian tax law, the income of a foreign legal entity generated from the sale of shares in Russian entities is subject to withholding tax if more than 50% of the assets owned by the entity whose shares are being sold are comprised of immovable property located in Russia. As of the date hereof, immovable property constituted significantly less than 50% of our total assets. Accordingly, we believe that capital gains from trading in our shares would not be subject to Russian withholding tax where the foreign investor is a legal entity. However, there can be no assurance that immovable property located in Russia will not constitute more than 50% of our assets in the future. If more than 50% of our assets were to consist of immovable property located in Russia, the proceeds received from the sale of our shares by non-resident shareholders that are legal entities will be subject to Russian withholding tax. In such circumstances, foreign legal entities selling our shares may elect to be taxed either at the rate of 20% of the gross sales price, or at the rate of 24% of the difference between the sales price and the sum of the original purchase price and expenses related to the sale.

The relevant legislation does not contain a similar provision relating to personal income tax. Any income from the sale of our shares by tax non-resident individuals will be subject to the Russian personal income tax at the rate of 30% if shares are sold to Russian residents (i.e. inside Russia).

A number of the existing double tax treaties concluded by Russia provide for the exemption of the above capital gains from Russian taxation. However, the procedure of advance exemption under applicable treaty provisions is relatively undeveloped in the case of non resident individuals, and obtaining subsequent tax refunds could prove to be difficult and time consuming. The value of our shares could be adversely affected by any of these adverse tax consequences.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets.

Lack of developed corporate and securities laws and regulations in Russia may limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are nascent. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FFMS;
- the Ministry of Finance;
- the FAS;
- the Central Bank; and
- various professional self-regulatory organisations.

The regulations of these various authorities are not always coordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to our company. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance.

Because there is little minority shareholder protection in Russia, your ability to bring, or recover in, an action against us will be limited.

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital" for a more detailed description of some of these protections. While these protections are similar to the types of protections available to minority shareholders in US corporations or UK companies, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Shareholder meetings have been irregularly conducted, and shareholder resolutions have not always been respected by management. Shareholders of some companies also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our majority shareholders and our management in the future may not operate us and our subsidiaries for the benefit of minority shareholders, and this could materially and adversely affect the price of the shares.

Disclosure and reporting requirements, as well as anti-fraud legislation, have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to us and our subsidiaries or to our shareholders could materially adversely affect the price of the shares. While the Joint Stock Companies Law provides that shareholders owning not less than 1% of the company's stock may bring an action for damages on behalf of the company, Russian courts to date do not have much experience with such lawsuits.

Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of the shares.

Our corporate structure affects our ability to pay dividends to shareholders.

Because a significant part of our business operations is conducted through our subsidiaries, our cash flow and, therefore, our ability to service our debt and pay any dividends to shareholders partially depends upon the earnings of such subsidiaries and the distribution of those earnings to us. Our subsidiaries are separate and distinct legal entities and have no obligation to make any funds available to us for the payment of dividends or otherwise. In addition, the payment of dividends and the making of any loans or advances to us by our subsidiaries may be subject to statutory or contractual restrictions, contingent upon the earnings of those subsidiaries and subject to various business combinations.

We may not declare dividends in the foreseeable future.

We currently do anticipate declaring and paying dividends on shares in the foreseeable future. However, all dividend payments must be recommended by our board of directors and approved by our shareholders, none of whom is under any obligation to either recommend or approve any dividend payments. Our board of directors in making a recommendation to pay dividends will take into account various factors, such as our operating results, financial condition and current and anticipated cash needs. For further information, see the section entitled "Dividend Policy."

USE OF PROCEEDS

All of the Shares offered hereby are being sold by the Selling Shareholder. We will not receive any of the proceeds from the sale of the Shares in this offering.

DIVIDEND POLICY

All dividend payments must be recommended by our board of directors and approved by our shareholders, none of whom is under any obligation to either recommend or approve any dividend payments. Our ability to pay dividends is also restricted by Russian law and our charter. In particular, dividends on our shares may be declared and paid only out of net profits for the first quarter, six months, nine months and/or annual results calculated in accordance with Russian accounting standards and as long as the following conditions are met:

- our share capital has been paid up in full;
- the value of our net assets, calculated in accordance with Russian accounting standards is, and will remain following the payment of dividends, not less than the sum of our share capital, reserve funds and the nominal liquidation value of the outstanding preference shares, if any;
- we have repurchased all shares from shareholders who have exercised their right to demand repurchase; and
- we have not, and will not become, insolvent as a result of the payment of any dividends.

On 4 March 2005, our wholly-owned subsidiary Raspadsky Ugol passed a resolution to pay dividends to the Selling Shareholder based upon the results of the third quarter 2004 in the amount of RR 32.2 million. Such dividends were paid on 17 March 2005. On 14 April 2005, Raspadsky Ugol passed a resolution to pay dividends to the Selling Shareholder based upon the results of the 2004 fiscal year in the amount of RR 900.0 million. Such dividends were paid on 20 April 2005 and 20 May 2005. On 6 September 2005, Raspadsky Ugol passed a resolution to pay dividends to the Selling Shareholder based upon the results of the first six months of 2005 totalling RR 875.7 million. Such dividends were paid on 13 December 2005. On 30 September 2005, we passed a resolution to pay dividends to shareholders based upon the results of the first six months of 2005 totalling RR 949.9 million, which represented an amount equal to RR 1.979 per registered ordinary share. On 28 April 2006, Raspadsky Ugol passed a resolution to pay dividends to the Selling Shareholder based upon the results of 2005 fiscal year in the amount of RR 723.5 million. Such dividends were paid in full in June 2006.

We expect to pay annual dividends of at least 25% of our consolidated annual net income, as calculated under IFRS. Our dividend policy is primarily dependent upon, and will be adjusted from time to time to reflect, our results of operations and cash flows, our financial position and capital requirements, general business conditions, any legal, tax, regulatory or contractual restrictions on the payment of dividends and any other factors our board of directors deems relevant.

For a further description, see "Description of Share Capital and Certain Requirements of Russian Legislation—Dividends."

CAPITALISATION

The following table sets forth our cash and capitalisation, on a historical basis, as of 30 June 2006. You should read the data set forth below in conjunction with "Use of Proceeds," "Selected Historical Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum and our audited and unaudited financial statements, and the accompanying notes thereto, included elsewhere in this offering memorandum.

	As of 30 June 2006
	(in US dollars thousands)
Cash and cash equivalents	61,511
Short-term loans and current portion of long-term loans(1)	50,586
Long-term borrowings	17,752
Equity:	
Issued capital	259
Treasury shares	(1,156)
Additional paid-in capital	784,503
Reserve capital	7
Accumulated losses	(20,328)
Unrealised gain on investments available for sale	946
Translation difference	5,834
Minority interests	4,041
Total shareholders' equity	774,106
Total capitalisation(2)	791,858

(1) Does not include the $300.0 million loan agreement that we entered into on 6 July 2006 with Natexis Banques Populaires and Bank Natexis (ZAO) acting as coordinating mandated lead arrangers and original lenders and Natexis Banques Populaires also acting as agent and bookrunner. Such loan agreement provides for interest to accrue at the rate of LIBOR + 0.85% per annum, with the repayment date being 30 June 2007, and is guaranteed by Evraz.

(2) Total long-term debt, net of current portion, and shareholders' equity.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The selected historical consolidated financial information set forth below shows our selected historical consolidated financial information as of 31 December 2005, 2004 and 2003 and for the six months ended as of 30 June 2006 and 2005. Moreover, our historical consolidated financial information has been revised for the years ended 31 December 2004 and 2003 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 historical consolidated financial statements as if the acquisitions of such Acquired Companies occurred on the date such Acquired Companies were originally established.

The selected historical consolidated financial information set forth below has been extracted without adjustment from, and should be read in conjunction with, our audited historical consolidated financial statements, and the notes thereto included elsewhere in this offering memorandum. The selected historical consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum. Our historical consolidated financial statements for each of the three years ended and as at 31 December 2005, 2004 and 2003 have been prepared in accordance with IFRS and audited by Ernst & Young LLC. The unaudited historical condensed consolidated financial statements for the six months ended and as at 30 June 2006 and 2005 have been prepared in accordance with IAS 34. The information presented for the six months ended and as at 30 June 2006 is not necessarily an indication of the results for the year ending 31 December 2006.

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(in US dollars thousands)				
Income Statement					
Continuing operations					
Revenue					
Sale of goods	216,394	310,544	534,291	378,920	125,990
Rendering of services	5,224	2,917	14,600	12,729	5,453
Total revenue	221,618	313,461	548,891	391,649	131,443
Cost of revenue	(134,724)	(165,454)	(315,422)	(214,658)	(101,428)
Gross Profit	86,894	148,007	233,469	176,991	30,015
Selling and distribution costs	(5,915)	(3,534)	(5,255)	(5,476)	(6,315)
General and administrative expenses	(16,558)	(11,382)	(25,587)	(16,986)	(14,602)
Social and social infrastructure maintenance expenses	(2,853)	(4,150)	(7,118)	(3,956)	(1,963)
Gain/(loss) on disposal of property, plant and equipment	(471)	(432)	(1,188)	133	(202)
Foreign exchange gains/(losses), net	(275)	135	113	(92)	(348)
Other operating income/ (expenses), net	(1,201)	(3,764)	(9,639)	(811)	(2,090)
Profit from operations	59,621	124,880	184,795	149,803	4,495
Dividend income	—	—	93	—	—
Interest income	434	2,158	3,294	2,297	773
Interest expense	(4,221)	(3,038)	(5,665)	(4,715)	(1,167)
Profit before income taxes	55,834	124,000	182,517	147,385	4,101
Income tax expense	(16,246)	(31,369)	(49,909)	(39,241)	(2,018)
Profit after tax from continuing operations	39,588	92,631	132,608	108,144	2,083
Discontinued operations					
Gain/(loss) after tax from discontinued operation	—	—	—	(1,886)	237
Net profit	39,588	92,631	132,608	106,258	2,320

	Six months ended 30 June		Year ended 31 December		
	2006	2005	2005	2004	2003
	(in US dollars thousands)				
Balance Sheet					
Total assets	1,439,312		420,509	353,847	221,161
Total shareholders' equity (deficit) .	774,106		(5,608)	(41,586)	(73,524)
Total liabilities	665,206		426,117	395,433	294,685
Cash Flow Statements					
Net cash from operating activities .	95,433	68,275	154,583	138,734	39,463
Net cash used in investing activities	7,960	42,123	92,192	97,524	27,754
Net cash used in financing activities	54,749	3,074	82,134	10,576	4,188

SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following selected pro forma consolidated financial information has been derived by the application of pro forma adjustments related to the MUK Group Acquisition to our historical consolidated financial statements included elsewhere in this offering memorandum. The pro forma consolidated financial information as of and for the years ended 31 December 2005 and 2004 and the unaudited pro forma consolidated financial information for the six months ended 30 June 2006 and 2005 give effect to the MUK Group Acquisition as if it had occurred on 1 January 2004. The pro forma adjustments are based upon available information, preliminary estimates and certain assumptions that we believe are reasonable based on information currently available. The pro forma consolidated financial information is presented for illustrative purposes only and should not be considered indicative of actual results that would have been achieved had the MUK Group Acquisition been consummated on 1 January 2004, or of our future operating or financial results. The unaudited pro forma consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum.

	Six months ended 30 June		Year ended 31 December	
	2006	2005	2005	2004
	(in US dollars thousands)			
Income Statement				
Revenue				
Sale of goods	216,394	310,544	531,765	413,276
Rendering of services	1,923	3,137	9,409	7,458
Total revenue	218,317	313,681	541,174	420,734
Cost of revenue	(114,291)	(127,947)	(251,964)	(210,792)
Gross Profit	104,026	185,734	289,210	209,942
Selling and distribution costs	(5,915)	(3,534)	(5,255)	(5,476)
General and administrative expenses	(18,779)	(14,183)	(30,190)	(20,550)
Social and social infrastructure maintenance expenses	(2,853)	(4,150)	(7,118)	(3,956)
Gain/(loss) on disposal of property, plant and equipment	(471)	(432)	(1,188)	133
Foreign exchange gains/(losses), net	694	(425)	(468)	894
Other operating income (expenses), net	(879)	(4,252)	(10,307)	(1,665)
Profit from operations	75,823	158,758	234,684	179,322
Dividend income	—	—	93	—
Interest income	544	2,158	3,540	2,340
Interest expense	(5,291)	(4,843)	(9,092)	(8,094)
Profit before income taxes	71,076	156,073	229,225	173,568
Income tax (expense)	(20,131)	(39,760)	(63,813)	(45,618)
Net profit	50,945	116,313	165,412	127,950
Balance Sheet				
Total assets			1,362,118	1,355,369
Total shareholders' equity			708,134	698,327
Total liabilities			653,984	657,042

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.

INDUSTRY

General

Coal is generally regarded as one of the most affordable sources of energy in the world and is a major contributor to the world energy supply. Total global demand for coal is growing, particularly in Asia, as a result of an increasing demand for power, growing industrial production and the competitiveness of coal as a cost-efficient energy source. According to the International Energy Agency (the "IEA") estimates, world coal production in 2005 was approximately 5.9 billion tonnes and coal comprised approximately 28% of the world's primary energy consumption. According to the World Coal Institute, the world currently relies on the consumption of coal for approximately 40% of the electricity supply, while approximately 66% of steel production is dependent on coal. Furthermore, according to BP Statistical Review, total global proven recoverable reserves of coal were approximately 909 billion tonnes as of the end of 2005, roughly half of which are hard coals (bituminous coal and anthracite) and the other half are low-rank coals (sub-bituminous coal and lignite). At 2005 rates, these reserves are enough to sustain continuous production for over 150 years. The United States is the largest holder of coal reserves in the world, with over 240 years of supply at 2005 production rates and Russia being the clear second. Coal is a widely distributed natural resource that is mined commercially in over 50 countries and is used in over 70 countries worldwide. However, over 90% of known reserves are located in just 12 countries that also account for 90% of global output. China is the world's largest coal producer, followed by the United States. Other leading coal producing countries include Australia, India, South Africa and Russia.

The coal industry is made up of two key segments: thermal or steaming coal, which is used primarily for energy generation; and coking or metallurgical coal, which is used primarily for steel making.

The majority of coal produced is primarily consumed regionally due to high transportation costs relative to coal prices. According to IEA, approximately 36% of coking coal and 13% of thermal coal are traded internationally primarily through seaborne markets. The two major markets are the Atlantic region and the Asia Pacific region and the process between the two can vary significantly due to differences in the cost of ocean freight and other transportation related costs. The world's leading coal-exporting countries are Australia, Indonesia, Russia, South Africa and China, which collectively account for over 70% of the world coal trade. In the Atlantic region, Europe consumes around one third of global coal exports, receiving shipments from South Africa, Russia, Australia, Columbia and Poland. In the Asia Pacific region, Australia, Indonesia, China, Russia and Canada are the major exporters, shipping approximately 50% of global coal exports mainly to Japan, South Korea, and Taiwan.

Global coal markets are thus fragmented by geographical location, with coal prices varying significantly between regions of the world. In regions where coal resources are scarce, coal-fired power plants and other coal users are dependent on transport infrastructure to obtain coal supplies from other regions. Most Western European countries and several South Asian countries primarily Japan and South Korea have high demand for coal but limited domestic coal resources, while other countries, such as Australia, South Africa and Indonesia, have abundant coal resources but relatively limited domestic demand. In recent years, global demand for exported coal has increased due to a number of factors, including economic growth, which has stimulated higher consumption of coal, substitution of imported coal for domestic coal in Europe, and volatile petroleum and natural gas prices.

Domestic thermal consumers are the predominant coal buyers, accounting for more than 80% of global coal consumption. The primary use for thermal coal is to fuel power generation through a combustion process that produces steam for electricity and heat.

Coking Coal

The other key segment of the coal market is coking or metallurgical coal, which has the steel industry as its major market, and which accounted for 100% of our coal sales in 2005 and 2006. In general, the iron and steel industry account for approximately 90% of total coking coal demand, with the remaining balance used by the foundry industry and other small industrial users. Occasionally, in developing nations, coke and coking coal are still used for home heating, although this has now become increasingly rare.

When making steel in an integrated steel mill, two of the key raw ingredients are iron ore and coke. Coke is the solid material formed when coking coal is heated in a coking oven to a very high temperature (1,000°C) in the absence of air. In the blast furnace of an integrated steel mill, coke is primarily used to (i) generate the heat required to convert iron ore into molten iron; (ii) generate the reducing gas necessary to chemically convert iron oxides into hot metal; and (iii) create a permeable bed to allow the molten iron to drip down and the reducing gases to rise up. Generally, 1.5 tonnes of coking coal produces approximately 1 tonne of coke, which in turn is needed to produce approximately 2 tonnes of steel.

Blast furnaces are designed to use specific grades of coke, and as a result, coking ovens are designed to use coking coals with specific qualities. Coking coal is distinguished by special quality characteristics that include high carbon content, low expansion pressure, low sulfur content and various other chemical attributes. Coking coal is also high in heat content (as measured in Btus), and therefore can alternatively be used by utilities as fuel for electricity generation. Consequently, coking coal producers have the opportunity to select the market that provides maximum revenue. The premium price offered for coking coal by steel makers for its coke-making attributes is typically higher than the price offered by utility coal buyers that value only the heat and sulfur content of the coal.

Coking coals are commonly split into two main groups: hard coking coals and soft or semi-soft coking coals. Hard coking coals are for the production of a strong or hard coke, with soft or semi-soft coking coals typically having weaker coking properties. These weaker coals are usually blended with hard coking coals in the coke oven to reduce the overall cost of the coal in the coke blend. Semi-hard coking coals are high ash versions of hard coking coals, which may still have good coke making properties. Other types of coking coal are classified as Pulverised Coal Injection (PCI) coals, which come in two broad brands, high volatile matter low rank bituminous coals (which can include semi-soft coking coals), and semi-anthracite.

Many steel companies now inject a certain amount of pulverised coal directly into the blast furnace, which helps reduce coke consumption and replace oil requirements. Approximately one tonne of PCI coal replaces 1.4 tonnes of coking coal. Although PCI coal does not need to have coking properties, it should have low volatility and a high carbon content, as well as low in sulfur and ash as these two latter qualities impair the quality of steel produced. As such, in the past few years, steel producers have started to favour low volatile semi-anthracites instead of higher volatile coals. According to IEA, in 2004, approximately 618.3 million tonnes of coking coal (including 24.5 million tonnes of PCI coal) were consumed globally to produce 1,067.0 million tonnes of crude steel.

Coking coal rarely has all the required characteristics (such as moisture, volatility, ash and sulphur content) in its raw form, and must undergo a number of processes before it can be sold. After the coal is mined, it is crushed and screened to sort it by size of particle and remove large impurities. Additional preparation or washing is required to enhance quality, and in particular to decrease ash content. One tonne of raw coal usually yields 700-850 kg of clean coal or concentrate, depending on the ash content, proportion of waste material and the complexity of the enrichment process.

Global Coking Coal Market

According to IEA, total global coking coal demand was approximately 633.1 million tonnes in 2005. China's demand is estimated to total 259.1 million tonnes, which represents an approximate 41% market share, with Eastern Europe / CIS the next largest consumer at 123.5 million tonnes, followed by Asian countries (except for Japan and China) at 72.9 million tonnes, Japan at 63.4 million tonnes and Europe at 61.2 million tonnes. According to IEA, the market for imported coking coal totalled approximately 205.7 million tonnes in 2005, approximately 32% of total global coking coal demand. Demand is primarily driven by steel producing countries without sufficient domestic coking coal resources.

According to IEA, Japan is usually the largest importer of coking coal, requiring approximately 63.4 million tonnes in 2005, or 30.8% of total import demand. Japan is followed by Korea (approximately 20.6 million tonnes), India (approximately 19.1 million tonnes) and Brazil (approximately 14.7 million tonnes) as the largest importers. China has been a very small importer of coking coal in the past due to its abundant domestic resources, however, imports have been increasing over the past few years due to very strong domestic demand.

Coking coal demand usually grows in line with hot metal demand. Given China's large steel production capacity, but its ability to meet its coking coal needs domestically, global import demand growth is usually lower than overall demand growth.

On the supply side, Australia is expected to remain as the world's largest coking coal exporter in the foreseeable future, with Australian coking coal producers having significant production growth plans. According to IEA, Australia exported approximately 124.9 million tonnes of coking coal in 2005, while Canada and the U.S., with coking coal exports of approximately 26.2 million tonnes and 26.0 million tonnes, respectively, remained the second and third largest coking coal exporters, respectively. Moreover, Western Canada has seen a large growth of new coal mines and coal-related projects over the last two years in response to the higher pricing environment. Although, like the U.S., absolute growth remains small compared to Australia. These mines sustain higher costs in the production of coking coal when compared to Australian producers.

China is not expected to increase its coking coal exports beyond current levels of 9.0 million tonnes per annum, due to the large domestic steel industry demand. Exports from Russia in the amount of approximately 10 million tonnes are expected to increase over the next decade, although Russian export growth will possibly be limited due to high domestic steel industry demand, higher production costs and high rail freight costs. Indonesian exports are expected to remain flat, with Venezuelan production increasing to Indonesian levels as new mines increase production in this region.

Russian Coal Market

Russia is the largest country in the world and covers a vast amount of topographically varied territory. This variation also applies to its coal. Due to Russia's geographic diverseness and vastness, the variation of coal qualities and types crosses the spectrum of those found world wide, and includes, anthracites, thermal, PCI and coking coals.

Coal mining in Russia has a long history and the sector was one of the largest employers in the former USSR. Under the Soviet government, the coal mining industry was heavily subsidised and became highly inefficient and unproductive. However, since the break-up of the Soviet Union, the coal industry has experienced a state of transition, as the Russian government has moved to privatise the industry.

Russia has extensive reserves of coal, with over 198.1 billion tonnes of reserves (A+B+C1 Russian classification) according to Rosinformugol. According to BP Statistical Review, Russia is believed to contain approximately 17% of the world's total coal deposits, however, the majority of these are located in unexplored and inhospitable areas. The table below shows the reserves of coal in Russia classified by region. The coking coal reserves represent approximately 20% of the total Russian reserves.

	Coal Reserves		
	Total	Thermal and Other	Coking
		(billion tonnes)	
North-West Region	8.1	4.8	3.3
South Region	6.6	6.3	0.3
Volga Region	1.2	1.0	0.2
Ural	1.1	1.1	—
Siberia	157.6	125.5	32.1
Far East	20.1	15.8	4.3
Others	3.4	3.4	—
Total:	**198.1**	**157.9**	**40.2**

Source: Rosinformugol

As in many other areas of the coal mining industry, the disparity between the Russian (Soviet) and Western coal classification systems is difficult to ignore. The table below summarises the multitude of coal types and blends:

The table below sets forth correspondence between Russian and western coal classification systems:

	Russian (Soviet) System		Western (US) System[(1)]	
Brown coals	Brown (B)	1B 2B	ligB ligA	Lignite
		3B	SubC	Sub-bituminous
Hard coals	Long-flame (D)		SubB SubA	
			hvCb	Bituminous
	Long-flame-gas (DG), gas (G), gas-fat (GZh), gas-fat-semi-lean (GZhO) and partly fat (Zh)		hvBb hvAb	
	Fat (Zh), coking-fat (KZh), coking (K), coking-semi-lean (KO), coking-caking (KS and KSN)		mvb	
	Semi-lean-coking (OS) and lean-coking (TS)		lvb	
	Lean (T)		sa	
	Semi-anthracite (PA)			Anthracitic
	Anthracite	A1 A2 A3	an ma	

Source: United States Geological Survey, State Committee on Geology and the Use of Subsoil Resources of Russia and Rosinformugol

(1) The modifiers “hv,” “mv” and “lv” stand for “high volatile, “medium volatile” and “low volatile,” respectively. They denote the gas content of coal, from high to low.

The Russian blends K, KO, KZh, OS, Zh and GZh are higher-rank coking coal. Ideally, they should represent approximately 80% of a coke oven charge and be in specific proportion to one another. While they can be substituted with other blends to a limited extent (for example, KS for KO or OS, or GZhO for Zh or GZh), this reduces the quality of coke and thus the steel produced.

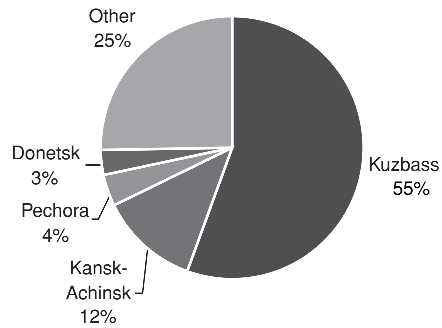
The table below sets forth coke oven charge (Model vs. Average Composition):

	K	KO + OS	Zh	GZh	Higher-rank coking coals	Other
Model composition	20%	20%	25%	15%	80%	20%
Russian production average, 1996	15%	13%	39%	13%	80%	20%
Russian production average, 2005	11%	17%	23%	21%	72%	28%
Russian production average, 1st quarter 2006	11%	19%	20%	21%	71%	29%

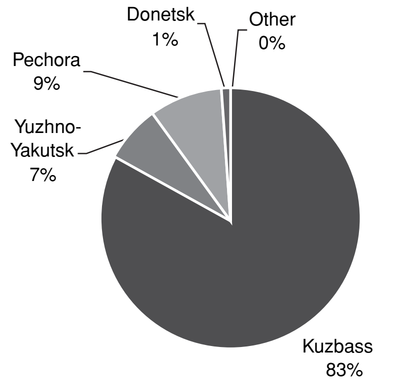
Source: Rosinformugol

The Kuzbass contains the largest number of working coal mines and open-pit mines in Russia. The chart below shows a split, by production, of Russia’s coal and coking coal mining basins in 2005. The Kemerovo region, where the Kuzbass is located, is the largest coal producing region with the Kuzbass providing Russia with over 55% of its overall coal and 83% of its coking coal. Six out of the ten largest Russian coal companies are located in the Kemerovo region, including us.

2005 coal production by coal basin



2005 coking coal production by coal basin

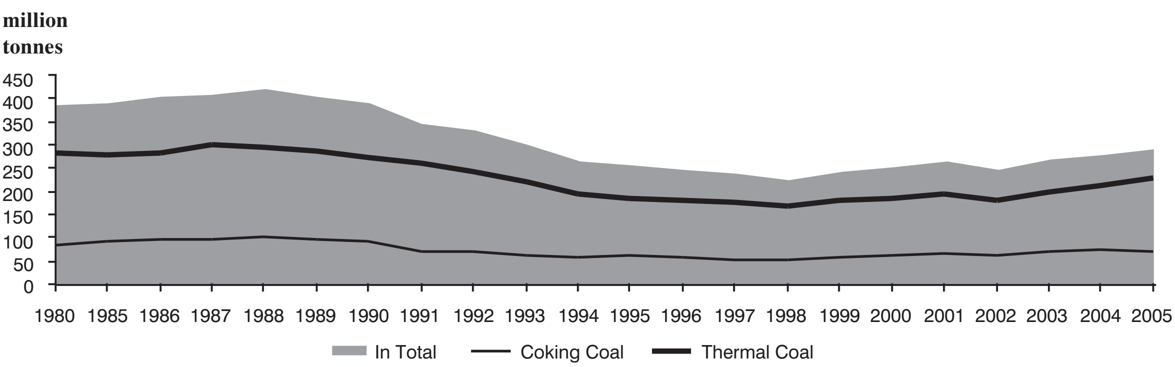


Source: Rosinformugol

Although coal is produced in only 24 regions in Russia, all 88 regions in Russia consume coal. Russian coal production is dominated by thermal coal with only 23% of total production being of the coking coal type. Other coal types, such as PCI, are not reported in Russian export statistics, and hence, the level of production and export of these coals is difficult to determine. However, these coals are mined and exported in Russia.

Coal production in Russia has declined since reaching a peak in 1988 of approximately 400 million tonnes per annum, of which approximately 100 million tonnes per annum was coking coal, according to Rosinformugol. Coal production in Russia reached its lowest point in 1998 when production dropped to 232 million tonnes, of which approximately 52 million tonnes per annum was coking coal, according to Rosinformugol. The drop in coal production was due to several factors the most significant being industry consolidation and the decrease in the consumption of coal by the major consumer groups.

The diagram below sets forth historical Russian production figures:



Source: Rosinformugol

Consumption of steam coal by electric power plants decreased during the period from 1998 to 2005, which had the effect of reducing the coal share for power generation from 45% to 34%, according to Rosinformugol. However, such decrease was offset by the growth of coking coal production due to increased demand from steel mills and by an increasing demand for Russian coal globally, and hence, contributing to the overall increases in Russian production of coal.

Russian coal exports have trended upward since 1997 when approximately 22.3 million tonnes of coal was exported from Russia, according to Rosinformugol. The increase in exports was primarily due to a buoyant market, increasing efficiency of the Russian coal mining sector and the decentralisation of the industry. According to CDU TEK, coals from the Kemerovo region account for approximately 80% of the export trade; despite the long travel distances from the region to export ports in the Far East, Baltic and Black Sea.

Maritime (river and port) and railway transport are used for coal deliveries. According to Rosinformugol, in 2005 Russia exported approximately 29% of its total coal production and approximately 14% of its total coking coal production. Exports to the CIS and some European countries utilise rail, while all other exports are combined, utilising rail to seaports. In total terms, rail is the most predominant method of coal transportation in Russia.

In 2005, coal was produced in 98 coal mines and 134 coal open-pit mines, of which coking coal is produced by 30 companies in 41 coal mines and 16 coal open-pit mines. The table below shows the top 10 largest Russian coking coal producers ranked by coking coal output in 2005.

	Output (in thousands tonnes)	Market Share	Ownership
Yuzhkuzbassugol	13,022	19%	Management/Evraz Group
Raspadskaya[(1)]	9,717	14%	Management/Evraz Group
Southern Kuzbass Coal Company	8,705	12%	Mechel
Sibuglemet	8,252	12%	Management
Vorkutaugol	5,581	8%	Severstal
Yakutugol	5,046	7%	State/Mechel
Kuzbassrazrezugol	3,787	5%	Management/UGMK
Prokopievskugol	3,542	5%	NLMK
Kuzbassugol	3,499	5%	Severstal
SUEK	2,794	4%	MDM Group
Other	5,948	9%	
Total	**69,893**		

Source: Rosinformugol, Raspadskaya

(1) Pro forma figures.

The competition in the coking coal segment is far more complex than the thermal coal sector. A group of six largest producers together account for more than 70% of coking coal production, and other four smaller producers for another 20%. While this should create fierce competition, we believe this not to be the situation.

First, most of these companies are subsidiaries of vertically integrated steel and raw materials producers, and as such, supply a significant portion of their output to affiliated steel companies, although usually on market terms. These include Vorkutaugol and Kuzbassugol (the coal mining subsidiaries of Severstal), Southern Kuzbass Coal Company (part of Mechel), Prokopievskugol (the coal mining subsidiary of NLMK). Also, Evraz has an equity stake in Yuzhkuzbassugol and Raspadskaya, but does not exercise operational control. According to Rosinformugol, it is estimated that approximately 37.6 million tonnes of coking coal, or more than 50% of Russian consumption, is supplied within metals holdings, effectively bypassing the marketplace. Second, a quality coke oven charge is a mix of several coal blends with specific properties. As most domestic coal miners produce only some of these blends (except Severstal, which producers all of them), they do not directly compete with one another, but rather supply complementary products.

According to Rosinformugol, for the year ended 31 December 2005, approximately 89% of the coking coal (or approximately 62.6 million tonnes) was prepared at coal preparation plants. As of the year ended 31 December 2005, there were 22 coal preparation plants in Russia with a total capacity of approximately 81.6 million tonnes per annum.

Reserve Reporting Methodologies

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes currently being utilised are:

- United States Geological Survey Circular 831;
- Ontario Securities Commission Instrument 43-101;

- Australasian Joint Ore Reserves Committee ("JORC") Code;
- Institute of Materials, Minerals and Mining ("IMMM") Reporting Code; and
- South African Institute of Mining and Metallurgy ("SAIMM") Reporting Code.

Each of these codes recognises difference between mineral resources and reserves. Conversion from a mineral resource to a reserve requires the application of "modifying factors." These modifying factors include mining, economic, marketing, legal, environment, social and governmental factors. A "resource" is geological defined; it becomes a reserve when the modifying factors, especially technical and economic, are taken into account. Each of these codes includes strict guidelines for data quality and reporting for different mining conditions.

Under the JORC Code, coal resources are sub-divided, in order of decreasing geological confidence into measured (highest level), indicated and inferred (lowest level) categories.

A measured coal resource is that part of the total coal resource for which quantity and quality can be estimated with a high level of confidence, based upon information gathered from points of observation that may be supported by interpretative data.

An indicated coal resource is that part of the total coal resource for which quantity and quality can be estimated with reasonable levels of confidence based upon information gathered from points of observation that may be supported by interpretative data.

An inferred coal resource is that part of a total coal resource for which quantity and quality can only be estimated with low levels of confidence. The quantity and quality are inferred using points of observation that may be supported by interpretative data.

Coal reserves are the economically mineable parts of a measured or indicated resource. Coal reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit, and include proper consideration of all relevant modifying factors such as: mining methods, economic, marketing, legal, environmental, social and governmental factors.

A proved coal reserve is the economically mineable part of a measured coal resource for which the modifying factors have been satisfied.

A probable coal reserve is the economically mineable part of an indicated coal resource.

Russian Reporting Methodologies

Deposits under the Russian methodology are classified into one of four classes based upon the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation. The initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, coal resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources.

Explored and evaluated deposits are further classified based upon the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A. These resources include only explored deposits and must satisfy the following criteria:

- the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
- the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;

- The distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated;
- The mineral reserves have been mapped based upon test wells, workings and detailed trial runs.

Category B. These reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accurate than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on a basis of geological criteria and geophysical and geochemical research.

Category C1. These reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2. These reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and the boundaries of the deposit are mapped based upon data gathered from only a limited number of test wells and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B C1 or C2 reserves may be classified as probable reserves in categories P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves.

Coal Pricing

The coal market is different from the metals markets in that there are no accepted reference or posted prices, and a very limited futures market outside of Europe. Coal is sold under term contracts or on the spot market with the coking and thermal coal markets operating relatively independently of each other. Coal is also a non-homogenous product with significant quality differentiation, particularly for coking coal, but also in thermal coal as well.

In terms of pricing differentials, coking coal is priced according to its coking characteristics, whereas thermal coal is priced primarily on its energy content. Coal quality is therefore the major criteria for customer selection before price considerations. For coking coal, the acceptability and value for use in an integrated steelworks depends on a host of coking and physical characteristics, whereas thermal coal is judged on the quality of which volatile matter and energy content are most important (other significant characteristics include ash, sulfur and nitrogen content, as well as hardness and moisture level, among others).

In Asia, and elsewhere globally, most coking and thermal coal sales are typically negotiated under contracts with a term of one to five years with annual, negotiated volume and price adjustments. Price settlements between Asian steel producers and power companies and Australian coal producers have typically acted as benchmarks for pricing in the Asia-Pacific and the Atlantic region coking and thermal coal export markets. These contracts are usually settled in the first quarter of the year with new contract prices effective from April 1 to March 31 of the following year (the Japanese financial year). Spot sales, as opposed to contract sales, are not necessarily short term, single shipment or low volume contractual arrangements. Spot coal sales are typically made either through bidding in a tender process or through direct negotiation between buyers and suppliers.

In Russia, coking coal supply contracts between major coal companies and consumers such as metallurgical holdings, steelworks and coke plants (representing more than a half of coking coal production in Russia) are concluded directly, with no competitive bidding. Contracts are usually for one year, although some are concluded for shorter terms such as six months, one quarter or even one month, depending on existing production capacity and customer requirements. Owing to the existence of small producers on the market, which do not have regular customers, there are also some spot contracts.

As coal companies produce raw coal with varying quality characteristics and have the ability to prepare coal concentrate at their own or third-party preparation plants, supply contracts usually fix a coal price depending on compliance with the main quality requirements.

Prices are usually renegotiated several times over a year and depend on the overall condition of the coal, coke and metals markets. For a more detailed description of our contract pricing, see "Our Company—Coal Supply Contracts."

Coking coal prices in both the domestic and seaborne export markets have increased significantly over the past two years. This has been due to tight supply and strong increases in demand for coking coal by foreign steel producers, driven by higher steel production in Asia and the Pacific Rim, particularly in China. According to the International Iron and Steel Institute, Chinese steel consumption has increased 157% from 122.6 in 1999 to 315.0 million tonnes in 2005. Increased prices have also been supported by circumstances affecting the coal export industry in China and Australia, the world's two largest coal exporters. In Australia, the world's largest coal exporter, coking coal exports have been reduced by operating disruptions at certain coking coal mines, and serious capacity constraints at major Australian shipping ports. China's contribution to the world coking coal export market has been reduced by restrictions on its coking coal exports, announced in late 2003, in order to satisfy domestic demand.

Asia-Pacific Rim consumption of coking coal continues to strain supply, with Australian producers reporting average price settlement increases of 82% for annually-priced coking coal sales contracts in 2005 as compared to 2004, according to IEA.

OUR COMPANY

Overview

We are Russia's second-largest coking coal producer based upon production volume and have the largest reserves of coking coal in Russia. For the year ended 31 December 2005, we produced, on a pro forma basis, 9.7 million tonnes of raw coal as compared to 10.6 million tonnes of raw coal for the year ended 31 December 2004. For the six months ended 30 June 2006, we produced, on a pro forma basis, 5.1 million tonnes of raw coal as compared to 4.9 million tonnes of raw coal for the six months ended 30 June 2005. We conduct our business through 11 key subsidiaries located in the Kemerovo region of the Russian Federation in the Kuznetsky coal basin (the "Kuzbass"). Our mining operations include two active underground mines that are comprised of five operational longwall faces, one active open-pit mine, a coal preparation plant, one underground mine under construction, as well as industrial, maintenance and transportation infrastructure. We have leading market positions in Russia with respect to the coal that we produce, which primarily consists of several different types of coking coal, including coal that is classified under the Russian classification system as grades Zh (fat), GZh (gas fat) and grade GZhO (gas fat semi-lean). We believe that our coal concentrate produced from these grades would be considered semi-hard coking coal under the international classification system based on its aggregate characteristics, including ash, reflectance, plasticity and volatility. According to IMC, as of 30 June 2006, we had total proved and probable reserves of approximately 781.5 million tonnes.

For the year ended 31 December 2005, we sold, on a pro forma basis, 5.6 million tonnes of coal concentrate as compared to 6.0 million tonnes of coal concentrate for the year ended 31 December 2004. For the six months ended 30 June 2006, we sold, on a pro forma basis, 3.2 million tonnes of coal concentrate as compared to 2.7 million tonnes of coal concentrate for the six months ended 30 June 2005. For the year ended 31 December 2005, we sold, on a pro forma basis, 1.9 million tonnes of raw coal as compared to 2.9 million tonnes of raw coal for the year ended 31 December 2004. For the six months ended 30 June 2006, we sold, on a pro forma basis, 0.7 million tonnes of raw coal as compared to 1.0 million tonnes of raw coal for the six months ended 30 June 2005. We had revenues, on a pro forma basis, of $541.2 million for the year ended 31 December 2005 as compared to $420.7 million for the year ended 31 December 2004 and revenues, on a pro forma basis, of $218.3 million for the six months ended 30 June 2006 as compared to $313.7 million for the six months ended 30 June 2005. For the year ended 31 December 2005, our EBITDA, on a pro forma basis, was $321.9 million as compared to $258.8 million for the year ended 31 December 2004.

Our Strengths

We believe our key competitive strengths are as follows:

- *Russia's second-largest coking coal producer.* Based upon the volume of raw coal we produced for the year ended 31 December 2005, we are the second-largest coking coal producer in Russia. Our ability to produce large volumes of coking coal has resulted in many large Russian metallurgical companies, such as MMK, Evraz and NLMK, relying on us to supply their plants with a large portion of the coal products that are required to operate their businesses. We believe such companies rely on us for coking coal because our integrated business operations ensure that we can consistently satisfy our delivery obligations with the requested types of coal. Additionally, our experience in the coal business and the integrated structure of our operations allow us, in the event of a decrease in demand by metallurgical companies on the domestic market, to sell coal on the export market as our status as a leading Russian coking coal producer has helped us build a positive corporate image both domestically and internationally. We believe that our positive image amongst customers and our commitment to operate in a socially responsible manner has secured our strong relations with the Russian government on both a regional and national level.

- *Largest high quality coking coal reserve base in Russia.* We had proved and probable coking coal reserves of approximately 781.5 million tonnes as of 30 June 2006. At the current level of production, our reserves are of sufficient size to enable us to produce coal for nearly 80 years. Moreover, the coal reserves found in the Mine Field 2 area to which Raspadskaya Koksovaya holds the licence are classified under the Russian classification system as grade K (coking) and grade KO (coking semi-lean) which we believe would be classified as hard coking coal under the international classification system. Such coking coals are not prevalent in Russia and are in high demand both in Russia and abroad due to their lower volatility and improved coking ability. Production of such grade K (coking) and grade KO (coking semi-lean) coal will allow us to diversify our products range and better address the needs of our customers.

- *Low cost and high efficiency coking coal production*. Our integrated operations located within a single complex have allowed us to minimise the necessity of outsourcing to third parties aspects of our coal production process, which allows us to reduce overall costs while simultaneously improving production efficiency. Moreover, we have invested approximately $362.0 million during 2004-2006 in mining and mining-related equipment. We believe we are one of the leaders in the Russian coal mining industry in the application of state of the art mining equipment primarily purchased from leading global manufacturers, such as Joy Global Inc., Voest-Alpine and DBT. The investment in such technologically advanced equipment, including the advanced deep seam development system (the "DSDS") manufactured by Superior Highwall Miners, L.P. (US) ("SHM"), has enabled us to enhance efficiency of our coal production and significantly reduce the personnel involved in the mining operations. Moreover, we believe that our investments incurred to date have given us a significant advantage in relation to our Russian peers with respect to seizing upon growth opportunities both in Russia and the export market.

- *Integrated business operations located at a single complex*. We believe we are one of the only Russian coal mining companies that has integrated business operations located within a single complex. Our facilities at Mezhdurechensk include two active underground mines that are comprised of five operational longwall faces, an active open-pit mine, a coal preparation plant and one underground mine under construction, as well as our own coal transportation network, operated by our subsidiary TCHU, that connects our production complex to the federal railway network at Mezhdurechensk. Furthermore, our sales and marketing are entirely managed by our wholly-owned subsidiary, Raspadskaya Coal Company, located at our principal executive offices in Mezhdurechensk. In addition, our subsidiaries, Open Joint Stock Company Olzherasskoye Shaft-Sinking Unit ("Olzherasskoye Shaft-Sinking Unit") which conducts sinking work at our mines, Limited Liability Company Raspadskaya-Joy ("Raspadskaya-Joy") which is responsible for preparing new longwall faces for coal production, and Limited Liability Company Montazhnik Raspadskoy ("Montazhnik Raspadskoy") which supplies our operations with ancillary equipment, are also located within our single complex. Thus, our integrated structure enables us to monitor and control the entire value chain from the moment of shaft-sinking to initial extraction to the delivery of coal products from our railway to the federal railway network.

- *Ability to prepare our own coal concentrate*. Our preparation plant commenced operations in the fourth quarter of 2005 with the installation of Stage I by our wholly-owned subsidiary, Closed Joint Stock Company Raspadskaya Preparation Plant ("Raspadskaya Preparation Plant"). Currently, the nameplate capacity of our plant is 7.5 million tonnes annually of the raw coal processed. Moreover, during 2008, Stage II of our preparation plant should commence operations which will have the capacity to prepare 3.0 million tonnes of raw coal annually. In addition to the existing capability to prepare grades Zh, GZh and GZhO, Stage II will enable us to separately prepare the coal that is classified under the Russian classification system as grade K (coking) and grade KO (coking semi-lean) to be produced by Raspadskaya Koksovaya, thereby, allowing us to market such valuable concentrate as a separate product. Our integration strategy has allowed us to minimise the necessity of outsourcing the preparation of our raw coal prior to final transport to customers, thereby better enabling us to monitor the quality, provide customers with requested product characteristics and reduce overall costs. Overall, the ability to prepare our own coal concentrate should positively impact our financial results as the sale of coal concentrate generally commands a higher margin than does the sale of raw coal.

- *Experienced management team*. Our managers have extensive experience in the coal mining industry and have successfully transformed us into one of the largest coking coal mining companies in Russia. The current General Director of Raspadskaya Coal Company, our management company, Gennady I. Kozovoy, assumed such position in April 2003, and previously served as Raspadskaya's General Director from December 1993 through June 2003 and began working at the Raspadskaya mine in 1978. In addition, the chairman of our board of directors, Alexander S. Vagin, has served in such capacity since December 1993 and assumed the role of First Deputy General Director of Raspadskaya Coal Company in March 2004, as well as began working at the Raspadskaya mine in 1983. Mr. Kozovoy and Mr. Vagin are supported by a competent team of top management with extensive experience. We believe that the extensive expertise in the mining and coal business of our management will allow us to successfully implement our strategic objectives in the interests of our shareholders. Moreover, our mining engineers, both at a senior and middle level, have extensive industry experience and are considered to be the foremost engineers with respect to mining operations in the Russian Federation. Our management team considers the health and safety of our employees to be the most significant responsibility in connection with our operations. We believe that a continued focus on safety procedures is a crucial factor in sustaining our business.

- *Focus on sustainability of our business.* Our management team considers the health and safety of our employees to be the most significant responsibility in connection with the integrity of our operations. Coal underground mining world-wide operates in inherently dangerous conditions and the leading companies are rightly recognised through the above-average operational risk-minimisation policies. Thus, we believe that our relentless focus on the safety procedures is a crucial factor for sustainability of our business. For instance, our enhanced labour safety procedures have allowed us to reduce the work related injuries at our Raspadskaya mine four-fold since 1994. We believe that we have invested more than our competitors into health, safety and environment and we will endeavour not to compromise on sustainability.
- *Strong financial position*. We believe that we are one of the most profitable coking coal producers in the world, as measured by EBITDA margin. As a result of our relatively low unit operating production costs and logistics costs, as well as our program of modernising our production facilities, we have achieved a level of profitability which we believe enables us to maintain strong financial performance despite fluctuations in coal prices. In 2004 and 2005, we had an EBITDA margin, on a pro-forma basis, of 62% and 59%, respectively. Based on our 2005 EBITDA margin, and available information for global coking coal producers, we rank as one of the most profitable coking coal producers in the world.

Our Strategy

Our key strategies include the following:

- *Increase production and reserves.* We intend to further increase our production volumes. For instance, we plan that Raspadskaya Koksovaya will have the production capacity of three million tonnes of coking coal per year and Stage II of the preparation plant which is currently under construction will be able to prepare an additional three million tonnes of raw coal per year. Moreover, we seek continued expansion of coal reserves through the selective acquisition of licences, further geological exploration work and reclassification of our extensive resources into reserves.
- *Enlarge export operations*. We intend to build up our market share in Ukraine based on our long-term relationships with the customers and competitive advantages relative to local suppliers, including high quality of our coal and low production costs. Moreover we intend to increase our market share in Eastern Europe and enter Southeast Asian markets.
- *Strengthen our market position in Russia and Ukraine.* We are already one of the largest suppliers of coking coal in Russia and Ukraine. However, we intend to further improve on such position by continuing to be known in these markets as a coal supplier of choice that is distinguished by our reliability, consistency and product quality. Moreover, we have signed framework long-term supply contracts with our existing large domestic customers, MMK, Evraz and NLMK. We believe this policy will allow us to more accurately approximate the maximum amount of excess coal we can sell each year. Additionally, such long-term contracts will better secure market demand for our coal products, provide enhanced benefits from the current pricing environment and maintain our long-term relations with our largest domestic customers. We also anticipate strengthening our domestic market position by capitalising on the grade K (coking) and grade KO (coking semi-lean) to be produced by Raspadskaya Koksovaya which is very scarce in Russia.
- *Maintain financial discipline and relentless focus on profitability.* We intend to continue to maintain cost leadership with respect to the Russian coking coal market and we will aim to maintain our position in the lowest quartile of world-wide coal producers in terms of cash costs of sales. We also plan to develop a strategy where all investment decisions emphasise

maximising returns on the capital employed. Moreover, we plan on optimising our capital structure to efficiently fund our operations and capital expenditures. In addition, we will seek to consistently declare and pay dividends to our shareholders.

- *Further enhance our corporate governance and health, safety and environmental standards.* We seek to adopt and continue to refine our corporate governance to a level that is comparable with international standards. Moreover, we intend to retain the high quality employees currently working for us as well as to recruit new qualified employees. Additionally, we regard the maintenance of the environment, and the health and safety of our employees as significant responsibilities.

History

The Raspadskaya mine commenced operations in 1973 with a production capacity of approximately 2 million tonnes per year. After the dissolution of the Soviet Union, we were organised in 1991 as ZAO "Raspadskaya," 100% owned by our employees as a result of the privatisation of the Raspadskaya mine. The period from 1991 to 1994 was marked by the deterioration in our technical and economic performance due to overall decline in Russia's economy as a result of the collapse of the planned economy and transition to a market-based economy. In 1994, our current management team took control over our business operations. The current management team developed and implemented a programme of production efficiency enhancement for the period from 1996 through 2005 which sought to, amongst other things, increase production volume, increase labour productivity and reduce production costs. The management team initially focused on enhancing the facilities at existing sites, and then subsequently completed various acquisitions to complement such existing facilities. We invested approximately $402.0 million during the period from 1994 to 2004 for the renovation of existing facilities and purchasing new equipment. In 1992, we acquired a controlling stake in Raspadsky Joy and since July 2004, we have owned 100% of Raspadsky Joy. In 1999, we acquired a controlling interest in Montazhnik Raspadskoy and currently own 51% of Montazhnik Raspadskoy. Moreover, by 2000, we acquired control over TCHU and currently own 59% of TCHU. In 2003, we acquired a controlling stake in Olzherasskoye Shaft-Sinking Unit and since December 2004, we have owned 95% of Olzherasskoye Shaft-Sinking Unit. Also, in 2003 we started construction of our preparation plant which was completed and commenced operations in the fourth quarter of 2005. Moreover, in the third quarter of 2003, Razrez Raspadsky started production of coal. In 2003, we obtained a licence for the mine to be operated by Raspadskaya Koksovaya, and subsequently began construction work on this mine in 2004. We acquired a 100% interest in OOO Puteets ("Puteets") the same year. In addition, by 2005, MUK-96 acquired a 100% control of Razrez Raspadsky.

By 2004, the Management Shareholders had obtained, directly and indirectly, a 71.5% equity interest in us. Furthermore, in 2000, Evraz acquired a 12.5% equity interest in us and by 2004, had increased such interest to 19.1%. In March 2004, the shareholdings owned by the Management Shareholders through Adroliv and the shareholdings owned by Evraz through Mastercroft were transferred to Corber. Following such event, Mastercroft purchased from Adroliv a certain amount of equity interest in Corber thereby increasing Mastercroft's equity interest in Corber to 50% with the remaining 50% owned by Adroliv. Since such time, Corber has continued to purchase our shares, and by the time of this offering had obtained a 98% equity interest in us.

Restructuring

We recently undertook a Reorganisation in order to consolidate and purchase certain coal mining assets and simplify our corporate structure. The Reorganisation resulted in us acquiring 100% equity interests in the Acquired Companies and acquiring a 100% equity interest in MUK-96 and its 99% owned subsidiary Razrez Raspadsky from the Selling Shareholder. Prior to the Reorganisation, we operated as a single production complex with the entities acquired in connection with the Reorganisation, although we did not own any equity interest in such companies. The Reorganisation involved the following steps:

Acquired Companies Transaction

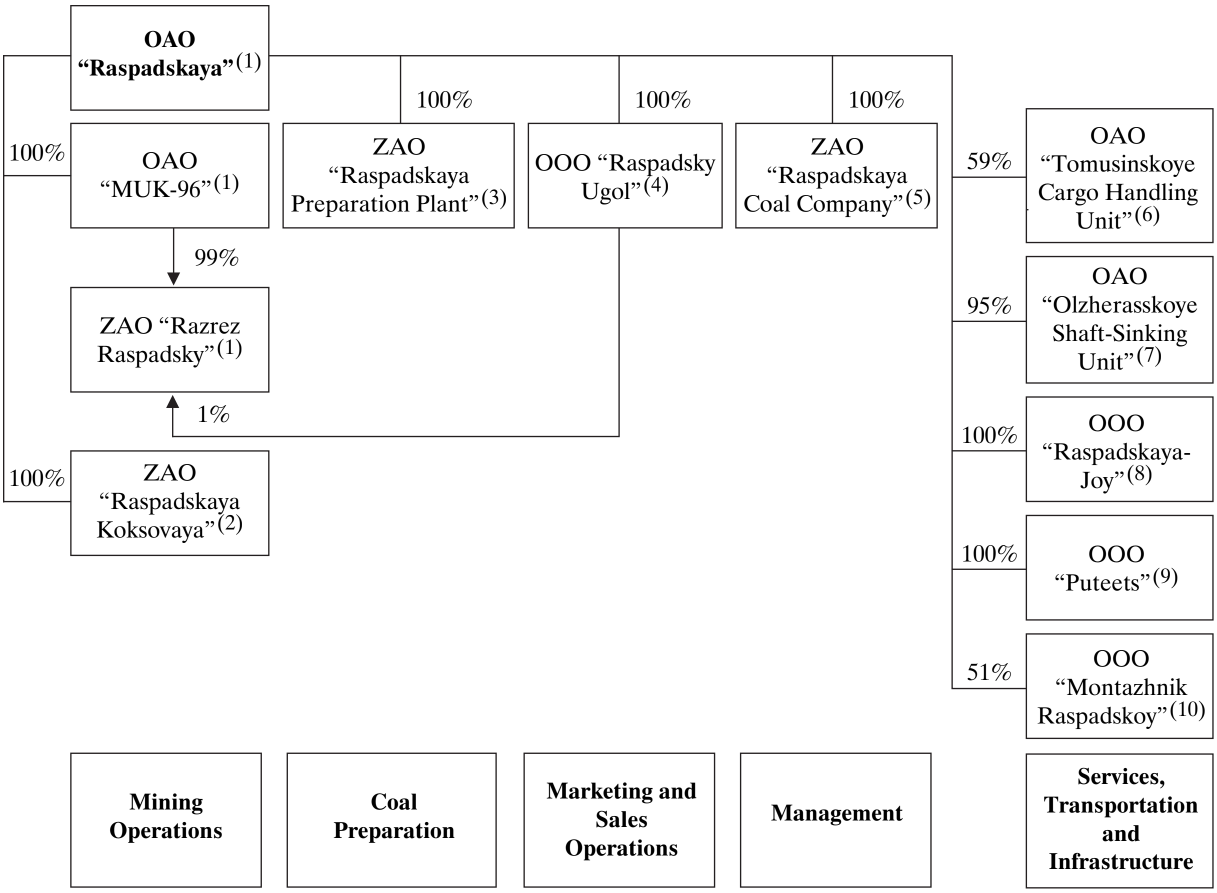
- In June 2006, we purchased the Acquired Companies from the Selling Shareholder for the aggregate amount of $307.4 million. Prior to such acquisition, the Selling Shareholder owned a 100% equity interest in each Acquired Company.

MUK Group Acquisition

- We acquired a 100% equity interest in MUK-96 from the Selling Shareholder in exchange for 300,650,000 newly issued ordinary shares of Raspadskaya. 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% equity interest in Razrez Raspadsky, with Raspadsky Ugol holding the remaining 1% equity interest.

Corporate Structure

The following chart sets forth our corporate structure, as of the date hereof, including the percentage ownership interest we have in each of our subsidiaries:



(1) Responsible for the production of raw coal.

(2) Responsible for the production of raw coal (mine is currently under construction).

(3) Responsible for the preparation of the raw coal.

(4) Negotiates and executes the coal supply contracts on our behalf.

(5) Responsible for the overall management of our operations.

(6) Responsible for transportation of our coal.

(7) Responsible for the construction of underground mine openings and creating vertical mine shafts.

(8) Responsible for preparation of the new longwall faces for operations.

(9) Responsible for the construction and maintenance of our railway facilities.

(10) Responsible for producing roof bolting, metal lattice and other spare parts for our mining operations.

Reserves

Overview

Russia has a long-established system of reserve and resource reporting, as set forth by the Ministry of Natural Resources. The primary difference between the Russian methodologies and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques. Moreover, while a direct comparison between international and Russian reporting methodologies is difficult because each is founded on different principles, it is often the case that Category A and Category B Russian reserves correlate to proved reserves and C1 Russian reserves partially relate to probable reserves. However, these relationships may vary among deposits and at different times for the same deposits. For differences between international reporting methodologies and Russian methodologies, see the section entitled "Industry—Reserve Reporting Methodologies."

Resources

Coal reserves are the economically mineable parts of a measured or indicated resource. Under the JORC Code, coal resources are sub-divided, in order of decreasing geological confidence into measured (highest level), indicated and inferred (lowest level) categories. For further details on the different levels of coal resources, see the section entitled "Industry—Reserve Reporting Methodologies" included elsewhere in this offering memorandum.

The following table summarises our coal resources according to the JORC Code as of 1 January 2006:

Entity	Measured Resources	Indicated Resources	Total Resources
		(million tonnes)	
Raspadskaya(1)	865.6	1.8	867.4
MUK-96(2)	311.2	—	311.2
Razrez Raspadsky	39.7	—	39.7
Raspadskaya Koksovaya	190.4	52.2	242.6
Total:	1,406.9	54.0	1,460.9

(1) Includes the Raspadskaya mine licence area and Raspadskaya Mine 2 licence area.

(2) Includes the Gorny licence area and Top Raspadskaya Mine-2 licence area.

Our Coal Reserves

Our coal reserves have been evaluated in accordance with the JORC Code. The international consulting firm IMC was retained to conduct an independent review of the coal reserves at our mines. These reviews included site visits to our mines in order to collect data and review the operations. Subsequent to the site visits, IMC reviewed the available information and conducted economic evaluations. Moreover, IMC reviewed the methodologies and data used by us and used to develop the Russian reserve estimates. Based upon its review, IMC believes that the resource estimates, on which it based its estimates of our coal reserves, are reasonable.

As of 30 June 2006, we had total proved and probable coal reserves of approximately 781.5 million tonnes. Our reserve estimates are based upon estimates that were made by us in accordance with the Russian reporting methodology and reviewed, reclassified and substantiated by IMC in accordance with the JORC Code. The following table summarises our coal reserves for each production entity according to the JORC Code as of 30 June 2006:

Mine	International Reserves Classification		
	Proved	Probable	Total Proved and Probable
	(million tonnes)		
Raspadskaya[1]	139.4	311.4	450.8
MUK-96	48.8	153.8	202.7
Razrez Raspadsky	19.5	7.8	27.2
Raspadskaya Koksovaya	—	100.8	100.8
Total:	207.7	573.8	781.5

(1) Figures include the reserves located at the Raspadskaya mine and Raspadskaya Mine-2.

The evaluation by IMC concluded that our present reserves are sufficient to fulfil our current 20-year mining plan. Nevertheless, we plan to explore opportunities to diversify and expand our reserves both through the acquisition of new licences and the extension of operations at our current facilities.

Licences

We and certain of our subsidiaries hold six subsoil licences which grant the holder the right to explore or mine natural resources. The following table sets forth such licences as of 30 June 2006:

Licence holder	Licence area	Date issued	Expiration date	Mining method
Raspadskaya	Raspadsky black coal deposit	16 September 2004	1 March 2014	Underground and open-pit
Raspadskaya	Raspadskaya Mine-2 of the Raspadsky black coal deposit	14 November 2003	15 November 2023	Underground
MUK-96	Gorny area of the Raspadsky black coal deposit	17 January 2000	1 December 2019	Underground and open-pit
MUK-96	North Olzherassky area of the Raspadsky black coal deposit	21 March 2005	20 March 2025	Underground and open-pit
Razrez Raspadsky	Glukhovsky open-pit mine of the Raspadsky black coal deposit	17 January 2006	20 December 2025	Underground and open-pit
Raspadskaya Koksovaya	Mine No. 2 Field area of the Olzherassky black coal deposit	17 June 2003	1 July 2057	Underground

The subsoil licences which we and our subsidiaries have obtained impose certain obligations that must be complied with. For instance, specific licences require us to make contributions for regional social and economic development, while other licences require us to make health and safety commitments for our personnel. We have employees whose specific responsibility is to monitor compliance with the terms of our licences. Moreover, we have in the past been subject to penalties for non-compliance with certain technical provisions of our licences, although the fines imposed by regulatory authorities have not had a material adverse effect on our business or results of operations. Although we currently are in a similar non-compliance with certain technical provisions of our licences, we believe we are in compliance with all material licence requirements. See "Regulation of Coal Mining Industry in the Russian Federation" for a description of the Russian regulatory rules relating to subsoil licences. In addition, see "Risk Factors—Risks Related To Our Business—Our business could be adversely affected if we fail to obtain or renew necessary licences or fail to comply with the terms of our licences."

Production Levels

The following chart summarises the coal production from each of our production entities for the periods indicated below:

	Six months ended June 30	Years ended 31 December		
	2006	2005	2004	2003
		(million tonnes)		
Raspadskaya	3.4	6.4	8.2	8.4
MUK-96	0.6	1.1	0.9	1.0
Razrez Raspadsky[(1)]	1.1	2.2	1.5	0.2
Total:	5.1	9.7	10.6	9.6

(1) Comprises the volumes produced by Razrez Raspadsky pursuant to a service agreement between itself and Raspadskaya that enables Razrez Raspadsky to operate in the open-pit area of the Raspadsky black coal deposit for which Raspadskaya holds the licence.

We expect to produce a total of approximately 10.8 million tonnes of raw coal for the year ended 31 December 2006. All coal products produced by our companies are currently sold to customers through Raspadsky Ugol.

Description of the Facilities

Raspadskaya

We hold the licence for the Raspadskaya mine field. The Raspadskaya mine is our largest coal field and had total coal production of approximately 6.4 million tonnes, 8.2 million tonnes and 8.4 million tonnes of raw coal for the years ended 31 December 2005, 2004 and 2003, respectively. For the six months ended 30 June 2006, the Raspadskaya mine field had total coal production of approximately 3.4 million tonnes of raw coal and we believe the Raspadskaya mine will produce a total of approximately 7.3 million tonnes of raw coal for the year ended 31 December 2006. Our coal production decreased from 2004 to 2005 due to a fire that occurred on 17 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 causing an underground fire. See the section entitled "—Health, Safety and Environment" for further information. In 2007, we intend to fully recover from the negative affect of the fire and reach the pre-fire production levels at the Raspadskaya mine field. The Raspadskaya mine field is located in the south-western part of the Tomusinsky economic geological area of Kuzbass, within the Raspadsky black coal deposit. The production at the Raspadskaya mine field is typically being obtained from four active mechanised longwall faces equipped with mechanised complexes from various manufacturers, including the state-of-the-art mechanised complexes manufactured by Joy Global Inc. The coal produced from the Raspadskaya mine is classified as grades GZh (gas fat) and Zh (fat) characterised by their low sulphur, phosphorous and ash contents.

Additionally, we hold the licence to the Raspadskaya Mine-2 field which is a deep-seated extension of the Raspadskaya mine field and is also located within the Raspadsky black coal deposit. Raspadskaya Mine-2 field of the Raspadsky black coal deposit is a prospective reserve field where our exploration work is expected to be completed at the end of 2006. Following completion of the exploration work, we will prepare a detailed production plan for this field based on the exploration results.

MUK-96

Our wholly-owned subsidiary, MUK-96, holds the licence for the Gorny area which is located within the Raspadsky black coal deposit. MUK-96 had total coal production of approximately 1.1 million tonnes, 0.9 million tonnes and 1.0 million tonnes of raw coal for the years ended 31 December 2005, 2004 and 2003, respectively. For the six months ended 30 June 2006, MUK-96 produced approximately 0.6 million tonnes of raw coal and we believe MUK-96 will produce a total of approximately 1.3 million tonnes of raw coal for the year ended 31 December 2006. The coal produced by MUK-96 is classified as grade GZhO (gas fat semi-lean) and can be used in a blend for the layered coking process. All coal produced by MUK-96, both prior to and subsequent to the Reorganisation, was sold through Raspadsky Ugol.

MUK-96 also holds the exploration and production licence for the North Olzherassky area of the Raspadsky black coal deposit ("Top Raspadskaya Mine-2") which is a prospective reserve area where field exploration is expected to be completed by the end of 2006. Top Raspadskaya Mine-2 is a deep-seated extension of the Gorny area. Following completion of the exploration work, we will prepare a detailed production plan for this field based on the exploration results.

Razrez Raspadsky

Our wholly-owned subsidiary, Razrez Raspadsky, operates in the open-pit area of the Raspadsky black coal deposit which is licensed to Raspadskaya. The open-pit area operated by Razrez Raspadsky had total coal production of approximately 2.2 million tonnes, 1.5 million tonnes and 0.2 million tonnes of raw coal for the years ended 31 December 2005, 2004 and 2003, respectively. For the six months ended 30 June 2006, Razrez Raspadsky had total coal production of approximately 1.1 million tonnes of raw coal and we believe Razrez Raspadsky will produce a total of approximately 2.2 million tonnes of raw coal for the year ended 31 December 2006. We believe that Razrez Raspadsky is the first company in Russia that started to apply the advanced unmanned method of coal recovery utilising the DSDS manufactured by SHM. This technology is a modification of the underground room-and-pillar mining system as the seam is first uncovered on the surface or in the wall of such open-pit mine. Moreover, due to the utilisation of this advanced technology, only four workers are required to operate the DSDS in the open-pit area. The coal found within the licence area operated by Razrez Raspadsky is classified under the Russian classification system as grades Zh (fat), GZh (gas fat) and GZhO (gas fat semi-lean). We believe that our coal concentrate produced from these grades would be considered semi-hard coking coal under the international classification system based on their aggregate characteristics, including ash, reflectance, plasticity and volatility. All coal produced by Razrez Raspadsky, both prior to and subsequent to the Reorganisation, was sold through Raspadsky Ugol.

In addition, Razrez Raspadsky holds the licence for the Glukhovsky open-pit area of the Raspadsky black coal deposit. The reserves located in this area consist of grades GZh (gas fat) and GZhO (gas fat semi-lean) coal. Following completion of the exploration work, we will prepare a detailed production plan for this field based on the exploration results. We expect mining at this area to commence in 2007, and anticipate Razrez Raspadsky to produce approximately 3.0 million tonnes of coal in total annually.

Raspadskaya Koksovaya

Our wholly-owned subsidiary, Raspadskaya Koksovaya, holds the licence for the Mine No. 2 Field located in the Tomusinsky economic geological area of the Olzherasskoye black coal deposit. We anticipate Raspadskaya Koksovaya will start production in the second half of 2008 and have the production capacity of 3.0 million tonnes per year. Development of Mine No. 2 Field commenced at the beginning of 2006. The coal found within Raspadskaya Koksovaya's licence area is classified under the Russian classification system as grade K (coking) and grade KO (coking semi-lean). The raw coal found at the Mine No. 2 Field is considered to be a hard-coking coal.

Raspadskaya Preparation Plant

Our wholly-owned subsidiary, Raspadskaya Preparation Plant, operates our coal preparation plant that commenced operations in the fourth quarter of 2005. Coal preparation involves the process of crushing the raw coal and removing impurities in order to produce a cleaner coal concentrate that meets certain specifications. The primary purpose of the preparation process is to increase the quality of the coal by lowering the levels of ash and moisture.

Stage I of the coal preparation plant was constructed during the period from the end of 2003 through the fourth quarter of 2005, and is outfitted with advanced technological washing equipment which enables us to, amongst other things, produce coal concentrate which is a refined product with a higher profitability rate; minimise the necessity of outsourcing the preparation of our raw coal, and thus, reduce expenses; and offer our regular customers a type of coal with a concentrate of better and technologically controllable quality. Moreover, currently the principal purpose of our preparation plant is to provide a coking coal to customers with the following basic characteristics (1) an ash content of less than 10%; (2) a moisture level of approximately 8%; (3) a sulphur content of less than 0.6%; and (4) plastimetry (y) between 17 mm and 19 mm. Currently, Stage I has a nameplate capacity to prepare approximately 7.5 million tonnes of raw coal per year. For the six months ended 30 June 2006, Stage I prepared approximately 3.4 million tonnes of raw coal.

Stage II of the preparation plant is being constructed specifically to prepare the grade K (coking) and grade KO (coking semi-lean) coal which will be produced by Raspadskaya Koksovaya. Stage II will enable us to market such produced concentrate as a separate product. We expect that the grade K (coking) and grade KO (coking semi-lean) coal produced at Raspadskaya Koksovaya will be transported directly by overland mechanised conveyor belts directly to Stage II. Upon completion of Stage II, we anticipate increasing our preparation nameplate capacity by 3 million tones of raw coal per year to approximately 10.5 million tonnes per year.

Raspadskaya Preparation Plant utilises an advanced washing technology based upon a closed water-and-residue system. We believe coal preparation plant is environmentally sound, as it has neither contaminant emitting facilities nor a sludge pond. See "—Health, Safety and Environment."

Coal Mining Techniques

Underground Mines

The below provides a brief description of the longwall mining and room and pillar mining techniques. Although we have in the past employed both such techniques at our underground mines, we currently only use the longwall mining technique, although it is anticipated that in the future Raspadskaya Koksovaya will employ the room and pillar technique at its mine.

- ***Longwall Mining***. In longwall mining, large panels of coal are defined during the development stage of the mine and are then extracted in a single continuous operation. Longwall mining is a fully mechanised underground mining technique in which the mining face is supported with hydraulically operated supports, while the coal is excavated by a coal shearer and then transported to the surface by electronic conveyor belts. After the mining of a particular longwall panel has been completed, the longwall system is moved to a new mining area. The key characteristics of longwall mining include high productivity, comparatively high reserve recovery rates, safety and reliability. Our wholly-owned subsidiary, MUK-96, currently operates a longwall mining system utilising equipment purchased from Ukrainian manufacturers (currently in the process of being replaced) with respect to its licensed area of the Raspadsky black coal deposit, while we operate a longwall mining system for the Raspadskaya mine utilising equipment purchased from Joy Global Inc. (UK) and Voest-Alpine (Austria).
- ***Room and Pillar***. Room and pillar mining is the most common type of underground coal mining in which a continuous miner machine cuts a network of areas into the coal seam. As the areas are cut, the continuous miner simultaneously loads the coal onto a shuttle car that is used to transport the coal to the conveyor belt for transport to the surface. As the coal is removed from a mining face, pillars composed of coal are left between the mining areas in order to support the roof. Currently, our wholly-owned subsidiary, Raspadskaya Koksovaya, is planning to utilise such room and pillar technique with equipment purchased from Joy Global Inc. (UK) and Voest-Alpine for the Mine No. 2 Field area of the Olzherasskoye black coal deposit.

Open-pit Mine

Our wholly-owned subsidiary, Razrez Raspadsky, operates the open-pit area allocated to Raspadskaya by utilising the DSDS manufactured by SHM, and in particular a highwall miner. The DSDS is essentially a modification of the underground room-and-pillar mining system, but differs from such conventional mining technique in that the seam must first be uncovered on the surface or in the wall of an open-pit mine to expose the coal seams to the operating module of the system for unmanned underground coal recovery, while the control board, power units, hydraulic systems and other mechanisms of the DSDS remain on the surface. The advantages of utilising this integrated room-and-pillar mining system technology include: a high face output; the ability to fully mechanise coal-face work using powerful mobile equipment; and relatively low costs of coal recovery. The DSDS extracts the coal from specific stratified layers by way of a highwall miner driven by remote control. The DSDS is a completely self-contained mining system that enables fully mechanised unmanned underground development of our open-pit mine seams without the need for our workers in breakage faces. A DSDS operates from a bench that is created by the removal of overburden material and coal by way of contour surfaces mining around the perimeter of a coal seam prepared for development using such DSDS. The DSDS can mine coal seams ranging in thickness from 1.0 to 1.5 metres and up to depths of 300 metres.

Integrated On-Site Transportation Infrastructure

We have the ability to deliver our coal in either raw coal or coal concentrate form. Raw coal extracted by us from the Raspadskaya mine is transported from below the surface by a fully mechanised belt conveyor system to the main surface conveyor system that then delivers such coal either directly to our coal preparation plant or to the railway loading facility operated by our subsidiary, TCHU. MUK-96 transports the raw coal it extracts by fully mechanised conveyor belts that operate between the mine and a separate storage facility owned and operated by MUK-96. All raw coal extracted by MUK-96 is first placed in such separate storage facility and then loaded onto trucks for transportation to either our coal preparation plant or to our railway loading facility. The raw coal extracted by Razrez Raspadsky is transported from the open-pit area by trucks to either our coal preparation plant or to our railway loading facility. For the six months ended 30 June 2006, 67% of the total raw coal we extracted was sent for preparation to our coal preparation plant, while approximately 17% of the total raw coal we extracted was prepared by third party preparation plants. Our preparation plant is connected to our railway loading facility by a mechanised surface conveyor system. From our railway loading facility, our raw coal and coal concentrate are transported to the Mezhdurechensk railway station operated by Russian Railways. See "—Transportation" for further information. In addition, we have erected special facilities for the purpose of storing raw coal produced by us when necessary. We have also erected at our preparation plant a modern mechanised storage facility to store coal concentrate before sending it to our railway loading facility.

Transportation

Currently, all of the coal products which we sell are transported by railway. We are one of the only Russian coal companies that own and operate an integrated coal transportation network that is directly connected to the federal railway system operated by Russian Railways. As such, our coal transportation network, which is integral to our coal operations, is critical to both our domestic and export sales by ensuring a stable and reliable means of transport for the coal we supply. Our coal transportation network, embodied in the form of a spur line approximately 15 kilometres in length running from our facilities to the Mezhdurechensk railroad station operated by Russian Railways, is owned and operated by our subsidiary, TCHU. We currently own eleven locomotives for transporting coal to the Mezhdurechensk railroad station. The primary objective of TCHU is to ensure the timely and uninterrupted transport of coal produced at our facilities to the Mezhdurechensk railroad station, as well as to load and transport coal shipments from independent third-party companies located in the immediate vicinity to the Mezhdurechensk railroad station.

Currently, Raspadskaya, Raspadskaya Preparation Plant, Razrez Raspadsky and MUK-96 use the TCHU railways lines. The TCHU railway lines serve to, among other things, supply empty rolling stock to coal-producing and other entities alongside the line; load, make up and bring outbound coal shipments to the Mezhdurechensk railroad station; supply and remove rolling stock with various inbound cargos for local entities and organisations; and carry out train, shunting and auxiliary operations related to the railway service and the operation of the spur line. As of 31 December 2005, the railway operated by TCHU had an annual transportation capacity of approximately 21.0 million tonnes of coal products. For the year ended 31 December 2005, such railway transported approximately 12.8 million tonnes of coal products.

In addition, TCHU provides transportation services to unrelated third-parties. TCHU is the only railway operator that provides coal transportation services for such entities which are reliant on TCHU to transport their cargo to the Mezhdurechensk station. TCHU transported approximately 4.6 million tonnes, 5.5 million tonnes and 7.0 million tonnes of coal products from such entities for the years ended 31 December 2005, 2004 and 2003, respectively. For the six months ended 30 June 2006 and the years ended 31 December 2005, 2004 and 2003, transportation services by TCHU in connection with our operations accounted for approximately 63%, 64%, 64% and 55%, respectively, of TCHU's freight volume, with the remainder consisting of transportation services for the third party entities.

Our wholly-owned subsidiary, Puteets, engages in, and is responsible for, the construction and repair of our coal transportation network. Puteets is located within our complex and maintains modern railway repair equipment which allows it to efficiently and expeditiously repair any faults within our railway system.

Marketing and Sales

Starting from April 2004, we have conducted all of our coal product sales through our wholly-owned subsidiary, Raspadsky Ugol, which negotiates and executes the coal supply contracts with both our domestic and export customers.

We sold, on a pro forma basis, 2.7 million, 4.7 million and 5.1 million tonnes of coal concentrate to domestic customers for the six months ended 30 June 2006 and the years ended 31 December 2005 and 2004, respectively. The three largest domestic customers accounted for approximately 84%, 71% and 71% of our total domestic coal concentrate sales in terms of volume, on a pro forma basis, for the six months ended 30 June 2006 and the years ended 31 December 2005 and 2004. The following illustrates our coal concentrate sales to domestic customers, on a pro forma basis, for the periods indicated below:

	Six months ended 30 June		Years ended 31 December			
	2006		2005		2004	
	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales
	(million tonnes unless otherwise indicated)					
MMK	1.05	39.2%	1.59	33.8%	1.63	32.3%
Evrazresource	0.76	28.4%	1.37	29.1%	1.18	23.4%
NLMK	0.44	16.4%	0.37	7.9%	0.77	15.2%
Belon	0.22	8.2%	1.14	24.2%	1.20	23.8%
Others	0.26	7.8%	0.24	5.0%	0.27	5.3%
Total:	2.73	100%	4.71	100%	5.05	100%

We sold, on a pro forma basis, 0.6 million, 0.8 million and 1.3 million tonnes of raw coal to domestic customers for the six months ended 30 June 2006 and the years ended 31 December 2005 and 2004, respectively. The following illustrates our raw coal sales to domestic customers, on a pro forma basis, for the periods indicated below:

	Six months ended 30 June		Years ended 31 December			
	2006		2005		2004	
	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales
	(million tonnes unless otherwise indicated)					
Sholokhovskaya Preparation Plant	0.14	22.6%	—	—	—	—
Mechel	0.28	45.2%	0.13	15.5%	—	—
Belon	0.19	30.6%	—	—	—	—
Prokopievskugol	—	—	—	—	0.20	15.5%
Evrazresource	—	—	0.58	69.0%	0.90	69.8%
Others	0.01	1.6%	0.08	15.5%	0.19	14.7%
Total:	0.62	100%	0.79	100%	1.29	100%

Additionally, we exported approximately 0.5 million, 2.0 million and 2.5 million tonnes of coal products, on a pro forma basis, for the six months ended 30 June 2006 and the years ended 31 December 2005 and 2004, respectively. Historically our export sales primarily consisted of sales of raw coal to Ukraine. However, at the moment we primarily sell coal concentrate to Ukraine, Hungary and Romania.

The following table sets forth our net export sales of raw coal by country, on a pro forma basis, for the periods indicated below:

	Six months ended 30 June		Years ended 31 December			
	2006		2005		2004	
	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales
	(million tonnes unless otherwise indicated)					
Ukraine	0.03	100%	1.11	100%	1.59	100%

The following table sets forth our net export sales of coal concentrate by country, on a pro forma basis, for the periods indicated below:

	Six months ended 30 June		Years ended 31 December			
	2006		2005		2004	
	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales	Net Sales	% of Net Coal Sales
	(million tonnes unless otherwise indicated)					
Ukraine	0.39	79.6%	0.66	71.7%	0.30	33.3%
Bulgaria	—	—	—	—	0.17	18.9%
Hungary	0.08	16.3%	0.26	28.3%	0.27	22.2%
Romania	0.02	4.1%	—	—	0.33	25.6%
Total:	0.49	100%	0.92	100%	1.07	100%

Coal Supply Contracts

Historically, all of our coal supply contracts had durations of only one-year with renewal options by both parties at the expiration of such term. However, as part of our long-term strategy, we are seeking to enter into long-term contracts with all of our customers which will have terms of two to five years. Both our short-term and long-term supply contracts are negotiated and entered into by our wholly-owned subsidiary, Raspadsky Ugol. As of the date hereof, we have entered into framework long-term supply contracts with our existing large domestic customers, MMK, Evrazresource and NLMK. In September 2006, Raspadsky Ugol entered into a long-term supply contract with Evrazresource, an ultimate subsidiary of Evraz, for a length of five years, beginning on 1 January 2007. The long-term supply contract with Evrazresource provides for us to provide between 1.2 million to 2.2 million tonnes annually of coal concentrate grade GZh (gas fat) from 2007 through 2011 and to provide between 0.7 million and 1.0 million tonnes annually of coal concentrate grade KO (coking semi-lean) from 2009 through 2011. The price of such coal is agreed between Raspadsky Ugol and Evrazresource on an annual basis. Moreover, in August 2006, Raspadsky Ugol entered into a long-term supply contract with MMK for a length of 4.5 years beginning on 1 October 2006. The long-term supply contract with MMK provides for us to provide a total of 9.7 million tonnes of coal, with approximately 1.1 million tonnes of coal concentrate grade GZh (gas fat) being delivered between 1 October 2006 and 31 March 2007, and thereafter supplying 2.2 million tonnes of coal concentrate GZh (gas fat) per year beginning 1 April 2007. Subsequent to the initial supply period of 1 October 2006 to 31 March 2007, the price for each period will thereafter be agreed between Raspadskay Ugol and MMK on an annual basis. We also, in October 2006, signed a long-term contract beginning 1 January 2007 with NLMK for the supply of approximately 2.4 million tonnes of coal concentrate grade GZh (gas fat) in equal portions throughout the contract term expiring on 31 March 2011. Under the terms of this contract, we and NLMK will agree as to the price of the coal concentrate on an annual basis.

In addition, in September 2006, Raspadsky Ugol signed a memorandum of understanding with Mittal Steel Galati S.A. ("Mittal") with the intention to extend our current supply contract signed in April 2006, for a period of five years starting from April 2007 through March 2012. Pursuant to such memorandum of understanding, we have agreed to supply Mittal with approximately 0.7 million tonnes of coal concentrate grade GZhO (gas fat semi-lean) each year, with the option to extend such amount up to 1.0 million tonnes. We also agreed to provide Mittal with a total of approximately 0.9 million tonnes of coal concentrate grade K (coking) during the period from April 2008 through March 2012. The price of our coal concentrate is agreed between us and Mittal each year not later than three months prior to the beginning of the contract year. The terms and conditions of this memorandum of understanding are subject to further negotiations between us and Mittal.

Furthermore, in October 2006, we signed a 5-year contract beginning 1 January 2007 with OAO Altay-Koks (subsidiary of NLMK from 2006) for the supply of 4.2 million tonnes of coal concentrate grade GZh (gas fat) in equal portions throughout the contract term expiring on 31 December 2011.

We believe the supply contracts that we enter into with customers contain provisions and are negotiated in such a way which is consistent with Russian coal industry standards. We believe our strong relations with customers enable us to efficiently utilise this system. For further information on coal contracts in Russia, see "Industry—Coal Pricing."

In the recent past, we were not subject to any material penalties for failure to provide coal in satisfaction of contract provisions. Delivery terms for the vast majority of our supply contracts are on a

FCA Mezhdurechensk basis. All payments by our domestic customers are in roubles, while payments from our foreign customers are denominated in US dollars. We have not experienced in the recent past any significant problems in the timely payment by customers under our coal supply contracts. We have implemented internal procedures that monitor the payments of customers and provide reports if there are any payment delinquencies.

The price of both our domestic and export coal is determined primarily by market forces, which differ from market to market depending on the specific market environment and trends. Although market economics are a significant factor in the determination of the price we charge to our customers, we believe our position as a leading low-cost Russian coal company allows us a greater ability in negotiating the price.

The average sales price of coal concentrate per tonne, on a pro forma basis, sold to domestic customers for the six months ended 30 June 2006, years ended 31 December 2005 and 2004 was $60.9, $79.9 and $54.2, respectively. The average sales price of raw coal per tonne, on a pro forma basis, sold to domestic customers for the six months ended 30 June 2006, years ended 31 December 2005 and 2004 was $35.1, $48.8 and $28.6, respectively. Moreover, the average sales price of exported coal concentrate per tonne was $49.2, $65.2 and $47.2, on a pro forma basis, for the six months ended 30 June 2006, years ended 31 December 2005 and 2004, respectively. The average sales price of raw coal per tonne, on a pro forma basis, sold to export customers for the six months ended 30 June 2006 and the years ended 31 December 2005 and 2004 was $32.7, $44.7 and $36.2, respectively.

Competition

We principally compete in two markets: the Russian Federation domestic market and the Eastern European export market, and in particular, Ukraine, Romania and Hungary.

The Russian coking coal market is characterised by several large coal suppliers, with no particular domestic supplier holding a dominant position. Moreover, the Russian coal market is relatively limited as many potential metallurgical customers already control their own coal mining assets. Aside from such integrated coal mines, there are very few large independent coal producers in the Russian Federation. Our principle domestic competitors in Russia are those coal producing companies that offer coal of similar types and grades as those we produce, namely JSC Yuzhkuzbassugol, JSC Vorkutaugol and JSC Sibuglemet. For a table illustrating the leading Russian coking coal producers and their relevant market share as of 31 December 2005, see the section entitled "Industry."

The Russian market has been marked by a growth in the demand for coking coal. We believe our coal competes favourably with that of our major domestic competitors due to the following factors:

- flexible approach to price formation;
- our ability to provide stable and timely coal deliveries to our customers;
- the high quality of our coal;
- suitability of our coal characteristics correlate to customers technical requirements; and
- our dedicated customer service, good long-term relations with customers and strong brand name.

For the first six months of 2006, we exported our coal products only to Ukraine, Bulgaria, Hungary and Romania, however, we have subsequently begun to expand our exports to other countries as well. In terms of the quality of coal, we believe the coal we export to Ukraine is of a higher quality than the coal produced by Ukrainian entities, particularly with regards to the sulphur content. We believe that the price we sell our coal on the Ukrainian market is affected by several factors, including, the lack of high-quality coking coals in Ukraine, the local balance of coke and the partial governmental regulations of pricing policies in the Ukrainian industry. With respect to our export sales, we compete with other Russian companies, as well as foreign companies located in Australia, North America and China.

Management and Employees

As of 30 June 2006, we had approximately 7,100 employees, including approximately 4,600 industrial workers, 1,200 engineers and 800 management and technical staff. Our mining engineers, both at a senior and middle level, have extensive industry experience and are considered to be the foremost engineers with respect to mining operations in the Russian Federation.

We believe the training of our personnel at all levels to be a key strength of our overall business operations. For newly hired employees with no relevant work experience, we provide professional on-site training, as well as provide personal and group tutorship programmes. We also re-train employees who desire to specialise in other aspects of our operations, as well as provide advanced training to employees aimed at improving professional expertise, skills and abilities in an employees existing occupation. In addition to the on-site training we provide for our employees, we also support our employees with supplemental training outside of our facilities.

We have not experienced any work stoppages in the past 15 years and consider relations with our employees to be good. We and our operating subsidiaries, aside from Raspadskaya Koksovaya and Razrez Raspadsky, are parties to collective bargaining agreements. Moreover, our employees, along with the employees of our operating subsidiaries, Olzherasskoe Shaft Sinking Unit, TCHU and Puteets, are members of trade unions.

For further information regarding our management, please see the section in this offering memorandum entitled "Management."

Health, Safety and Environment

Mining is an inherently dangerous activity. As with any construction or excavation work, there is the general risk of accidents involving the heavy equipment, machines, structures and explosives used in the mining industry. Moreover, employees working in underground mines are exposed to risks of accidents involving methane explosion, water discharges and cave-ins. See "Risk Factors—Risks Related To Our Business—Our production operations are subject to operational mining risks and conditions."

We consider the health and safety of our employees to be our most significant responsibility in connection with our operations. We strive to create a healthy and safe working environment at each of our facilities through the implementation of certain safety measures. We follow Russian industry safety standards applicable to each of our operations. For instance, all our equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. We also conduct our own inspections upon installation of any equipment in order to ensure proper instalment and safety. In addition, we provide special training to our employees both prior to operating new equipment and every six months after they start operating equipment in order to improve safety and the efficiency of their work. We believe we are in compliance in all material respects with all safety laws and regulations applicable to our business. For the years ended 2005, 2004 and 2003, the total number of employee fatalities was zero, four and three, respectively. Additionally, the total number of severe injuries suffered by our employees for the years ended 2005, 2004 and 2003 were 10, 3 and 13, respectively. Although we believe our operations to have sufficient safety measures in place, the nature of our business is such that accidents may occur. For instance, a fire occurred at the Raspadskaya mine on 17 June 2005 due to a bolt of lightening striking a surface unit used for the suction of a methane-air mixture at Raspadskaya mine causing an underground fire. Although the fire created a difficult underground situation, due to our safety procedures in place and the expertise of our management, we did not experience any fatalities and were able to preserve significant mining equipment and the coal reserves for future removal. Moreover, while we strive to reduce our fatality and injury rates by implementing high safety standards at our facilities, there can be no assurance that accidents in the future will not occur.

We are committed to operating our facilities in a manner that is consistent with applicable environmental laws and regulations. We have established an environmental services department in order to create an environmental control system that has a principal objective to reduce the negative effect our operations may have on the environment. Such environmental services department supervises the emission of any air pollutants, supervises the quality of waste water at our sites and protects the surrounding land area against certain industrial waste products. The principal source of any air pollutants we may emit are our boiler house, our outdoor coal storage facility and discharges that may occur in the course of, amongst other things, coal transportation and coal preparation. As a result of our environmental programme, we believe we have reduced the emission of air pollutants by 10% from 2003 to 2005. Furthermore, in order to protect the Olzherass River from the potential of waste water contamination, we have commenced the reconstruction of a sewage disposal plant for mine and domestic sewage. We have also developed plans to construct a new sewage disposal plant for the discharge of mine water. Additionally, Raspadskaya Preparation Plant was designed to minimise any potential environmental hazards, by, amongst other things, utilising a coal preparation process that reduces overall particle discharge into the atmosphere and a water system that collects and treats all waste water, as well as recycles certain waste water for reuse by the facility.

We currently are not subject to any material environmental claims, lawsuits, penalties or other actions. See "Risk Factors—Risks Related To Our Business—More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations may have a significant negative effect on our operating results."

Insurance

Pursuant to the Federal Law on Industrial Safety of Dangerous Industrial Facilities of 21 July 1997, as amended (the "Safety Law"), our facilities for exploration, production, processing and transportation of coal fall under the category of hazardous production sites. In accordance with the Safety Law, we maintain mandatory insurance against civil liability arising from the operation of hazardous facilities. We also maintain all other types of insurances as required by Russian law. Thus, we participate in the obligatory state insurance programme for workplace injuries in accordance with Federal Law on Obligatory Social Insurance of Industrial Accidents and Professional Diseases of 27 July 1998, as amended. We are duly registered with the Social Insurance Fund (the "SIF") and make monthly contributions to the SIF. The amount of the monthly contributions depends on the jobs performed by covered employees and varies from 0.2% to 8.5% of employees' salaries. Following the occurrence of any covered accident, the state pays compensation to the injured worker. All of our insurance coverage is provided by Russian insurers. However, we currently do not carry insurance against damage to equipment, other than such equipment that is pledged under certain banking loans, or other property, environmental damage, construction risks or business interruption. Moreover, we carry only limited third party liability insurance that is mandatory under Russian law. See also "Risk Factors—Risks Related to Our Business—We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could adversely effect our business and financial condition."

Properties

Our production and transportation facilities are situated on land belonging to the Mezhdurechensk municipality. We lease approximately 3,514 hectares of land in the Mezhdurechensk district from the local authorities. In accordance with customary practice in Kemerovo region, all our land lease agreements are short-term. In addition, we own approximately 0.85 hectares of land and have unlimited usage rights for an additional 72 hectares of land. We have a considerable number of buildings, structures, undeveloped constructions and other real properties located on such land plots. The majority of these properties (including our headquarters building in Mezhdurechensk and the railway stretching from our production facilities to the Mezhdurechensk railway station) are owned by us, while a number of other properties are leased from third parties. See "Risk Factors—Risks Related to the Legal and Regulatory Environment in Russia—Difficulty in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered may have a material adverse effect on our business, prospects, results of operations or financial condition."

Legal Proceedings

From time to time, we are a party to litigation and administrative proceedings in the ordinary course of business. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened or of which we are aware) which may have or have in the recent past had significant effects on our financial position and profitability.

MANAGEMENT

Directors and Executive Officers

As of the date hereof, below please find the members of our board of directors, the sole executive body and certain executive officers:

Name	Age	Title
Gennady I. Kozovoy	55	General Director of Raspadskaya Coal Company and Member of our Board of Directors
Alexander S. Vagin	47	First Deputy General Director of Raspadskaya Coal Company and Chairman of our Board of Directors
Alexander G. Abramov	47	Member of our Board of Directors
Alexander V. Frolov	42	Member of our Board of Directors
Geoffrey R. Townsend	57	Member of our Board of Directors
Christian Schaffalitzky de Muckadell	53	Member of our Board of Directors
Ilya M. Lifshits	34	Member of our Board of Directors
Igor I. Volkov	50	Managing Director
Anatoly M. Ryzhov	55	Technical Director
Oleg A. Kharitonov	42	Economics and Finance Director
Viktor S. Chabin	51	Deputy General Director on Commerce
Andrey N. Syvorotkin	44	Director of Raspadskaya Preparation Plant
Valery L. Zauer	54	Director of MUK-96
Vasily V. Kucherenko	53	Director of Razrez Raspadsky

Biographies

Gennady I. Kozovoy has been a member of the board of directors since December 1991. In addition, Mr. Kozovoy has been the General Director of Raspadskaya Coal Company since April 2003 and had served as our General Director from December 1993 through June 2003. Mr. Kozovoy joined Raspadskaya mine in 1978 as an underground electric mechanic and subsequently held various positions at the Company, including mining engineer, head of the underground unit, mining manager and deputy chief engineer for production. Mr. Kozovoy graduated from the Irkutsk Polytechnic Institute in 1978 where he specialised in the electrification and automation of mining. Mr. Kozovoy holds a Ph.D. in technics.

Alexander S. Vagin has been the chairman of the board of directors since December 1993 and the first deputy general director of Raspadskaya Coal Company since March 2004. Mr. Vagin joined Raspadskaya mine in October 1983 as an underground mining engineer. In the course of consecutive 10 years, Mr. Vagin held various job positions, including assistant section manager, deputy underground section manager, underground section manager and director for production. Mr. Vagin graduated from the Kuzbass Polytechnic Institute in 1981 where he specialised in the underground development of mineral resources deposits.

Alexander G. Abramov has been a member of the board of directors since 2001. Mr. Abramov is also a member of the board of directors of Evraz. Mr. Abramov joined Evraz in 1992 and served as its CEO until 1 January 2006 and chairman of Evraz's board of directors until 1 May 2006. Mr. Abramov previously worked at the Institute of High Temperatures of the USSR Academy of Sciences. Mr. Abramov graduated from the Moscow Institute of Physics and Technology in 1982 and holds a Ph.D. in physics and mathematics. Mr. Abramov is a Bureau member of the Council of Entrepreneurs and a member of the Council of Entrepreneurs established by the Russian government.

Alexander V. Frolov has served as a member of the board of directors since 2001. Mr. Frolov is also a chairman of the board of directors of Evraz. Mr. Frolov joined Evraz in 1994 and served as Evraz's Chief Financial Officer from 2002 through 2004. Prior to joining Evraz, Mr. Frolov worked as a research fellow at the I.V. Kurchatov Institute of Atomic Energy. Mr. Frolov graduated from the Moscow Institute of Physics and Technology in 1987 and received a Ph.D. in physics and mathematics in 1991 from the Moscow Institute of Physics and Technology.

Geoffrey R. Townsend was elected to our board of directors on 4 September 2006. Mr. Townsend has served as a member of the board of directors and chairman of the audit committee of OAO "TMK" since 2005. Previously, Mr. Townsend specialised in audit and consulting: initially, with Touche Ross in the U.K., then with Treuverkehr and KPMG Deutsche Treuhand Gesellschaft in Germany, which he joined as an associate in 1984 and later became a partner. Since 1995, Mr. Townsend bas been based in Moscow. Mr. Townsend was an adviser in connection with the privatisation in Eastern Germany, was involved in the accounting reform in the Soviet Union and later in Russian and C.I.S. countries, and currently heads the working group on the audit reform in Russia. Mr. Townsend is a graduate of Oxford University in England.

Christian Schaffalitzky de Muckadell was elected to our board of directors on 4 September 2006. Mr. Schaffalitzky is currently the managing director of Eurasia Mining plc, a company specialising in geological survey and development of precious metal deposits in Russia. Mr. Schaffalitzky has extensive experience in the preparation and implementation of programmes in such sphere as well as extensive administrative experience. Mr. Schaffalitzky experience includes over thirty years of production operations around the globe, including with Aquitaine Mining (Ireland) Ltd., a subsidiary of Elf Aquitaine Group, and with his own company Crowe, Schaffalitzky and Associates Ltd. (CSA).

Ilya M. Lifshits was elected to our board of directors on 4 September 2006. Mr. Lifshits is an attorney and a certified auditor, as well as a member of the Moscow Lawyers Chamber. Mr. Lifshits was an attorney with Edas Consulting beginning in 1991. Mr. Lifshits has been a partner of Edas Law Bureau since 1999. Edas Law Bureau is a law firm that focuses on providing legal support to businesses in Russia in such areas as mergers and acquisitions, capital markets and taxation. Mr. Lifshits holds a diploma from the Law Faculty of the Moscow State University.

Igor I. Volkov has served as a managing director of Raspadskaya since 2003 and has been working at the Raspadskaya mine since 1984 where his job capacities have included being an underground miner and production manager. Mr. Volkov graduated from the Siberian Metallurgic Institute in 1985 with a speciality in technology and overall mechanisation of underground mining.

Anatoly M. Ryzhov was served as our technical director since 2003. Mr. Ryzhov had worked in various capacities at the Raspadskaya mine from 1974 to January 2003. Mr. Ryzhov graduated from the Kuzbass Polytechnic Institute with a degree in underground mining in 1974 and graduated from the Kuzbass Polytechnic Institute with a degree in economics in the fuel and energy industry in 1992.

Oleg A. Kharitonov has served as our economics and finance director since 2003. From October 2000 to September 2003, Mr. Kharitonov was the finance director of RFPK. Mr. Kharitonov graduated from the Kuzbass Polytechnic Institute with a degree in economics and management at mining enterprises.

Viktor S. Chabin has served as our deputy general director on commerce since 2003. From September 1990 to December 2003, Mr. Chabin worked in various capacities at Raspadskaya, including, leading engineer, head of a department and deputy director on commerce. From 1982 to September 1990, Mr. Chabin worked at the V.I. Lenin Mine as an overman and deputy site supervisor. Mr. Chabin graduated from Tula Polytechnic Institute with a degree in technology and overall mechanisation in 1982.

Andrey N. Syvorotkin has served as director of Raspadskaya Preparation Plant since 2004. Since November 2003, Mr. Syvorotkin has also served as deputy general director for organisational development and human resources management at Raspadskaya Coal Company. From August 2001 until October 2003, Mr. Syvorotkin was the deputy director general of human resources at the Raspadskaya mine. From 1988 until 2000, Mr. Syvorotkin was employed at Joint Stock Company Preparation Plant Kuzbaskaya where he started as a shift supervisor and later became a Director General. Mr. Syvorotkin graduated from Kuzbass Polytechnic Institute in 1984 with a degree in mineral dressing.

Valery L. Zauer has served as director general of MUK-96 since 1997. From 1974 until 1989, Mr. Zauer worked in various capacities at Raspadskaya mine, including, a drifter, assistant supervisor of an underground site and deputy supervisor of an underground at Raspadskaya mine. Mr. Zauer graduated from Moscow State Mining University in 1991 with a degree in underground mining.

Vasily V. Kucherenko has served as director of Razrez Raspadsky since 2005. From October 2001 to May 2005, Mr. Kucherenko was the executive director of Razrez Raspadsky. From May 1993 to October 1999, Mr. Kucherenko was production manager at Open Pit Karbo-Kh LLC. From 1989 to 1990, Mr. Kucherenko was deputy production manager at PO Kemerovougol. Mr. Kucherenko graduated from Novocherkassk Metallurgical Institute in 1975 with a degree in technology and overall mechanisation of open-cut mining.

Description of Our Governing Bodies

In accordance with the Joint Stock Companies Law and our charter, our principal governing bodies are the general shareholders' meeting, the board of directors and the sole executive body.

General Shareholders' Meeting

The powers of a general shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide issues that are not included in the list of its competence by the Joint Stock Companies Law and our charter. The shareholders have the power to decide, amongst other things, the following matters:

- Amendments to our charter;
- Our reorganisation;
- Our liquidation, appointing a liquidation commission and approval of an interim and the final liquidation balance sheets;
- Electing members of our board of directors and terminating their powers before due date;
- Formatting our executive body and early termination of its powers;
- Determining the quantity, face value, class (type) of authorised shares and the rights conferred by such shares;
- Increasing our share capital by increasing the nominal value of shares or by placement of additional shares;
- Decreasing our share capital by decreasing the nominal value of shares, by repurchase of a portion of shares in order to reduce the number of shares, and by redemption of repurchased shares;
- Payment of dividends based on the results of the first quarter, half-year, nine months of the financial year;
- Payment of dividends based on the results of the financial year;
- Approval of internal documents governing the operation of our bodies; and
- Certain other matters provided under the Joint Stock Companies Law and our charter.

For further information, see the section entitled "Description of Share Capital and Certain Requirements of Russian Legislation."

Board of Directors

The board of directors is responsible for general management matters, with the exception of those matters that are designated by law as being the exclusive responsibility of the general shareholders' meeting. Members of the board of directors are elected by the shareholders for one-year terms. Members of our board of directors are elected at the annual general meeting of shareholders. Under the Joint Stock Companies Law, the number of the members of the board of directors may not be less than five. Our charter provides that the board of directors shall consist of seven members. Of the 7 members of our board of directors, five were nominated by the Selling Shareholder, with Adroliv nominating 3 and Mastercroft nominating 2. The remaining two directors are independent. The members of our board of directors may be re-elected an unlimited number of times. All current members of the board of directors were elected at the shareholders' meeting held on 4 September 2006.

Executive Body

Pursuant to Russian legislation, our charter and the agreement entered into between us and Raspadskaya Coal Company, dated 16 June 2004 (the "Management Agreement"), our day-to-day activities are managed by Raspadskaya Coal Company, which is our sole executive body. According to our charter, the sole executive body is elected at a meeting of shareholders for a period of five years and reports to the board of directors and the general meeting of shareholders. Raspadskaya Coal Company is managed by its General Director, Gennady I. Kozovoy. Raspadskaya Coal Company is also the management company for all our subsidiaries.

All issues of our day-to-day activity are within the authority of Raspadskaya Coal Company, except for the matters which are subject to the approval of a general meeting of shareholders and our board of directors. Raspadskaya Coal Company is responsible for carrying out the decisions of our general meeting of shareholders and the board of directors. In addition, Raspadskaya Coal Company is responsible for the following functions:

- carrying out the day-to-day management of our operations, dealing with the issues related to the production, financial and business operations;
- managing our property as required to ensure the current operations to the extent established in our charter;
- representing us in the Russian Federation and abroad;
- development of our internal structure and the personnel list, entering into or terminating labour agreements with our employees;
- entering into transactions on our behalf, except in those instances provided for in the Joint Stock Companies Law and our charter;
- opening accounts with banks and control over funds in such accounts;
- maintenance of accounts and financial statements;
- issuance of job descriptions, rules, procedures and other internal documents;
- approval of contract prices of products or services;
- control over the reasonable and efficient use of material, labour and financial resources;
- representation and protection of interests before governmental and municipal authorities, including law enforcement and judicial authorities; and
- performance of other functions required to achieve our objectives and to ensure normal operation in compliance with current laws and our charter, except the functions reserved for the board of directors or general meeting of shareholders pursuant to the Joint Stock Companies Law and our charter.

Corporate Governance

On 11 September 2006, our board of directors adopted a number of regulations relating to our corporate governance, including determining the formation and operations of certain committees of our board of directors.

Audit Committee

The audit committee consists of Mr. Townsend, Mr. Schaffalitzky and Mr. Frolov. The audit committee shall consist of not less than two members with such members' election requiring the affirmative vote of at least five members of our board of directors. The audit committee shall convene as often as necessary, but in no instance shall such committee meet not less than once every three months. The audit committee is authorised to carry out its functions as described or provided for in the regulations adopted by our board of directors, with such functions relating to the control of our financial and business operations.

Regulations

We have approved an internal regulation governing the internal control of our financial and business operations (the "Internal Control Regulation"). The Internal Control Regulation specifies (i) the procedures for the internal control of our financial and business operations, (ii) the functions of our internal audit service with respect to compliance with internal controls and (iii) the competences of our internal audit service with respect to compliance with internal controls.

In addition, we have also approved an internal regulation relating to insider information (the "Insider Information Regulation"). The Insider Information Regulation provides that members of our board of directors, our officers and directors and our internal and external auditors shall use inside information (as such term is defined in the Insider Information Regulation) only for our benefit, pursuant to applicable law and in accordance with such Insider Information Regulation and our other internal documents. The Insider Information Regulation also provides for certain procedures that we can implement in order to ensure compliance by all relevant individuals with such regulation.

Remuneration of Directors

At our shareholders' meeting on 4 September 2006, it was agreed that each of our directors would be paid remuneration in the amount of RR 2.0 million per year, with the chairman of the audit committee receiving an additional RR 1.6 million per year. There was zero remuneration in salary and in bonuses paid by us to our directors as a group for services in all capacities provided to us during the six months ended 30 June 2006. We have not paid remuneration to our directors for the years ended 31 December 2005, 2004 and 2003.

Shareholders' Agreement

The Selling Shareholder entered into a shareholders' agreement with Adroliv and Mastercroft dated 20 January 2004, and as amended and restated on 28 April 2006 (the "Shareholders' Agreement"), relating primarily to the management of the Selling Shareholder, although certain provisions also affect our operations. For instance, the Shareholders' Agreement expressly states that all coal sold by us shall be at market prices. In addition, the Shareholders' Agreement sets forth a comprehensive list of shareholder matters pertaining to us that may only be decided upon after prior mutual approval in writing from both Adroliv and Mastercroft. Moreover, the Shareholders' Agreement provides that our day-to-day business operations shall be entirely managed by Raspadskaya Coal Company and that its General Director and First Deputy General Director shall only be nominated by Adroliv.

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date hereof, our authorised share capital was approximately RR 3,127,992, comprised of approximately 781,988,250 ordinary shares with a nominal value of RR 0.004 per share. The following table sets forth information regarding the holders of more than 5% of our ordinary shares as of the date of this Offering, and as adjusted to reflect the sale of the Shares in this offering.

		Beneficial Ownership Prior to the Offering		Beneficial Ownership After the Offering	
Selling Shareholder	**Number of Shares Offered Hereby**	**Number**	**Percent**	**Number**	**Percent**
Corber Enterprises Limited(1)	140,757,885	765,374,558	98%	624,616,673	80%

(1) Corber Enterprises Limited is 100% owned by Mastercroft and Adroliv, with each entity owning a 50% interest with respect to voting shares. Mastercroft, a limited liability company organised under the laws of Cyprus, is a wholly-owned subsidiary of Evraz. Adroliv, a limited liability company organised under the laws of Cyprus, is beneficially owned by Mr. Kozovoy and Mr. Vagin on a parity (50%/50%) basis.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for the years ended 31 December 2005, 2004 and 2003 and up to the date of this offering memorandum.

General matters

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions as defined in International Accounting Standards 24 "Related Party Disclosures." In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. We are a party to various agreements and other arrangements with certain related parties, the most significant of which are described below.

Transactions with Evraz

We sell a significant amount of our coal products to Evrazresource. Evrazresource is a major supplier of coal products to metallurgical plants controlled by Evraz, including, NTMK, ZapSib and NKMK. The following table sets forth our sales to and purchases from, on a historical basis, Evrazresource for the periods indicated:

	Sales to related party		
	Six months ended 30 June 2006	Years ended 31 December	
	2006	2005	2004
	(in US dollars millions)		
Evrazresource	46.3	146.9	79.5

We sold 0.8, 2.0 and 1.6 million tonnes of coal products to Evrazresource in the six months ended 30 June 2006, in 2005 and 2004, respectively, which constituted 20%, 28% and 19%, respectively, of our total pro forma revenues from the sales of coal products for the periods indicated. We believe we sell our coal products to Evrazresource at market price and on terms that are not preferential as compared to the contract terms for our other customers.

Transactions with Razrez Raspadsky

Prior to the Reorganisation, Razrez Raspadsky was separately controlled by the Management Shareholders and our transactions with Razrez Raspadsky constituted related party transactions. Beginning in 2003, we purchased mining and coal processing services from Razrez Raspadsky which extracts raw coal utilising the DSDS from the area to which we hold a licence. The extracted raw coal was purchased and prepared by Razrez Raspadsky which sold the resulting coal concentrate to Raspadsky Ugol at market price. The following table sets forth our sales to and purchases from, on a historical basis, Razrez Raspadsky for the periods indicated:

	Sales to related party				Purchases from related party			
	Six months ended 30 June	Years ended 31 December			Six months ended 30 June	Years ended 31 December		
	2006	2005	2004	2003	2006	2005	2004	2003
	(in US dollars millions)							
Razrez Raspadsky	0.8	8.5	3.6	1.5	37.7	112.2	49.3	1.8

On 22 September 2003, we guaranteed Razrez Raspadsky's obligations under its loan agreement with ZAO Gazprombank. The guarantee is limited to $19.0 million and matures on 1 September 2010.

Since we acquired a 100% equity interest in Razrez Raspadsky as a result of the Reorganisation, Razrez Raspadsky has ceased to be a related party and starting from June 2006 the financial results of Razrez Raspadsky have been consolidated into our financial statements.

Transactions with RFPK

Prior to April 2004, we sold a significant amount of our coal products to RFPK, an entity controlled by the Management Shareholders. However, after April 2004, only raw coal extracted by MUK-96 was sold to RFPK for preparation. Raspadsky Ugol was purchasing the resulting coal concentrate from RFPK at market price. The following table sets forth our sales to and purchases from RFPK for the periods indicated:

	Sales to related party				Purchases from related party			
	Six months ended 30 June	Years ended 31 December			Six months ended 30 June	Years ended 31 December		
	2006	2005	2004	2003	2006	2005	2004	2003
	(in US dollars millions)							
RFPK	20.5	4.1	21.8	65.0	28.9	64.5	30.5	1.1

Effective 1 June 2006, we ceased our contracts with RFPK.

Transactions with Corber and Corber related entities

Our historical consolidated financials statements have been revised to reflect the Acquired Companies representing business combinations involving entities under common control with us, which have been accounted for in the historical consolidated financial statements using the pooling of interests method to present our historical consolidated financial statements as if the acquisitions had occurred on the date these entities were originally established by the transferring entity. Accordingly, transactions with these entities are not classified in our historical consolidated financial statements as transactions with related parties. However, as described in the section entitled "Our Company—Restructuring," we acquired a 100% equity interest in each of the Acquired Companies from the Selling Shareholder only in June 2006. Prior to June 2006, our transactions with these entities constituted "interested party transactions" which we had been approving in accordance with the relevant provisions under the Joint Stock Companies Law.

Other

For further information regarding the related party transactions that we entered into over the course of the last three years, see note 9 of our historical consolidated financial statements as of and for the years ended 31 December 2005, 2004 and 2003 and note 8 to our historical unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2006 and 2005 included elsewhere in this offering memorandum.

REGULATION OF COAL MINING INDUSTRY IN THE RUSSIAN FEDERATION

General

The legislation regulating the Russian mining processing and the use of coal, as well as the specific social protections afforded to workers in the coal industry, are based upon the Russian constitution and the Subsoil Law.

The Ministry of Industry and Energy of the Russian Federation (the "Ministry") (to which powers were transferred from the Ministry of Industry, Science and Technology and the Ministry of Energy) is the agency supervising the operation of the mining industry. The Ministry is responsible for the development of the governmental policy in the coal industry (attraction of investments, foreign trade, taxation, support of scientific research, employment), however, it lacks direct regulatory authority. The Ministry also sets and oversees compliance with obligatory general and industrial standards.

The Ministry of Natural Resources oversees the use of natural resources in Russia. The Ministry of Natural Resources is responsible for the development of the general policy and legislation regulating the use, reproduction and protection of natural resources. The Ministry of Natural Resources manages and protects, among other things, the deposits fund, the forest fund and the water fund. The Ministry of Natural Resources is a supervising authority for the Federal Service for the Supervision of the Use of Natural Resources, the Subsoil Agency and the Federal Service for Forest Fund and the Federal Agency for Water Resources.

The Federal Service for Environment, Technology and Nuclear Supervision oversees compliance with mandatory safety rules for the mining industry elaborated by the Ministry. Safety procedures at installation, deployment and operation of technical devices and machinery used in the mining industry and the procedure for maintaining technological processes are covered by such rules.

The Subsoil Agency is the federal licensing authority for the use of natural resources.

The Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of licences issued by the Ministry of Natural Resources and environmental legislation. The Ministry of Natural Resources is responsible for, among other things, the development of governmental policies with respect to the use of natural resources and the adoption of the rules concerning state natural resources.

The Ministry of Economic Development and Trade of the Russian Federation regulates Russian export and import of mining products and coordinates intergovernmental negotiations relating to export/import activity.

Aside from the above federal executive bodies, which are directly involved in the regulation of and supervisions over the Russian mining industry, a number of other governmental bodies and agencies which authority over general issues connected with the mining industry such as defence, rail transport and tax enforcement.

Moreover, the Russian government in decision No. 840 of 24 December 2004, as amended on 26 January 2006, approved the restructuring of the Russian coal industry which included, among other things:

- providing continuous operations readiness of paramilitary rescue and emergency units;
- support for research and development work associated with developing advanced technologies of extraction, processing and utilisation of coal, ensuring safe working conditions and improving the environmental situation in coal-producing regions; and
- implementing investment projects within the coal industry.

Subsoil Licensing

In Russia, mining minerals requires a subsoil licence from the state authorities with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licensed mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The primary law regulating subsoil licensing is the Subsoil Law, and the regulations thereunder, which set out the system for granting licences for the exploration and production of mineral resources. Important amendments to the Subsoil Law, passed in August 2004, significantly change the procedure for awarding exploration and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Under the August 2004 amendments, production licences and combined exploration and production licences are awarded by tender or auction conducted by the Subsoil Agency. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licences. The winning bidder is expected to submit the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. Licences for geological exploration and production may also be issued without the holding of an auction or tender by the decision of the federal authorities to holders of exploration licences that discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue production licences for "common" mineral resources, such as clay, sand or limestone.

There are two major types of licences: (1) exploration licences, which are non-exclusive licences granting the right of geological exploration and assessment within the licence area, and (2) exploration and production licences, which grants the licensee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined licences, which grant the right to explore and produce minerals from the licence area. A subsoil licence defines the licence area in terms of latitude, longitude and depth.

Payments with respect to the exploration, evaluation and extraction of minerals include: (1) periodic payments for the use of subsoil under the Subsoil Law and (2) the minerals extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence. The minerals extraction tax is calculated as a percentage of the value of minerals extracted, and for 2006 is set at 4% for coal.

The term of the licence is set forth in the licence. Prior to January 2000, exploration licences could have a maximum term of five years, production licences a maximum term of 20 years, and combined exploration and production licences a maximum term of 25 years. After the amendment to the Subsoil Law was enacted in January 2000, exploration licences may still have a maximum term of five years; exploration and production licences are generally granted for a term of the expected operational life of the field based on a feasibility study, except under certain circumstances in which the licence may be issued for a term of one year. These amendments did not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law. The term of a subsoil licence runs from the date the licence is registered.

Issuance of licences

Subsoil licences in Russia are generally issued by the Subsoil Agency. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganised in the course of post-Soviet privatisations or (2) tender or auction procedures held in the post-Soviet period. The Russian Civil Code, the Subsoil Law and the Licensing Regulation contain the major requirements relating to tenders and auctions. The Subsoil Law allows for production licences to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration licence at its own expense during the exploration phase.

Extension of licences

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In order to extend a subsoil licence, a company must file an application with the federal authorities to amend the licence.

The Order of the Ministry of Natural Resources No. 439-R, dated 31 October 2002, requires that the following issues be considered by the relevant governmental authorities when determining whether to approve an amendment: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the licence; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended licence.

The factors that may in practice, affect a company's ability to obtain the approval of licence amendments include (1) its compliance with the licence terms and conditions; (2) its management's experience and expertise relating to subsoil issues; and (3) the relationship of its management with federal and/or local governmental authorities. For a description of additional factors that may affect Russian companies' ability to extend their licences, see "Risk Factors—Risks Related to Our Business—Our business could be adversely affected if we fail to obtain or renew necessary licences or fail to comply with the terms of its licences." See also "Risk Factors—Risks Related to the Social Environment in Russia—Russia's developing legal system creates a number of uncertainties for our business."

Maintenance and termination of licences

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement. The law provides that the federal authorities and the licensee must be the parties to any subsoil licensing agreement. The licensing agreement sets out the terms and conditions for the use of the subsoil area. Under a licensing agreement, the licensee makes certain environmental, safety and production commitments. For example, the licensee makes a production commitment to bring the field into production by a certain date and to extract an agreed-upon volume of natural resources each year. The licence agreement may also contain commitments with respect to social and economic development of the region. When the licence expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a licence are based on mandatory rules contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

The fulfilment of a licence's conditions is a major factor in the good standing of the licence. If the subsoil licensee fails to fulfil the licence's conditions, upon notice, the licence may be terminated by the licensing authorities. However, if the consumption of certain products significantly changes for the reasons beyond the control of the subsoil licensee, the licensing authority can review the period when the facilities shall be put into operation as set forth in the licence.

A licence may be terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for termination of licences. Consistent overproduction or underproduction and failure to meet obligations to finance a project would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for terminating the licence.

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to a licence termination or the refusal to re-issue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In cases of certain violations, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

If the licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil licence users with the terms of their licences and applicable legislation. A licensee can be fined for failing to comply with the subsoil production licence and the subsoil production licence can be terminated early, suspended or restricted in certain circumstances, including:

- a breach or violation by the licensee of material terms and conditions of the licence;
- repeated violation by the licensee of the subsoil regulations relating to safe use;
- the failure by the licensee to commence operations within a required period of time or to produce required volumes, as specified in the licence;
- the occurrence of an emergency situation;

- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the licence;
- the liquidation of the licensee;
- the non-submission of reporting data in accordance with the legislation; and
- at the licensee's request.

Land Use Rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction, on a land plot without appropriate land use rights. A licence to use subsoil may be issued subject to a prior consent of the land resources management body or the land owner to allocate the respective land plot for the purposes of the use of subsoil. Land use rights are needed and obtained for only the portions of the licence area actually being used, including the plot being mined, access areas, and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended (the "Land Code"), companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership, (2) right of free use for a fixed term or (3) lease.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Land Code, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to purchase the land from, or to enter into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by 1 January 2008. Implementation by the Russian government of a law requiring Russian companies to purchase or lease the land on which they operate may have a material adverse effect on our financial condition.

We generally have a right of ownership or perpetual use of our plots or have entered into long-term lease agreements. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of one year or longer must be registered with the relevant state authorities.

Environmental Matters

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law on Environmental Protection of 10 January 2002 (the "Environmental Protection Law"), as well as by a number of other federal and local laws.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. The fees for pollution are calculated pursuant to the Federal Law On the Environment Protection and Governmental Regulation No. 632 "On the Approval of the Determination of the Fees and Capped Fees for the Environmental Pollution, Disposal of Waste or Other Types of Harm," dated 28 August 1992. The calculations shall be coordinated with the Kemerovo regional department of the Federal Service for environmental, technological and nuclear supervision ("Rostekhnadzor").

The fees are calculated in accordance with the base standards and ratios taking into account environmental factors as approved by Governmental Resolution No. 344, dated 12 June 2003, and Governmental Resolution No. 410, dated 1 July 2005, "On Amendments to Annex No. 1 to Governmental Resolution No. 344," dated 12 June 2003. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law on Ecological Expert Examination of 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described below under "—Environmental liability."

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Subsoil Agency, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and Ministry of Natural Resources is responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Moreover, courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

In general, subsoil licences require certain environmental obligations. Although these obligations can be substantial, the penalties for failing to comply and the remedial requirements are generally insignificant.

Reclamation

We conduct our reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995, of the Ministry of Natural Resources. Russian environmental regulations do not require mines to achieve the approximate original contour ("AOC") of the property as is required, for example, in the United States.

Environmental protection programmes

We have been developing and implementing environmental protection programmes at all our mining facilities. Such programmes include measures to aid in adhering to the limits imposed on air and water pollution and storage of industrial waste, introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

Health and Safety

Due to the nature of our business, much of our activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is the Federal Law on Industrial Safety of Dangerous Industrial Facilities of 21 July 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and non-ferrous metals are produced and where certain types of mining are done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. There are also regulations that address safety rules for coal mines, as set forth in Order No. 50 of Rostekhnadzor, as of 5 June 2003, "On approval of safety rules for coal mines."

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended (the "Labour Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform professional wrecking companies of accidents and maintain these systems in good working order. In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, is required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations carried out in conflict with the Safety Rules or the Federal Law on Safety or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws, such as the Federal Law on Collective Contracts and Agreements of 11 March 1992, as amended; the Federal Law on the Procedure of Settlement of Collective Labour Disputes of 23 November 1995, as amended; the Federal Law on Employment in the Russian Federation of 19 April 1991, as amended; the Federal Law on the Fundamentals of Protection of Labour in the Russian Federation of 17 July 1999, as amended.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including, but not limited to:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence or health problems;
- systematic failure of the employee to fulfil his or her duties if such employee has a disciplinary penalty;
- any single gross violation by the employee of his or her duties such as violation of safety rules or alcoholic or narcotic intoxication; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from a company due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, a salary payment for a period of two months until such person finds a new job.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of fourteen or disabled child under the age of eighteen or other persons caring for a child under the age of 14 or disabled child under the age of eighteen without a mother.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or work in other harmful conditions may be entitled to a shorter working week and additional paid vacation ranging from six to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years may also retire, regardless of age.

Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RR 1,100 from 1 May 2006. Although the federal law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of labour agreements.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of employees and the stability of its business.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended (the "Trade Union Law"). Other applicable legal acts include the Labour Code of Russia, the Federal Law on Collective Contracts and Agreements of 11 March 1992, as amended, and the Federal Law on the Procedure for Settlement of Collective Labour Disputes of 23 November 1995, as amended, which provide for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanours of 30 December 2001, nor the Criminal Code of the Russian Federation of 13 June 1996, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

Introduction

Below is a description of the terms of the rights attaching to the shares, the material provisions of our charter in effect on the date of this offering memorandum and certain requirements of Russian legislation. This description, however, is not complete and is qualified in its entirety by reference to the provisions of our charter and applicable Russian legislation.

General Matters

We are an open joint stock company incorporated under the laws of the Russian Federation. A Russian joint stock company's share capital is divided into shares. As a general rule, the shareholders are not liable for the company's obligations. Shareholders bear liability for the company's losses only to the extent of the value of the shares they own and bear joint and several liability for the company's obligations to the extent of the value of their unpaid contributions owed by a shareholder to the company. A Russian joint stock company may be either a closed joint stock company or an open joint stock company. The number of shareholders in a closed joint stock company is limited to 50, and if the number of shareholders in a closed joint stock company exceeds 50, it must be transformed into an open joint stock company. Shareholders in a Russian open joint stock company may transfer stock without obtaining consent from other shareholders or the company and there is no limitation on the number of shareholders that an open joint stock company may have. Shareholders in a Russian closed joint stock company are entitled to a right of pre-emption and no transfer of stock may be made without first offering the stock to each other shareholder and the company, if required so by the charter of the company. As an open joint stock company, we must publish certain corporate information, including an annual report and annual financial statements.

Pursuant to the Joint Stock Companies Law, we have the right to issue ordinary shares, preferred shares and other securities under the securities laws of the Russian Federation. Our share capital is comprised of approximately 781,988,250 issued and outstanding ordinary shares, each with a nominal value of RR 0.004 per share. As required by our charter, all of the shares are registered shares and have the same nominal value and grant identical rights to each holder.

Rights of Shareholders

Each fully paid ordinary share gives its holder the right to:

- Participate in our management as provided for by the Joint Stock Companies Law and our charter, and vote on all matters within the shareholders' competence;
- Receive dividends and, upon the Company's liquidation, receive a *pro rata* amount of our property after fulfillment of our obligations, or its value as provided by the relevant Russian legislation and our charter;
- Participate in general shareholders' meetings and vote on all matters to be decided at such meetings including through a representative acting on the basis of a power of attorney;
- Purchase shares by exercising preemptive rights that arise upon the issuance of new shares and securities convertible into shares on a *pro rata* basis to their existing holdings of shares, as provided by the Joint Stock Companies Law;
- Transfer the shares without consent of other shareholders or us;
- Have access to our documents, except for accounting documents and minutes of the collective executive body, as provided by the Joint Stock Companies Law and our charter; and
- Demand, under the following circumstances, the repurchase by us of all or some of the shares owned by such holder, in case such holder voted against or abstained from voting on any decision of the shareholders' meeting approving the following:
    - Our reorganisation;
    - The conclusion of a major transaction by us, subject to the provisions of the Joint Stock Companies Law;

- Any amendment to our charter that limits the shareholders' rights; and
- Exercise any other rights of a shareholder provided by our charter or by the Joint Stock Companies Law.

In addition, shareholders holding, alone or with other holders, not less than 1% of the voting shares may obtain a list of persons entitled to participate in the general shareholders' meeting, and shareholders holding, alone or with other holders, not less than 2% of the voting shares may, not later than 30 days after the end of the relevant financial year, propose matters to the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, collective executive board, vote counting commission, the internal audit commission and a chief executive officer candidate. Shareholders holding, alone or with others, not less than 10% of the voting shares may demand that the board of directors convene an extraordinary meeting of shareholders or an unscheduled audit by the internal audit commission. A shareholder holding, alone or with others, not less than 25% of the shares is to be given free access to accounting documents and minutes of the meetings of our executive body.

Shareholders holding, alone or with other holders, not less than 1% outstanding ordinary shares may claim against the general director, a member of the management board, management company, sole manager or a member of the board of directors for their actions or inactions in exercising their corporate duties that resulted in the company's damage, unless other grounds for their liability are not provided by the legislation.

Any shareholder may file a claim against the general director, a member of the management board, a management company, sole manager or a member of the board of directors for damages sustained by such shareholder as a result of violations by such person of the provisions relating to the protection of minority shareholders in the context of a squeeze-out or take-over.

Preemptive Rights

The Joint Stock Companies Law grants existing shareholders a preemptive right to purchase, *pro rata* to their existing holdings of shares, any shares of the same class, or securities convertible into such shares, that the company proposes to sell in an open subscription. Shareholders who voted against or did not participate in voting on the placement of shares or securities convertible into such shares in a closed subscription have preemptive right to acquire an amount of such shares or securities convertible into shares *pro rata* to their existing holdings of the shares of respective class. This rule does not apply when the shares and securities convertible into shares are placed through a closed subscription solely among existing shareholders when all such existing shareholders are entitled to acquire a whole number of new shares and securities convertible into shares in an amount that is proportionate to their existing holdings of shares of respective class. Shareholders may exercise their preemptive rights within the period of not less than 45 days from the date of the notice of their preemptive right, unless the price for new shares is set following the expiration of the preemptive rights period, in which case such period shall be not less than 20 days.

Share Acquisition Above Certain Thresholds and Anti-takeover Protection

As of 1 July 2006, a person intending to purchase more than 30% of the voting shares (taking into account those it already holds together with its affiliates) will have the right to make a public offer to all the shareholders of the company (voluntary offer). Within 35 days after acquisition by any means of more than 30%, 50% or 75% of such shares the acquirer will have an obligation to make public offer to purchase the remaining shares from the shareholders (compulsory offer). The acquirer's payment obligations arising from both voluntary and compulsory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months after the expiration date of the relevant acceptance period.

At any time after the company receives a voluntary or a compulsory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for voluntary or compulsory offer respectively) to purchase the number of shares and at the price that are greater than or equal to those offered in the respective voluntary or compulsory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or compulsory offer so that such person could amend its offer by increasing the purchase price and/or shortening the settlement period.

If as a result of either the voluntary or the compulsory offer the acquirer purchases more than 95% of the voting shares, it will have an obligation to (i) notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares.

As a general rule, such new buy-out mechanisms became effective as of 1 July 2006 and are available to persons that acquired such shares pursuant to a voluntary or a compulsory offer after such date. In addition, during one year after 27 July 2006, which is the date when the amendments to Federal Law on Appraiser's Activity entered into force, such mechanisms is available to the majority shareholders owned as of 1 July 2006 more than (a) 95% of the voting shares or (b) 85% of such shares but acquired more than 95% of the same through a voluntary offer made after such date. However, in each such case both a report of an independent appraiser and an expert opinion of a self-regulatory organisation of appraisers will be required to determine the purchase price.

Dividends and Dividend Rights

We may decide to pay interim dividends (based on the quarterly, semi-annual or nine months results) and/or annual dividends (based on annual results). The board of directors recommends the amount of the interim and annual dividends to be paid to our shareholders, who approve such interim or annual dividends by a majority vote at the extraordinary or annual shareholders' meeting, respectively, unless otherwise provided by the Joint Stock Companies Law. A decision on quarterly, semi-annual and nine months dividends may be taken within three months after the end of the respective period at the shareholders' meeting; and a decision on annual dividends must be taken at the annual general shareholders' meeting. The amount of the dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to shareholders entitled to participate in the shareholders' meeting, which approved the dividends. When making recommendations about payment, and when paying dividends, we are required to follow the limitations established by the Joint Stock Companies Law.

Dividends may be paid through wire transfer or in cash in roubles, provided that cash payments under a single transaction between entities do not exceed RR 60,000, and if so allowed by the company's charter, dividends may be paid in other property. Dividends to non-resident shareholders may be paid in foreign currencies through transfers from our bank accounts to the account of the non-resident shareholders. Each shareholder must provide the company with its bank account details if it wishes to receive dividends through wire transfer. Dividends to be paid in cash and not claimed may be deposited by us with a notary public. Dividends in cash not claimed within three years of the date of payment become barred by the statute of limitations.

Provided that dividends on preferred shares of certain classes may be paid from the specially formed funds, the Joint Stock Companies Law provides as a general rule that dividends may only be paid to shareholders out of net profits calculated under Russian accounting standards and as long as the following conditions are met:

- The share capital has been paid in full;
- The value of our net assets, less the proposed dividend payment, is not less than, and would remain following the payment of dividends, not less than the sum of our share capital, reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- We have repurchased all shares from shareholders who have exercised their right to demand repurchase;
- We are not, and will not become as a result of the payment of dividends, insolvent; and
- Other requirements of Russian legislation.

Distributions to Shareholders on Liquidation

Under Russian legislation, the liquidation of a company results in its ceasing to exist without the transfer of its rights and obligations to other persons as legal successors. We can be liquidated:

- By a three-quarters majority vote at a shareholders' meeting; or
- By a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a shareholders' meeting by a three-fourths majority vote and, in an involuntary liquidation, is appointed by the court. Our creditors may file claims within a period to be determined by the liquidation commission, but which must be at least two months from the date of publication of the notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- *First priority*—individuals owed compensation for injuries or deaths, or moral damages;
- *Second priority*—employees and copyright claims;
- *Third priority*—federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- *Fourth priority*—other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The remaining assets of the company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares on a pro rata basis.

Share Capital Increase

Our share capital may be increased by:

- issuing new shares, or
- increasing the nominal value of the outstanding shares.

According to the Joint Stock Companies Law, a decision to increase the share capital by either method requires a majority vote of a shareholders' meeting. In addition, new shares may only be issued if there are sufficient authorised but unissued shares provided for by our charter. Authorisation and issuance of shares above the number of authorised shares provided for by our charter necessitates an amendment to the charter, which requires a three-quarter majority vote at a general shareholders' meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at their market value except where existing shareholders exercise pre-emptive rights to purchase shares at not less than 90% of their market value or the price paid by third parties for the shares. The total fees payable to intermediaries may not exceed 10% of the price of shares. The price of shares may not be set at a level less than their nominal value. The board of directors and an independent appraiser must value any in-kind contributions for new shares.

The Federal Law on Securities Market of 22 April 1996, as amended, and securities regulations set out detailed procedures for the registration and issuance of shares of a joint stock company, including:

- adopting a decision on increase of share capital by placement of additional shares;
- adopting a decision on share issuance;

- registration of a share issuance;
- placement of the shares;
- registration of the placement report or placement notification with respect to additional share issuance; and
- public disclosures at the required stages of the issuance.

Share Capital Decrease

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum level required by law, which is RR 100,000 for an open joint stock company. According to the Joint Stock Companies Law, the share capital of a joint stock company may be decreased by decreasing a nominal value of shares or by reducing the number of shares, including the repurchasing of the shares by the company. Our charter requires that any decision to reduce our share capital, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, is to be made by a majority vote of a shareholders' meeting. Additionally, within 30 days of a decision to reduce its share capital the company must publish this decision and issue written notice thereof, to our creditors. Creditors of the company would then have the right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law allows the company to repurchase its shares only if, at the time of the repurchase:

- The company's share capital has been paid in full;
- The company is not insolvent, and would not become insolvent, as a result of the repurchase;
- The value of the company's net assets is not less than, and following the repurchase of the shares would not be less than, the sum of the company's share capital and the reserve fund and the nominal liquidation value of the outstanding preferred shares; and
- The company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares.

Russian legislation provides that any shareholder may demand repurchase of all or some of the ordinary shares owned by such shareholder, if this shareholder voted against or did not participate in the voting on any of the following events:

- The reorganisation of the company;
- The conclusion of a major transaction by the company, subject to the provisions of the Joint Stock Companies Law; and
- Any amendment of the charter that limits the shareholders' rights.

The company shall repurchase the shares at the price stated by the board of directors, which shall not be less than the market value determined by the independent appraiser. The company may spend up to 10% of its net assets for share repurchases demanded by shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of the company's net assets, the company must repurchase from each shareholder exercising the right to demand repurchase a number of shares proportionate to the number of shares specified in the demand of such shareholder.

Approval of the Russian Federal Antimonopoly Service

On July 14, 2006, Federal Law on Protection of Competition No. 135-FZ (the "Competition Law") was enacted by the Russian parliament. This new Competition Law took effect on 26 October 2006.

The Competition Law authorises the FAS to grant prior approvals for, in particular, (i) acquisitions of more than 25%, 50%, 75% of the voting shares in a Russian joint stock company and more than ⅓, ½ and ⅔ of the equity interest in a Russian limited liability company, (ii) acquisitions of the production assets and/or intangible assets of a business entity if such assets represent more than 20% of the balance sheet value of the business entity's production assets and intangible assets, and (iii) acquisitions of control over business entities. The approval would be required if (i) the combined assets of the target's and the acquirer's groups of entities and/or individuals exceed RR 3 billion, (ii) the combined revenues of the target's and the acquirer's group of entities and/or individuals from the sale of goods for the last year exceed RR 6 billion and the combined assets of the target's group of entities and/or individuals exceed RR 150 million, or (iii) the target or the acquirer is included in the state register of commercial organisation that have more than a 35% share of a particular commodity market.

The acquisitions would not require FAS approval if they are executed in accordance with a decree of the President or the Russian government.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and only bear the risk of losing their investment.

This may not apply to companies or individuals who are capable of determining decisions and directing the business of a Russian joint stock company. The company or individual capable of determining such decisions and directing the business of another company is called an "effective parent." The company whose decisions are capable of being determined or whose business is capable of being directed is called an "effective subsidiary."

If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for a transaction concluded by an effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction, and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract with the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent caused the effective subsidiary to conclude the transaction (and without regard to how the effective parent's ability to determine decisions of the effective subsidiary arises).

In addition, an effective parent, a shareholder, member or other person that is capable of determining decisions made by an effective subsidiary may be held secondarily liable for such company's debts in the case of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, then the effective parent, shareholder or other person capable of making decisions will have secondary liability if (i) the effective subsidiary becomes insolvent or bankrupt as a result of the actions of the effective parent, shareholder or other person; and (ii) the effective parent, shareholder or other person knew that such actions would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent, member or other person capable of determining decisions will be held secondarily liable if the effective subsidiary's insolvency or bankruptcy is caused by the wilful misconduct or negligence of such effective parent, member, or other person, as the case may be.

Shareholders of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Members of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its wilful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company provide for maintaining a register of its shareholders. A register of shareholders may be maintained by the company itself or by a specialised registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a registrar. Ownership of registered shares is evidenced by entries made in this register. Any shareholder may obtain an extract from our share register certifying the number of shares that such shareholder holds. Currently, the ZAO "Uzhno-Kusbassky Spetsializirovanniy Registrator," Mezhdurechensk branch maintains our shareholder register.

The purchase, sale or other transfer of shares is accomplished through registration in the share register or with a depositary if shares are held though a depositary. In the latter case, the depositary must appear as a nominal holder of shares in our register of shareholders. When making entries in the register, the registrar or depositary may not require any documents in addition to those required by Russian legislation. Any refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder is unlawful and may be disputed. We bear responsibility for maintenance of our register regardless of whether it is maintained by us or a specialised registrar.

General Meeting of Shareholders

The powers of the shareholders, acting through a shareholders' meeting, which is our highest managing body, are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide issues that are beyond the scope of its authority as provided under the Joint Stock Companies Law. Issues that the shareholders have the exclusive power to decide are:

- Amendments to our charter;
- Our reorganisation;
- Liquidation of us, appointing a liquidation commission and approval of an interim and the final liquidation balance sheets;
- Electing members of our board of directors and terminating their powers before due date;
- Formatting our executive body and early termination of its powers;
- Determining the quantity, face value, class (type) of authorised shares and the rights conferred by such shares;
- Increasing our share capital by increasing the nominal value of shares; by placement of additional shares;
- Decreasing our share capital by decreasing the nominal value of shares, by repurchase of a portion of shares in order to reduce the number of shares, and by termination of repurchased or bought-out shares;
- Election of our internal auditor (the controller) and termination of his powers;
- Approval of our auditor;
- Payment of dividends based on the results of the first quarter, half-year, nine months of the financial year;
- Approval of our annual reports and annual accounting reporting, including the profits and losses statements (accounts of profits and losses), and also the distribution of the profit (including the payment (announcement) of our dividends, except the profit distributed as dividends based on the results of the first quarter, half-year, or nine months of the financial year) and of our losses based on the results of the financial year;
- Setting out a procedure for holding the general meeting of shareholders;
- Election of the members of the vote counting board and early termination of their powers;
- Division and consolidation of shares;
- Adopting decisions as to the approval of transactions in the cases specified in Article 83 of the Joint Stock Companies Law;
- Adopting decisions as to the approval of major transactions in the cases specified in Article 79 of the Joint Stock Companies Law;
- Our acquisition of issued shares in the cases specified in Section 7.1.1 of our charter;
- Adopting decisions on participation in holding companies, financial-industrial groups, associations and other unions of commercial organisations;
- Approval of internal documents governing the operation of our bodies; and
- Other issues under the Joint Stock Companies Law.

The decisions on issues that fall within the competence of the general shareholders' meeting may not be taken by the chief executive body of the company or by the board of directors, unless otherwise provided by the Joint Stock Companies Law.

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in person or by absentee ballot, no less than 30 days prior to the date of the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors, shareholders must be notified at least 50 days prior to the date of the meeting. Only those items that were set out in the statutory notice to shareholders may be considered at a general shareholders' meeting.

The list of shareholders entitled to participate in a general shareholders' meeting is to be compiled on the basis of the data in our register of shareholders on the date specified by the board of directors. The date for the compilation of the list of shareholders entitled to participate in a general shareholders' meeting may not be earlier than the date of adopting the resolution to hold such general shareholders' meeting and not later than 50 days before the date of the meeting or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting.

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- By personal attendance;
- By attendance of a duly authorised representative;
- By absentee ballot; or
- By delegating the right to fill out the absentee ballot to an authorised representative.

Board of Directors

The Joint Stock Companies Law and our charter provide that our board of directors must be re-elected at each annual general meeting of shareholders and that the board of directors should be elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to the board of directors. Such shareholder may cast all such votes for one candidate or disperse them among multiple candidates. A majority vote of a general meeting of shareholders may remove the whole board of directors at any time without cause before the expiration of their terms. The Joint Stock Companies Law requires at least a five-member board of directors for an open joint stock company with less than 1,000 holders of ordinary shares, a seven-member board of directors for an open joint stock company with more than 1,000 holders of ordinary shares and at least a nine-member board of directors for an open joint stock company with more than 10,000 holders of ordinary shares. Only natural persons may serve on the board of directors.

Pursuant to Russian legislation and our charter, the board of directors performs our general management, except for the adoption of decisions that fall within the exclusive competence of the general shareholders' meeting. In accordance with our charter, the number of members of the board of directors is to be seven, with such members being determined by the decision of the general meeting of shareholders. The following issues are among those within the competence of the board of directors:

- Set out priority guidelines for our development;
- Approve the agenda of the general meeting of shareholders and specify the record date for determining eligible shareholders to attend;
- Make recommendations regarding the amount of any dividend to be declared and the procedure for its payment;
- Approve our internal documents, except for the internal documents which have to be approved by the general meeting of shareholders pursuant to the Joint Stock Companies Law and other internal documents which require the approval of our executive body under our charter;
- Approve major transactions specified in Chapter X of the Joint Stock Companies Law;
- Approve "interested parties" transactions as specified in the Joint Stock Companies Law;
- Approve our quarterly, six-month and annual budget;

- Give preliminary approval for annual reports; and
- Other issues, as provided by the Joint Stock Companies Law and our charter.

Executive Body

Pursuant to Russian legislation, our charter and the Management Agreement, our day-to-day activities are managed by Raspadskaya Coal Company, which is our sole executive body. According to our charter, the sole executive body is elected at a meeting of shareholders for a period of five years and reports to the board of directors and the general meeting of shareholders.

All issues of our day-to-day activity are within the authority of Raspadskaya Coal Company, except for the matters which are subject to the approval of a general meeting of shareholders and our board of directors. Raspadskaya Coal Company arranges for fulfillment of the decisions of the general meeting of shareholders and the board of directors. Among other things, Raspadskaya Coal Company may:

- Dispose of our property for the purposes of our day-to-day activities within the limits established by our charter and the Management Agreement;
- Enter into the transactions on behalf of us, except for the cases specified under the Joint Stock Companies Law;
- Execute our financial documents;
- Open and operate bank accounts;
- Issue orders and instructions binding upon our employees; and
- Engage in any other issues of day-to-day activity subject to limitations under the Joint Stock Companies Law, our charter and the Management Agreement.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction or a number of interrelated transactions (including a loan, pledge or suretyship or series of transactions, not in the ordinary course of business and not in connection with the placement of ordinary shares of the company through a subscription or the placement of securities convertible into shares), involving the acquisition, disposal or possibility of disposal of assets, the value of which constitutes 25% or more of the balance sheet value of a company's assets as of the last reporting date in accordance with Russian accounting standards. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require the unanimous approval of all members of the board of directors or, in the absence of such approval, the affirmative vote of shareholders holding a majority of the shares present at a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the company's assets require a 75% affirmative vote of shareholders present at a shareholders' meeting.

Interested Party Transactions

The Joint Stock Companies Law contains requirements in respect of transactions with interested parties. The definition of "interested parties" includes any person that (i) is a member of the board of directors or any management body (including the chief executive officer) of a company, management company or the sole manager of such company; or (ii) owns, together with any affiliates, 20% or more of such company's voting shares or that may give obligatory instructions to such company with which such company must comply if that person, or that person's close relatives or affiliates:

- Is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- Own, together with any close relatives or affiliates, at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- Is a member of any management body of the company (or of the management company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- In other cases, provided by the charter of the company.

A management company is a company that has entered into a contract with a second company pursuant to which the management company manages the second company. The management company takes the place of a chief executive officer.

A company with 1,000 or less shareholders must obtain the approval of one of the following prior to entering into an interested party transaction:

- A majority of members of the board of directors of the company who are not "interested parties" in the transaction; or
- A majority of shareholders at a shareholders' meeting that are not "interested parties" in the transaction if (i) the value of such a transaction is at least 2% of the value of the company's assets according to its most recent balance sheet; (ii) the transaction or a number of interrelated transactions involve the issuance, by way of subscription, of ordinary shares or securities convertible into ordinary shares, or secondary market sale of such securities, in an amount exceeding 2% of the company's placed ordinary shares and ordinary shares in which the issued securities convertible into ordinary shares may be converted; (iii) the number of disinterested directors is not sufficient to constitute a quorum.

In a company with more than 1,000 shareholders the disinterested directors approving the transaction must be independent directors. A director is independent if it is not, and were not during the year preceding the date of approval (i) chief executive officer of the company, including its manager, member of collective executive body, or member of managing bodies of a management company; (ii) a person whose close relatives held positions on managing bodies of the company or of the management company, or were sole manager of the company; (iii) affiliate of the company (except for being its director).

The approval of interested party transactions is not required in the following cases:

- The company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- All shareholders in the company are deemed interested in a transaction;
- The exercise of the pre-emptive rights to purchase newly issued shares of the company;
- The company's acquisition or repurchase of its issued shares;
- The company's merger or consolidation with another company if the other company involved holds more than three-fourths of the voting shares of the company; and
- Entering into a transaction is obligatory for the company according to the Russian legislation and settlement with respect to which is carried out in accordance with the fixed prices and tariffs established by authorised regulatory authorities.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used to cover company losses, to redeem company debt securities and to redeem such company's shares in cases where other funds are not available. Our charter provides for a reserve fund of 5% of our share capital, funded through annual transfers in an amount of not less than 5% of our net profits until the reserve fund as reached the 5% requirement.

Disclosure of Information

Russian securities regulations require us to periodically make the following public disclosures and filings:

- Filing quarterly reports with the FFMS containing information about us, our shareholders and registrar, the structure of our corporate bodies, the members of our board of directors, our branches and representative offices, our shares, important developments during the reporting quarter and other information about our financial and business activities;
- Filing with the FFMS and publishing in the FFMS's periodical publication as well as disclosing through other public media certain information about material changes in our financial and business activities, changes in the composition of our board of directors, a change of our general director and other material changes concerning us;

- Disclosing information on our securities issues;
- Disclosing our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- Filing with the FFMS on a quarterly basis a list of our affiliated persons; and
- Other information as required by applicable Russian securities legislation.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition if they are not already registered with the Russian tax authorities at the time of acquisition. Russian law is unclear as to whether foreign persons and companies that are not registered with the Russian tax authorities at the time of their share acquisitions must register solely for the reason of such share acquisition. Other than this notification requirement, there are no requirements or restrictions with respect to foreign ownership of our shares.

Notification of the FFMS

Pursuant to Russian securities legislation, a person who acquires securities issued by a Russian issuer (other than non-convertible bonds) must notify the FFMS upon acquisition of 5% or more of an issuer's securities, as well as a subsequent increase or decrease in such person's holding of these securities above or below the thresholds of 5, 10, 15, 20, 25, 30, 50, 75%. Such acquirer should file the respective notification with the FFMS and send a notification to us (which should contain information with respect to the acquirer, type and quantity of the securities purchased, as well as our name) within 5 days after the transfer of securities is recorded on the securities account (or a depositary account) of the acquirer.

PLAN OF DISTRIBUTION AND TRANSFER RESTRICTIONS

The Selling Shareholder is offering 140,757,885 Shares in this offering. The Shares are being offered to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside of the United States in reliance on Regulation S of the Securities Act, and outside of Australia, Japan and the Republic of South Africa.

We, the Selling Shareholder and the Managers will enter into the underwriting agreement dated on or about the date of this offering memorandum with respect to this offering and the arrangements for the transfer of proceeds relating thereto (the "Offering Arrangements"). Subject to the terms and conditions set out in the Offering Arrangements, the Joint Lead Managers have agreed to procure purchasers for the Shares and the Selling Shareholder will transfer the Shares to such purchasers as follows:

	Number of Shares
Joint Lead Managers	
Credit Suisse	56,303,154
Deutsche UFG	56,303,154
Morgan Stanley	28,151,577
Total	**140,757,885**

We and the Selling Shareholder will agree in the Offering Arrangements to indemnify the Managers against certain liabilities in connection with this offering.

Subject to certain exceptions, neither we, nor the Selling Shareholder, nor any of our or its directors or senior managers, nor any person acting on our, its or their behalf will, for a period of 180 days after the Closing Date, without the prior written consent of the Joint Lead Managers, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any of our shares or securities convertible or exchangeable into or exercisable for any of our shares or warrants or other rights to purchase our shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities.

We will not receive any of the proceeds from the sale of the Shares in this offering by the Selling Shareholder, which are being sold on the Selling Shareholder's own account.

The total expenses of this offering will include commissions payable to the Managers, legal expenses, accountants' fees, expenses for conducting a road show, printing expenses, applicable taxes and other miscellaneous expenses which will be paid by the Selling Shareholder from the proceeds of this Offering. The estimated expenses are not expected to exceed 4.5% of the gross proceeds of this offering.

United States

The Shares have not been, and will not be, registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction and may not be offered or sold in the United States except pursuant to Regulation S under the Securities Act and all applicable state securities laws. The Shares are being sold outside the United States in offshore transactions as defined in, and in reliance, on Regulation S. In addition, until 40 days after commencement of this offering, an offer or sale of the Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

Transfer Restrictions

Each purchaser of the Shares in this offering, by its acceptance hereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. The purchaser and the person, if any, for whose account it is acquiring the Shares, is outside the United States is not an affiliate of us or a person acting on behalf of such an affiliate.

2. The purchaser is aware that the Shares have not been and will not be registered under the Securities Act and are being offered and sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S.

3. The purchaser will not offer, resell, pledge or otherwise transfer the Shares, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.

4. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer the Shares, the Shares may be offered, resold, pledged or otherwise transferred only in accordance with the following legend unless otherwise determined by us in accordance with applicable law:

THE SHARES OF OAO "RASPADSKAYA" REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

SETTLEMENT AND DELIVERY

You must pay for the Shares in US dollars or roubles on or before the Closing Date, depending on your residency status for Russian currency control purposes, and the Shares for which payment has been received will be delivered to you on or about the Closing Date. All amounts payable in Roubles shall be made at the official exchange rate set by the Central Bank of Russia for the date, preceding the date, on which the relevant payment is made. In order to take delivery of the Shares, you must have either (a) a deposit account with ZAO "Depositary Clearing Company"; or (b) a deposit account with another Russian-licensed depositary that has, directly or through another company, an account with our shareholders' register maintained by ZAO "Uzhno-Kusbassky Spetsializirovanniy Registrator", Mezhdurechensk branch or a deposit account with ZAO "Depositary Clearing Company"; or (c) an account with our shareholders' register. You may at your own expense choose to hold the Shares through a direct account with our share register. However, directly held Shares are ineligible for trading on the RTS or the MICEX.

The Shares are listed on the list "V" of the RTS under the symbol "RASP" and on the list "V" of the MICEX under the symbol "RASP". Trading in the Shares on the RTS and the MICEX is expected to start immediately after the completion of this offering. Prior to completion of this offering, there will not be any public market for the Shares.

No action has been or will be taken in any jurisdiction other than the Russian Federation that would permit a public offering of the Shares. No action has been or will be taken in any jurisdiction where action is required for the possession, circulation or distribution of this offering memorandum. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisement in connection with the Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this offering memorandum, and, if given or made, such information or representation must not be relied upon as having been authorised by us or the Managers. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this offering memorandum is correct as of a date after its date.

MATERIAL TAX CONSIDERATIONS

The following is a summary of certain tax considerations that may be relevant to a holder of the shares. However, prospective investors should consult their own advisers regarding the tax consequences of purchasing the Shares.

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of shares by their non-resident holders. The summary does not address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the shares. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the shares are characterised by uncertainties and by a lack of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a "non-resident holder" means:

- a physical person, physically present in the Russian Federation for less than 183 days in a given calendar year; or
- a legal person or organisation;

in each case not organised under Russian law, that holds and disposes of shares other than through a permanent establishment in Russia.

Taxation of Dividends

Dividends paid to non-resident holders generally are subject to Russian withholding tax, which will be withheld by the Company acting as a tax agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity or an individual. Dividends paid to a non-resident holder that is a legal entity generally will be subject to Russian withholding tax at a rate of 15%. Dividends paid to non-resident individuals are subject to Russian withholding tax at a rate of 30%.

Withholding tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. For example, the Convention Between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains (the "UK-Russia Tax Treaty"), provides for a 10% withholding rate on dividends paid to UK holders who are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

Taxation of Capital Gains

The Tax Code provides that capital gains realised by non-resident legal entities from the sale of shares or derivative instruments that are traded on foreign exchanges will not be regarded as income from Russian sources and, therefore, will be not subject to Russian withholding tax.

A non-resident legal entity will be subject to taxes on capital gains only in connection with the sale of shares of a Russian company that has more than 50% of its assets in the form of immovable property located in Russia. Where the non-resident legal entity disposes of these shares to a Russian legal entity or to a foreign legal entity acting through a permanent establishment which is registered for tax in Russia, withholding tax will apply, unless double tax treaty relief is available and claimed. Where a non-resident legal entity disposes of the shares to a foreign legal entity that is not registered for tax purposes in Russia, this may represent Russian source income, in which case withholding tax would apply as in the previous sentence, although there is no mechanism to collect the tax. The non-resident legal entity may deduct the original purchase price from the proceeds of the sale if it provides documentary support of the original purchase price to the purchaser, acting as tax agent. In such event, the net proceeds of the sale are subject to a withholding tax at the rate of 24%. Without documentary support, the non-resident entity may not deduct the original purchase price, and the gross proceeds of the sale are subject to a 20% withholding tax rate. Since capital gains are calculated in the currency in which the sale price is paid, the taxable base could be affected by changes in exchange rates.

A non-resident individual will generally be subject to withholding tax at the rate of 30% on the gross proceeds from a disposal of the shares where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. (Due to ambiguities in drafting in the Tax Code, there is a risk that acquisition costs may not be tax deductible.) For such purposes, income is received from "a source within Russia" if the shares are sold in the Russian Federation. However, there is no definition of "sale in the Russian Federation" in relation to transactions involving securities. There is a risk that any sale of shares in a Russian company may be considered a sale in the Russian Federation. A sale of shares may also be considered a sale in the Russian Federation if the purchaser is a Russian resident. Capital gains are calculated in roubles using the exchange rates on the date of sale and the date of purchase and, thus, the proceeds of the sale subject to taxation would be affected by changes in exchange rates.

A non-resident holder may be able to avoid Russian withholding tax on the disposition of shares under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. For example, the UK-Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by UK holders unless such gains relate to shares that:

- derive all or substantially all of their value directly or indirectly from immovable property in Russia; and
- are not quoted on an approved stock exchange.

Reporting Obligations of a Non-Resident Individual

If income received by a non-resident holder (who is an individual) is treated as taxable in Russia but the tax has not been withheld for any reason, such an individual is technically liable to declare his or her income to the Russian tax authorities and pay the tax, subject to any available double tax treaty relief.

GLOSSARY

This glossary contains explanations of certain technical terms used in this offering memorandum. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

ash content	Incombustible impurities contained in coal which affect the burning characteristics of coal.
black coal	All coal of higher rank than lignite.
Btu	Abbreviation of British thermal unit. The amount of heat needed to raise the temperature of 1 pound of water by 1 degree Fahrenheit (equal 252 calories). The Btu is a convenient measure by which to compare the energy content of various fuels.
closed water-and-residue system	Water circuit designed so that the only water added is that necessary to replace the loss in the washed products.
coal	A solid, brittle, more or less distinctly stratified combustible carbonaceous rock, formed by partial to complete decomposition of vegetation.
coal preparation	The process of selectively removing residual stone material from raw coal through beneficiation at a coal preparation or coal washing plant.
coal products	Collectively, our raw coal and coal concentrate.
coal seam	A geological structure containing a series of layers of coal, shale and other mineral materials of various thickness within a defined zone.
DAF	Delivered at Frontier. Means that the seller delivers the goods, not loaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the customs border of the adjoining country.
grade K	Coke coals with vitrinite reflectance indices (Ro) from 1 to 1,69% and volatile matter 24-28%. Thickness of plastic layer (y) 13-17 mm. Coke coals have good coking power.
grade KO	Coke semi-lean coals with vitrinite reflectance indices (Ro) from 0,8% to 1,39% and thickness of plastic layer (y) 10-12 mm.
grade Zh	Fat coals are characterised by vitrinite reflectance indices (Ro) from 0.8 to 1.19%, volatility matter 28-36% and thickness of plastic layer (y) from 14 to 26 mm.
FCA	Free carrier. Means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place.
FOB	Free on board. A FOB contract price does not include insurance and freight from the point of shipping.
grade GZh	Gas fat coals with vitrinite reflectance indices (Ro) from 0,5 to 0,99% and volatile matter 38% and thickness of plastic layer (y) from 16 to 25 mm.
grade GZhO	Gas fat semi-lean coals with vitrinite reflectance indices (Ro) less then 0,99% and volatile matter less then 38% and thickness of plastic layer (y) from 10 to 16 mm.

hard coking coals	The most valuable type of coking coal due to its specific chemical properties which enables the coke to be more efficient in steel making when it converts iron ore to raw steel. Coals with gross calorific value on ash-free but moist basis, mean vitrinite reflectance indices (Ro) at least 0,6 and caking power.
marketable coal reserves	The tonnages of coal reserves, at specified moisture and quality, available for sale after accounting for reserves preparation plant yield. Marketable coal reserves are reported in terms of probable reserves or proved reserves.
mining ratio	Ratio of overburden waste which must be removed per tonne of coal reserve mined, typically expressed in cubic metres per tonne of coal.
moisture content	The amount of moisture in coal, expressed as a percentage of the weight of the coal. Two types of moisture can be found in coal, including: (i) free or surface moisture, which can be removed by exposure to air, and (ii) inherent moisture, which is trapped in the coal and can be removed by heating the coal.
Mt	A unit of weight equivalent to 1000 kilograms.
Mtpa	Million tones per annum.
open-pit mine	A mine where the coal is extracted after removing the overlying strata or overburden.
preparation plant	Plant used for raw coal to make a product suitable for a particular use.
raw coal	A mineral in its raw, untreated state subsequent to extraction and prior to sizing and other treatment.
recoverable reserves	Proved and probable reserves prior to adjustment for preparation plant yield, which can be economically mined with existing or future technology and equipment.
rolling stock	Any type of rail car, including any type of locomotive or freight car.
semi-hard coal	Caking coking coal, which can be used only in coke blend at the rate of 30-40%. They have low free swelling index.
sludge pond	Reservoir for settling and thickening of fine material.
sulphur content	Sulphur contained in coal. Sulphur content can vary from coal seam to coal seam and sometimes within seam. "Low sulphur" coal has a variety of definitions but typically is used to describe coal consisting of 1.0% or less sulphur.
thermal coal	Thermal coal, also normally referred to as "steam" or "steaming coal," is used in combustion processes by power producers and industrial users to produce steam for power and heat. It is generally lower in heat and higher in volatile matter than metallurgical coal.
underground mine	A mine where the coal below the surface without removing the overburden.
underground mining	The extraction of coal or its products from rock strata by underground mining methods such as room-and-pillar mining, shortwall (continuous mines) mining and longwall mining.
volatile matter content	The amount of volatile matter in coal, expressed as a percentage of the weight of the coal. Volatile matter refers to substances, other than water, that are driven off as gas or vapor when coal is heated under certain prescribed conditions.

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ERNST & YOUNG

■ Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (095) 705-9700
7 (095) 755-9700
Fax: 7 (095) 755-9701
www.ey.com/russia

■ ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (095) 705-9700
7 (095) 755-9700
Факс: 7 (095) 755-9701
ОКПО: 59002827

Report of Independent Auditors

The Shareholders and Board of Directors
ZAO Raspadskaya

We have audited the accompanying consolidated balance sheets of ZAO Raspadskaya (the "Company") as at December 31, 2005, 2004 and 2003 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We did not observe the counting of the physical inventories as of December 31, 2002 since that date was prior to the time we were initially engaged as auditors for the Company. We were unable to satisfy ourselves as to inventory quantities by other audit procedures. Inventory balance as of December 31, 2002 with carrying value of $5,244 thousand enters materially into the determination of net income and cash flows for the year ended December 31, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities as of December 31, 2002, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Without further qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements, which discloses the fact that 2004 and 2003 consolidated financial statements have been revised to reflect the acquisitions of OOO Raspadsky Ugol, ZAO Raspadskaya Ugolnaya Company, ZAO OF Raspadskaya and ZAO Raspadskaya-Koksovaya representing business combinations involving entities under common control with the Company, which have been accounted for in the accompanying consolidated financial statements using the pooling of interests method to present the consolidated financial statements of the Company as if the acquisitions had occurred on the date these entities were originally established by the transferring entity.

Also, without further qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements. A significant part of the Company's transactions were made with related parties.

Ernst & Young LLC

June 30, 2006

ZAO Raspadskaya

Consolidated Balance Sheets
(In thousands of US dollars)

	Notes	December 31, 2005	2004	2003
ASSETS				
Non-current assets				
Property, plant and equipment	6	**$ 289,258**	$ 226,423	$ 159,390
Deferred income tax assets	4	**501**	—	—
Other non-current assets		**2,081**	672	901
		291,840	227,095	160,291
Current assets				
Inventories	7	**18,552**	12,681	10,477
Trade and other receivables	8	**20,279**	15,626	4,544
Prepayments		**3,653**	4,693	3,068
Receivables from related parties	9	**11,856**	3,180	7,813
Taxes recoverable	10	**47,278**	32,645	13,702
Short-term investments		**105**	7,440	1,073
Cash and cash equivalents		**26,946**	48,100	15,151
		128,669	124,365	55,828
Non-current assets classified as held for sale	5	**—**	2,387	5,042
		128,669	126,752	60,870
Total assets		**$ 420,509**	$ 353,847	$ 221,161
EQUITY AND LIABILITIES				
Equity				
Parent shareholders' equity				
Issued capital	11	**$ 259**	$ 256	$ 240
Treasury shares	11	**(6,627)**	(5,579)	—
Additional paid-in capital	11	**1,402**	1,338	274
Reserve capital	11	**7**	7	7
Accumulated losses		**(13,518)**	(48,267)	(87,973)
Unrealised gain on investments available-for-sale		**650**	—	—
Translation difference		**8,535**	6,978	10,190
		(9,292)	(45,267)	(77,262)
Minority interests		**3,684**	3,681	3,738
		(5,608)	(41,586)	(73,524)
Non-current liabilities				
Long-term loans	12	**17,326**	43,018	2,993
Payables to related parties	9	**—**	299,469	217,613
Deferred income tax liabilities	4	**12,685**	14,184	17,620
Finance lease liabilities	13	**—**	—	951
Post-employment benefits	14	**8,219**	2,931	2,470
Other long-term liabilities		**70**	224	94
		38,300	359,826	241,741
Current liabilities				
Trade and other payables	15	**11,794**	10,237	28,673
Short-term loans and current portion of long-term loans	12	**46,387**	855	7,087
Payables to related parties	9	**317,091**	11,607	8,342
Taxes payable	16	**12,545**	12,539	3,426
Current portion of finance lease liabilities	13	**—**	—	4,121
		387,817	35,238	51,649
Liabilities directly associated with non-current assets classified as held for sale	5	**—**	369	1,295
		387,817	35,607	52,944
Total equity and liabilities		**$ 420,509**	$ 353,847	$ 221,161

The accompanying notes form an integral part of these consolidated financial statements.

ZAO Raspadskaya

Consolidated Income Statements
(In thousands of US dollars)

	Notes	Year ended December 31, 2005	2004	2003
Continuing operations				
Revenue				
Sale of goods		**$ 534,291**	$ 378,920	$ 125,990
Rendering of services		**14,600**	12,729	5,453
		548,891	391,649	131,443
Cost of revenue	3	**(315,422)**	(214,658)	(101,428)
Gross profit		**233,469**	176,991	30,015
Selling and distribution costs	3	**(5,255)**	(5,476)	(6,315)
General and administrative expenses	3	**(25,587)**	(16,986)	(14,602)
Social and social infrastructure maintenance expenses	3	**(7,118)**	(3,956)	(1,963)
Gain/(loss) on disposal of property, plant and equipment		**(1,188)**	133	(202)
Foreign exchange gains/(losses), net		**113**	(92)	(348)
Other operating income/(expenses), net		**(9,639)**	(811)	(2,090)
Profit from operations		**184,795**	149,803	4,495
Dividend income		**93**	—	—
Interest income		**3,294**	2,297	773
Interest expense		**(5,665)**	(4,715)	(1,167)
Profit before income taxes		**182,517**	147,385	4,101
Income tax expense	4	**(49,909)**	(39,241)	(2,018)
Profit after tax from continuing operations		**132,608**	108,144	2,083
Discontinued operation				
Gain/(loss) after tax from discontinued operation	5	**—**	(1,886)	237
Net profit		**$ 132,608**	$ 106,258	$ 2,320
Attributable to:				
Equity holders of the parent entity		**$ 132,148**	$ 105,644	$ 2,058
Minority interests		**460**	614	262
		$ 132,608	$ 106,258	$ 2,320
Earnings per share:				
for profit attributable to equity holders of the parent entity, US dollars	11	**$ 293.35**	$ 231.61	$ 4.48
for profit from continuing operations attributable to equity holders of the parent entity, US dollars	11	**$ 293.35**	$ 235.74	$ 3.96

The accompanying notes form an integral part of these consolidated financial statements.

ZAO Raspadskaya

Consolidated Cash Flow Statements
(In thousands of US dollars)

	Year ended December 31, 2005	2004	2003
Cash flows from operating activities			
Net profit	**$ 132,608**	$ 106,258	$ 2,320
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and depletion *(Note 3)*	**30,785**	37,802	43,056
Deferred income tax benefit *(Note 4)*	**(1,575)**	(4,418)	(6,383)
(Gain)/loss on disposal of property, plant and equipment	**1,188**	(133)	202
Gain on sale of subsidiary	**—**	—	(120)
Foreign exchange (gains)/losses, net	**(113)**	92	348
(Gain)/loss from discontinued operation *(Note 5)*	**—**	1,886	(237)
Bad debt expense/(recovery)	**765**	(216)	247
Dividend income	**(93)**	—	—
Interest income	**(3,294)**	(2,297)	(773)
Interest expense	**5,665**	4,715	1,167
	165,936	143,689	39,827
Changes in operating assets and liabilities:			
Inventories	**(6,335)**	(1,254)	(4,126)
Trade and other receivables	**(3,451)**	(10,117)	702
Prepayments	**729**	(960)	(914)
Receivables from/payables to related parties	**15,334**	17,197	1,688
Taxes recoverable	**(16,084)**	(17,023)	(6,053)
Trade and other payables	**(2,045)**	(2,038)	9,062
Taxes payable	**499**	9,240	(723)
Net cash flows from operating activities	**$ 154,583**	$ 138,734	$ 39,463
Cash flows from investing activities			
Purchases of property, plant and equipment	**$ (104,732)**	$ (91,631)	$ (26,936)
Proceeds from disposal of property, plant and equipment	**548**	51	44
Proceeds from sale of a subsidiary, net of cash disposed	**1,980**	—	—
Purchases of minority interests	**(259)**	(56)	—
Short-term deposits at banks, including interest, net	**11,100**	(6,993)	—
Other investing activities, net	**(829)**	1,105	(862)
Net cash flows used in investing activities	**(92,192)**	(97,524)	(27,754)
Cash flows from financing activities			
Purchase of treasury shares	**(1,048)**	(5,579)	—
Settlement of promissory notes payable	**—**	(19,758)	(9,216)
Dividends paid by the Group to its shareholders	**(97,156)**	—	—
Proceeds from loans provided by related parties	**—**	—	7,033
Proceeds from loans and borrowings	**52,529**	48,247	10,753
Repayment of loans and borrowings, including interest	**(36,459)**	(27,907)	(6,782)
Payments under finance lease, including interest	**—**	(5,579)	(5,976)
Net cash flows used in financing activities	**(82,134)**	(10,576)	(4,188)
Effect of foreign exchange rate changes on cash and cash equivalents	**(1,411)**	2,315	559
Net (decrease)/increase in cash and cash equivalents	**(21,154)**	32,949	8,080
Cash and cash equivalents at beginning of year	**48,100**	15,151	7,071
Cash and cash equivalents at end of year	**$ 26,946**	$ 48,100	$ 15,151
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid	**$ 5,801**	$ 5,382	$ 423
Income taxes paid	**59,105**	44,760	5,517

The accompanying notes form an integral part of these consolidated financial statements.

ZAO Raspadskaya

Consolidated Statements of Changes in Equity

(In thousands of US dollars)

	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Accumulated profits/(losses)	Unrealised gain on investments available-for-sale	Translation difference	Parent shareholders' equity	Minority interests	Total
At December 31, 2002	$ 240	$ —	$ 274	$ 7	$ 127,553	$ —	$ —	$ 128,074	$ 2,902	$ 130,976
Effect of exchange rate changes	—	—	—	—	—	—	10,190	10,190	263	10,453
Total income and expense for the period recognised directly in equity	—	—	—	—	—	—	10,190	10,190	263	10,453
Net profit	—	—	—	—	2,058	—	—	2,058	262	2,320
Total income and expense for the period	—	—	—	—	2,058	—	10,190	12,248	525	12,773
Group's reorganisation: acquisition of subsidiaries from entities under common control *(Note 1)*	—	—	—	—	(217,584)	—	—	(217,584)	—	(217,584)
Minority interest arising on acquisition of subsidiaries	—	—	—	—	—	—	—	—	311	311
At December 31, 2003	$ 240	$ —	$ 274	$ 7	$ (87,973)	$ —	$ 10,190	$ (77,262)	$ 3,738	$ (73,524)
Effect of exchange rate changes	—	—	—	—	—	—	(3,212)	(3,212)	213	(2,999)
Total income and expense for the period recognised directly in equity	—	—	—	—	—	—	(3,212)	(3,212)	213	(2,999)
Net profit	—	—	—	—	105,644	—	—	105,644	614	106,258
Total income and expense for the period	—	—	—	—	105,644	—	(3,212)	102,432	827	103,259
Group's reorganisation: acquisition of subsidiaries from entities under common control *(Note 1)*	—	—	—	—	(65,938)	—	—	(65,938)	—	(65,938)
Increase in par value of shares *(Note 11)*	16	—	(16)	—	—	—	—	—	—	—
Purchase of treasury shares *(Note 11)*	—	(5,579)	—	—	—	—	—	(5,579)	—	(5,579)
Minority interest arising on acquisition of subsidiaries	—	—	—	—	—	—	—	—	252	252
Acquisition of minority interests in existing subsidiaries	—	—	1,080	—	—	—	—	1,080	(1,136)	(56)
At December 31, 2004	$ 256	$ (5,579)	$ 1,338	$ 7	$ (48,267)	$ —	$ 6,978	$ (45,267)	$ 3,681	$ (41,586)
Effect of exchange rate changes	**—**	**—**	**—**	**—**	**—**	**—**	**1,557**	**1,557**	**(134)**	**1,423**
Total income and expense for the period recognised directly in equity	**—**	**—**	**—**	**—**	**—**	**—**	**1,557**	**1,557**	**(134)**	**1,423**
Net profit	**—**	**—**	**—**	**—**	**132,148**	**—**	**—**	**132,148**	**460**	**132,608**
Total income and expense for the period	—	—	**—**	—	**132,148**	**—**	**1,557**	**133,705**	**326**	**134,031**
Issue of share capital, net of issuance costs *(Note 11)*	**3**	**—**	**—**	**—**	**—**	**—**	**—**	**3**	**—**	**3**
Purchase of treasury shares *(Note 11)*	**—**	**(1,048)**	**—**	**—**	**—**	**—**	**—**	**(1,048)**	**—**	**(1,048)**
Net gains on available-for-sale financial assets	**—**	**—**	**—**	**—**	**—**	**650**	**—**	**650**	**—**	**650**
Acquisition of minority interests in existing subsidiaries	**—**	**—**	**64**	**—**	**—**	**—**	**—**	**64**	**(323)**	**(259)**
Dividends declared by the Group to its shareholders *(Note 11)*	**—**	**—**	**—**	**—**	**(97,399)**	**—**	**—**	**(97,399)**	**—**	**(97,399)**
At December 31, 2005	**$ 259**	**$ (6,627)**	**$ 1,402**	**$ 7**	**$ (13,518)**	**$ 650**	**$ 8,535**	**$ (9,292)**	**$ 3,684**	**$ (5,608)**

The accompanying notes form an integral part of these consolidated financial statements.

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information

The consolidated financial statements of ZAO Raspadskaya (ZAO Raspadskaya or the "Company") for the year ended December 31, 2005 were authorised for issue in accordance with a resolution of the Board of Directors on June 30, 2006.

The Company commenced operations in 1973. It was registered as a Russian closed joint stock company following its privatization in 1991. The registered office of the Company is 109, Mira street, Mezhdurechensk, the Kemerovo region, the Russian Federation. The Company's principal shareholder is Corber Enterprises Limited (Cyprus), a joint venture set up by Mastercroft Mining Limited, the ultimate subsidiary of Evraz Group S.A. (Luxembourg), and Adroliv Limited (Cyprus).

ZAO Raspadskaya and its subsidiaries (the "Group") derive approximately 90% of their revenues from sales of coal. Other revenue sources include transport-handling services and other non-production revenues. In the years ended December 31, 2005, 2004 and 2003, approximately 30%, 27% and 51%, respectively, of the Group's revenues were generated in transactions with related parties. In addition, a significant portion of the Group's purchases was made in transactions with related parties. For detailed information related to such activities refer to Note 9.

The Group operates as a vertically integrated business and reports its activities as a single business segment.

On June 18, 2002, the Company's shareholders appointed ZAO Raspadskaya Ugolnaya Company as a management executive body of the Company. ZAO Raspadskaya Ugolnaya Company continued to operate in that capacity in 2005.

At December 31, 2005, 2004 and 2003, the Group employed approximately 6,000, 5,500 and 4,500 employees, respectively.

The subsidiaries included in the consolidated financial statements of ZAO Raspadskaya were as follows at December 31:

Subsidiary	Effective ownership interest, % 2005	2004	2003	Business activity	Country of incorporation
OOO Raspadsky Ugol	100.00	100.00	—	Coal trading	Russian Federation
ZAO Raspadskaya Ugolnaya Company	100.00	100.00	100.00	Management services	Russian Federation
ZAO OF Raspadskaya	100.00	100.00	100.00	Coal processing factory	Russian Federation
ZAO Raspadskaya-Koksovaya	100.00	100.00	100.00	Coal mine	Russian Federation
OOO Raspadskaya-Joy	100.00	100.00	69.00	Mining services	Russian Federation
OOO Puteets	100.00	100.00	—	Railway maintenance	Russian Federation
OAO Olzherasskoye shakhtoprokhodcheskoye upravlenie	95.12	93.26	50.07	Mining engineering and construction	Russian Federation
OAO Tomusinskoye pogruzochno-transportnoye upravlenie	58.55	54.64	54.64	Transportation	Russian Federation
OOO Montazhnik Raspadskoi	51.00	51.00	51.00	Mining equipment maintenance	Russian Federation
OOO Raspadskaya-Mintex	—	100.00	100.00	Trading	Russian Federation
ZAO Tomusinskoye lokomotivnoye depo	—	100.00	—	Transportation	Russian Federation

Controlling Interests in Subsidiaries Transferred to the Group by a Shareholder

Prior to the authorisation of these financial statements the Company finalised the reorganisation plan which resulted in the transfer of the entities under control of Corber Enterprises Limited to the Company. The Company acquired the controlling interests in OOO Raspadsky Ugol, ZAO Raspadskaya Ugolnaya Company, ZAO OF Raspadskaya, ZAO Raspadskaya-Koksovaya from Corber Enterprises Limited for a total cash consideration of 8,309,880,000 Russian roubles.

1. Corporate Information (continued)

Controlling Interests in Subsidiaries Transferred to the Group by a Shareholder (continued)

As this reorganisation represents acquisitions of entities under common control, these consolidated financial statements have been prepared using the pooling of interest method, and, as such, the financial statements, including corresponding figures, have been presented as if transfers of ownership interests in subsidiaries had occurred on the date they were originally established by the transferring party (the "Predecessor").

The assets and liabilities of the subsidiaries transferred under common control were recorded in these financial statements at the historical cost of the Predecessor. The difference between the total book value of net assets approximating zero at the date those subsidiaries were established and the purchase consideration was accounted for in these consolidated financial statements as an adjustment to the shareholders' equity in the amount of $65,938 in 2004 and $217,584 in 2003.

The balances of amounts due to related parties as of December 31, 2005, 2004 and 2003 include liabilities in the amount of $288,713, $299,469 and $217,613, respectively, payable to Corber Enterprises Limited for transfers of ownership interests in OOO Raspadsky Ugol, ZAO Raspadskaya Ugolnaya Company, ZAO OF Raspadskaya, ZAO Raspadskaya-Koksovaya (Note 9).

2. Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group's subsidiaries maintain their records and prepare their financial statements in Russian roubles ("roubles"), in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The accompanying financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation allowances for unrecoverable assets, (3) depreciation and valuation of property and equipment, (4) accounting for income taxes, and (5) use of fair values.

The consolidated financial statements have been prepared under the historical cost convention, other than in respect of property, plant and equipment at the date of transition to IFRS as described below. Other exceptions include available for sale investments and assets classified as held for sale measured at fair value and post-employment benefits measured at present value.

First-time Adoption of International Financial Reporting Standards (IFRS 1)

The Group applied IFRS 1 in the preparation of its first consolidated financial statements in accordance with IFRS for the year ended December 31, 2004. The Group's transition date to IFRS is January 1, 2003.

In accordance with IFRS 1, the Group elected to use the following exemptions:

- Property, plant and equipment are measured at their fair values in the IFRS opening balance sheet, which become their deemed cost going forward under the IFRS cost model.
- For business combinations that the Group recognised before December 31, 2002, the Group adjusted the carrying amounts of the subsidiaries' assets and liabilities to the amounts that IFRS would require in the separate subsidiaries' balance sheets. The deemed cost of goodwill/negative goodwill was determined as the difference at the date of transition to IFRS between: (i) the parent's interest in those adjusted carrying amounts; and (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Changes in Accounting Policies

The accounting policies applied are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005. The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 "Share-Based Payment";
- IFRS 3 "Business Combinations";
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IFRS 6 "Exploration for and Evaluation of Mineral Resources" (early adoption);
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events After the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 17 (revised) "Leases";
- IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 28 (revised) "Investments in Associates";
- IAS 32 (revised) "Financial Instruments: Disclosure and Presentation";
- IAS 33 (revised) "Earnings per Share";
- IAS 36 (revised) "Impairment of Assets";
- IAS 38 (revised) "Intangible Assets"; and
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement".

The principal effects of these changes in policies are discussed below.

IAS 16 (revised) "Property, Plant and Equipment"

From January 1, 2005 the Group capitalises subsequent expenditures relating to replacement of components of property, plant and equipment. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing parts when that cost is incurred and the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of IAS 16. In 2005, the Group capitalised subsequent expenditures net of replaced components for an approximate amount of $4,210. Net book value of the replaced components amounting to $112 was included in loss on disposal of property, plant and equipment in the accompanying consolidated income statement for the year ended December 31, 2005. It is impracticable to determine the effect of adoption of the revised standard on the corresponding figures.

The adoption of other standards listed above had no significant impact on the Group's financial statements.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

IFRSs and IFRIC Interpretations not yet Effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IAS 19 (amended 2004) "Employee Benefits";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRIC 4 "Determining whether an Arrangement contains a Lease".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates 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 the Group 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 December 31, 2005, 2004 and 2003.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses 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 $504.

Site Restoration Provisions

The Group reviews expected restoration costs of mining sites at each balance sheet date. As a result, the management concluded that as of December 31, 2005, 2004 and 2003 no liabilities existed in respect of restoration of mining sites other than contingent liabilities disclosed in Note 17.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is 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.

2. Significant Accounting Policies (continued)

Estimation Uncertainty (continued)

Post-Employment Benefits

The Group uses 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

The Group makes 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. As of December 31, 2005, 2004 and 2003, allowances for doubtful accounts have been made in the amount of $591, $156 and $247, respectively (Note 8).

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.

Foreign Currency Transactions

The presentation currency of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group's subsidiaries located in the Russian Federation is the Russian rouble (the "rouble"). As at the reporting date, the assets and liabilities of the subsidiaries with the rouble, as functional currency, are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

Transactions in foreign currencies in the Group and each subsidiary are initially recorded in the functional currency at the rate ruling at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated income statement.

2. Significant Accounting Policies (continued)

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries except for acquisitions made prior to the date of transition to IFRS, which were accounted for in accordance with IFRS 1, as described above.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognised directly in the income statement.

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented in the consolidated balance sheet within equity, separately from the parent's shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

Increases in Ownership Interests in Subsidiaries

Increases in ownership interests in subsidiaries prior to January 1, 2004 were accounted for using the purchase method.

Effective January 1, 2004, the differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in the accompanying consolidated financial statements.

Property, Plant and Equipment

The Group's property, plant and equipment, except for the items acquired prior to January 1, 2003, are stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met. As described under Basis of Preparation above, the items of property, plant and equipment acquired prior to January 1, 2003 were accounted for at deemed cost being their fair value at January 1, 2003.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

At each balance sheet date management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year-end. The table below presents the useful lives of items of property, plant and equipment.

	Useful lives (years)	Weighted average useful life (years)
Buildings and constructions	10-60	30
Machinery and equipment	2-25	6
Transport and motor vehicles	4-32	6

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

The Group's property, plant and equipment include mining assets, which consist of mine development and construction costs. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

Depletion of mining assets is calculated using the units-of-production method based upon proved developed mineral reserves.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2. Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in investment in associate.

Goodwill relating to business combinations is not amortised but is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

The excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition is recognised in the income statement.

Investments

The Group classified its investments into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity and available-for-sale. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2. Significant Accounting Policies (continued)

Investments (continued)

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same or discounted cash flow analysis.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date the asset is delivered by/to the counterparty.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Accounts Receivable

Accounts receivable, which generally are short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

VAT Payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable. In addition, VAT related to sales which have not been settled at the balance sheet date (VAT deferred) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT Recoverable

VAT recoverable relates to purchases which have not been settled at the balance sheet date and property, plant and equipment not put into operation. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases and putting property, plant and equipment into operation.

Cash and Cash Equivalents

Cash and cash equivalents, mainly denominated in roubles, comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

2. Significant Accounting Policies (continued)

Shareholders' Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Borrowings

Borrowings are initially recognised at the fair value of consideration received, net of directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

Accounts Payable

Accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Government Grants

Government grants are recognised at their fair value, where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset and are recognised as a deduction from depreciation expense over the life of the asset.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

2. Significant Accounting Policies (continued)

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 24%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-Employment Benefits

The Group provides additional pensions and other post-employment benefits to its employees in accordance with collective bargaining agreements. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. The excess of cumulative actuarial gains or losses over the 10% of the higher of defined benefit obligation and the fair value of plan assets are recognised over the expected average remaining working lives of the employees participating in the plan.

Other Costs

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

(All amounts are in thousands of US dollars, unless specified otherwise)

2. Significant Accounting Policies (continued)

Revenue (continued)

The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of Services

Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Expenses

The following expenses were included in cost of revenues, selling and distribution costs, general and administrative expenses, and social and social infrastructure maintenance expenses for the years ended December 31:

	2005	2004	2003
Cost of inventories recognised as expense	**$ 205,484**	$ 115,102	$ 11,849
Staff cost, including social security taxes	**65,766**	38,582	29,647
Depreciation, depletion and amortisation	**30,785**	37,802	43,056

(All amounts are in thousands of US dollars, unless specified otherwise)

4. Income Taxes

Major components of income tax expense were as follows for the years ended December 31:

	2005	2004	2003
Current income tax	**$ (51,484)**	$ (43,659)	$ (8,401)
Deferred income tax			
Relating to origination and reversal of temporary differences	**1,575**	4,418	6,383
Income tax expense reported in the consolidated income statement	**$ (49,909)**	$ (39,241)	$ (2,018)

The Russian Federation was the only tax jurisdiction in which the Group's income was subject to taxation. Reconciliation between the income tax expenses applicable to profit before income tax at the statutory tax rate to income tax expense at the Group's effective income tax rate is as follows for the years ended December 31:

	2005	2004	2003
Profit before income tax	**$ 182,517**	$ 147,385	$ 4,101
At Russian statutory income tax rate of 24%	**(43,804)**	(35,372)	(984)
Effect of non-deductible expenses and other non-temporary differences	**(6,105)**	(3,869)	(1,034)
Income tax expense reported in the consolidated income statement	**$ (49,909)**	$ (39,241)	$ (2,018)

Deferred income tax assets and liabilities and their movements for the years ended December 31 were as follows:

	2005	Change recognised in income statement	Translation difference	2004	Change recognised in income statement	Change due to business combination	Translation difference	2003
Deferred income tax liabilities:								
Property, plant and equipment	**$ 13,832**	**$ (1,752)**	**$ (549)**	$ 16,133	$ (5,661)	$ 34	$ 1,129	$ 20,631
Inventories	**2**	**(168)**	**(5)**	175	73	—	8	94
	13,834	**(1,920)**	**(554)**	16,308	(5,588)	34	1,137	20,725
Deferred income tax assets:								
Exploration expenses capitalised for tax purposes	**935**	**(507)**	**(24)**	1,466	120	—	78	1,268
Accrued liabilities	**220**	**(382)**	**(14)**	616	(1,197)	—	105	1,708
Other	**495**	**544**	**(91)**	42	(93)	—	6	129
	1,650	**(345)**	**(129)**	2,124	(1,170)	—	189	3,105
Total deferred income tax asset/(liability)	**$(12,184)**	**$ 1,575**	**$ 425**	$(14,184)	$ 4,418	$ (34)	$ (948)	$(17,620)
Represented by the following:								
Net deferred income tax asset	**$ 501**	**$ 510**	**$ (9)**	$ —	$ —	$ —	$ —	$ —
Net deferred income tax liability	**12,685**	**(1,065)**	**(434)**	14,184	(4,418)	34	948	17,620

Deferred income taxes have not been provided for undistributed earnings of the Group's subsidiaries amounting to $33,786 as of December 31, 2005, as management does not intend to dividend these earnings in the foreseeable future. The current tax rate for dividends income in Russia is 9%. The undistributed earnings are considered as permanently reinvested.

(All amounts are in thousands of US dollars, unless specified otherwise)

5. Discontinued Operation

On January 13, 2005, the Board of directors of the Group decided to dispose of OOO Raspadskaya-Mintex. The main business of OOO Raspadskaya-Mintex was resale of steel and coal products.

The disposal was completed on July 17, 2005. 100% of ownership interest in Raspadskaya-Mintex was sold for cash consideration of 56,000,000 roubles ($1,956, at the exchange rate as of the date of the transaction). The transaction was performed without any gains or losses. As at December 31, 2004 and 2003, OOO Raspadskaya-Mintex was classified as a disposal group held for sale. The results of OOO Raspadskaya-Mintex were as follows for the years ended December 31:

	2004	2003
Revenues	$ 15,056	$ 17,238
Cost of revenues	(15,287)	(16,913)
Gross margin	(231)	325
Other operating expenses	(1,652)	—
Loss before tax from discontinued operation	(1,883)	325
Income tax expense	(3)	(88)
Net loss attributable to discontinued operation	$ (1,886)	$ 237

The result of operations and cash flows in 2005 was immaterial.

The major classes of assets and liabilities of OOO Raspadskaya-Mintex measured at the lower of carrying amount and fair value less cost to sell at December 31, 2004 and 2003 were as follows:

	December 31,	
	2004	2003
Assets		
Property, plant and equipment	$ 76	$ 5
Input VAT	215	332
Accounts receivable	890	4,287
Goods	1,150	412
Cash	56	6
Non-current assets classified as held for sale	2,387	5,042
Liabilities		
Accounts payable	(369)	(1,295)
Liabilities directly associated with non-current assets classified as held for sale	(369)	(1,295)
Net non-current assets classified as held for sale	$ 2,018	$ 3,747

The net cash flows incurred by OOO Raspadskaya-Mintex consisted of net operating cash inflows of $2 in the year ended December 31, 2004 and net operating cash outflow of $1 in the year ended December 31, 2003.

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

	2005	2004	2003
Cost:			
Land	**$ 41**	$ —	$ —
Buildings and constructions	**57,591**	13,753	12,527
Machinery and equipment	**158,885**	104,506	78,337
Transport and motor vehicles	**5,827**	4,620	3,317
Mining assets	**119,718**	110,951	98,051
Other assets	**2,003**	498	306
Assets under construction	**58,596**	80,307	15,577
	402,661	314,635	208,115
Accumulated depreciation:			
Buildings and constructions	**(1,379)**	(1,066)	(502)
Machinery and equipment	**(67,096)**	(53,447)	(30,395)
Transport and motor vehicles	**(1,590)**	(791)	(382)
Mining assets	**(40,059)**	(29,974)	(14,428)
Other assets	**(399)**	(98)	(35)
	(110,523)	(85,376)	(45,742)
Government grants:			
Machinery and equipment, net	**(2,880)**	(2,836)	(2,983)
	$ 289,258	$ 226,423	$ 159,390

As of December 31, 2005, 2004 and 2003, mining assets include coal extraction rights in the amount of $2,398, $2,407 and $2,198, respectively, representing a license for Raspadskaya-2 plot. In addition, the Company owns a license for Raspadskaya plot, which cost amounts to $1.

Assets under construction include prepayments to contractors and suppliers of property, plant and equipment in the amount of $5,986, $6,173 and $348 as of December 31, 2005, 2004 and 2003, respectively.

The movement in property, plant and equipment for the year ended December 31, 2005 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2004, cost, net of accumulated depreciation and government grants	**$ —**	**$ 12,687**	**$ 48,223**	**$ 3,829**	**$ 80,977**	**$ 400**	**$ 80,307**	**$226,423**
Additions	**—**	**—**	**—**	**—**	**12,975**	**—**	**91,928**	**104,903**
Assets put into operation	**41**	**46,750**	**61,078**	**1,679**	**—**	**1,496**	**(111,044)**	**—**
Disposals	**—**	**(1,180)**	**(220)**	**(447)**	**—**	**(49)**	**(41)**	**(1,937)**
Depreciation and depletion charge	**—**	**(817)**	**(17,941)**	**(677)**	**(11,358)**	**(207)**	**—**	**(31,000)**
Amortisation of government grants	**—**	**—**	**215**	**—**	**—**	**—**	**—**	**215**
Translation difference	**—**	**(1,228)**	**(2,446)**	**(147)**	**(2,935)**	**(36)**	**(2,554)**	**(9,346)**
At December 31, 2005, cost, net of accumulated depreciation and government grants	**$ 41**	**$ 56,212**	**$ 88,909**	**$ 4,237**	**$ 79,659**	**$1,604**	**$ 58,596**	**$289,258**

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2004 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2003, cost, net of accumulated depreciation and government grants	$ —	$ 12,025	$ 44,959	$ 2,935	$ 83,623	$ 271	$ 15,557	$159,390
Additions	—	—	—	—	1,810	—	91,582	93,392
Assets put into operation		718	22,892	1,175	6,038	229	(31,052)	—
Assets acquired in business combination	—	78	471	212	—	48	31	840
Disposals	—	(329)	(264)	(209)	—	(103)	(15)	(920)
Depreciation and depletion charge	—	(535)	(23,681)	(414)	(14,116)	(63)	—	(38,809)
Amortisation of government grants	—	—	1,007	—	—	—	—	1,007
Translation difference	—	730	2,839	130	3,622	18	4,184	11,523
At December 31, 2004, cost, net of accumulated depreciation and government grants	$ —	$ 12,687	$ 48,223	$ 3,829	$ 80,977	$ 400	$ 80,307	$226,423

The movement in property, plant and equipment for the year ended December 31, 2004 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2002, cost, net of accumulated depreciation and government grants	$ —	$ 11,504	$ 55,994	$ 2,765	$ 78,695	$ 146	$ 13,775	$162,879
Additions	—	—	6,417	—	2,302	—	19,581	28,300
Assets put into operation		926	6,211	389	11,878	133	(19,537)	—
Assets acquired in business combination	—	117	886	39	—	16	—	1,058
Disposals	—	(920)	(134)	(10)	—	(7)	(922)	(1,993)
Depreciation and depletion charge	—	(491)	(29,108)	(361)	(13,849)	(34)	—	(43,843)
Amortisation of government grants	—	—	787	—	—	—	—	787
Translation difference	—	889	3,906	113	4,597	17	2,680	12,202
At December 31, 2003, cost, net of accumulated depreciation and government grants	$ —	$ 12,025	$ 44,959	$ 2,935	$ 83,623	$ 271	$ 15,577	$159,390

As of December 31, 2005, 2004 and 2003, certain items of production equipment with an approximate carrying value of $58,335, $35,874 and $6,884, respectively, were pledged to banks as collateral against loans to the Group (Notes 12).

Government grants represent special purpose financing granted to the Group for the amount of actual expenditures on the acquisition of certain assets qualifying for ecological purposes.

7. Inventories

Inventories, at cost, consisted of the following as of December 31:

	2005	2004	2003
Raw materials and spare parts	**$ 11,960**	$ 11,509	$ 9,621
Finished goods	**6,592**	1,172	856
	$ 18,552	$ 12,681	$ 10,477

(All amounts are in thousands of US dollars, unless specified otherwise)

8. Trade and Other Receivables

Trade and other receivables, mainly denominated in roubles, consisted of the following as of December 31:

	2005	2004	2003
Trade accounts receivable	**$ 18,814**	$ 11,197	$ 3,785
Other receivables	**2,056**	4,585	1,006
	20,870	15,782	4,791
Allowance for doubtful accounts	**(591)**	(156)	(247)
	$ 20,279	$ 15,626	$ 4,544

9. Related Party Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Amounts owed by/to related parties were as follows as of December 31:

	Amounts owed by related parties			Amounts owed to related parties		
	2005	2004	2003	2005	2004	2003
OOO Trade House Evrazresource	**$ 2,674**	$ 2,629	$ —	**$ —**	$ —	$ —
ZAO Razrez Raspadsky	**7,181**	8	849	**21,016**	7,204	—
ZAO Raspadskaya Financial Industrial Company	**671**	12	1,306	**7,114**	3,294	737
OAO MUK-96	**16**	—	—	**10**	—	540
OOO Rilcom	**—**	72	5,472	**—**	1,062	4
Other entities	**1,314**	459	186	**238**	47	28
Loan from ZAO Raspadskaya Financial Industrial Company	**—**	—	—	**—**	—	7,033
Liabilities to Corber for transfers of ownership interests in subsidiaries (Note 1)	**—**	—	—	**288,713**	299,469	217,613
	$ 11,856	$ 3,180	$ 7,813	**$ 317,091**	$ 311,076	$ 225,955

(All amounts are in thousands of US dollars, unless specified otherwise)

9. Related Party Disclosures (continued)

In the years ended December 31, 2005, 2004 and 2003, the Group's transactions with related parties were as follows:

	Sales to related parties			Purchases from related parties		
	2005	2004	2003	2005	2004	2003
OOO Trade House Evrazresource	$ **146,879**	$ 79,504	$ —	$ **—**	$ —	$ —
ZAO Razrez Raspadsky	**8,495**	3,585	1,528	**112,224**	49,270	1,839
ZAO Raspadskaya Financial Industrial Company	**4,144**	21,808	64,970	**64,492**	30,490	1,051
OAO Mezhdurechensk Coal Company-96	**3,536**	1,010	124	**108**	322	3,518
OOO Rilcom	**12**	13	—	**457**	10,216	4,592
Other entities	**21**	748	2	**2,418**	381	158
	$ **163,087**	$ 106,668	$ 66,624	$ **179,699**	$ 90,679	$ 11,158

OOO Trade House Evrazresource is an entity under common control with the Company's shareholder. In 2005 and 2004, the Group sold to the entity approximately 26% and 35% of sales volumes of coal concentrate, respectively. In addition, in 2005, the Group sold coal to OOO Trade House Evrazresource, representing 27% of total sales volume of coal. The transactions were made on terms equivalent to those that prevail in arm's length transactions.

ZAO Razrez Raspadsky is an entity under control of the Company's shareholder. The Group purchased mining and coal processing services from ZAO Razrez Raspadsky. In 2005 and 2004, the cost of mining services rendered by ZAO Razrez Raspadsky amounted to $69,978 and $29,864, respectively. The services included open-cut mining of coal of 2,211,000 tons in 2005 and 1,505,000 tons in 2004 on the Raspadskaya deposits. Fees for coal processing services amounted to $41,511 and $19,406 in 2005 and 2004, respectively.

ZAO Raspadskaya Financial Industrial Company ("RFPK") is an entity under control of the Company's shareholder. In 2005 and 2004, RFPK sold coal concentrate to the Group and operated as the Group's sales agent. All purchases of coal concentrate in 2005 and 2004 were made from RFPK. In 2003, the Group sold coal and coal concentrate to RFPK.

On July 01, 2003, ZAO Raspadskaya Financial Industrial Company granted a credit line to the Group for 423,000,000 roubles ($13,923 at the exchange rate as of the date of the transaction). Borrowings under the credit line bore interest of 16.00% per annum and matured in 2007. The credit line was fully repaid in June 2004.

OAO Mezhdurechensk Coal Company-96 ("MUK-96") is an entity under control of the Company's shareholder. MUK-96 purchases coal and coal concentrate from ZAO Raspadskaya.

OOO Rilcom is an entity under control of the Company's shareholder. Rilcom leased production assets to the Group. All lease obligations were repaid by December 31, 2004.

Other transactions with related parties are disclosed in Note 17 to the consolidated financial statements.

(All amounts are in thousands of US dollars, unless specified otherwise)

9. Related Party Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel totalled 2 persons as at December 31, 2005, 2004 and 2003. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following:

	2005	2004	2003
Salary	**$ 1,113**	$ 1,019	$ 148
Performance bonuses	**—**	480	—
Social security taxes	**35**	34	10
	$ 1,148	$ 1,533	$ 158

10. Taxes Recoverable

Taxes recoverable were denominated in roubles and consisted of the following as of December 31:

	2005	2004	2003
Input VAT	**$ 37,391**	$ 27,575	$ 13,421
Other taxes	**9,887**	5,070	281
	$ 47,278	$ 32,645	$ 13,702

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

11. Equity

At December 31, 2003, the Company's authorised and issued share capital comprised 459,720 fully paid shares with par value of 3 roubles each. In April 2004, par value of shares was increased to 4 roubles per share by appropriation of earnings. In 2005, the Company increased its share capital by $3 by issuance of 20,280 ordinary shares with par value of 4 roubles each.

As of December 31, 2005, 2004 and 2003, the Company's authorised and issued share capital comprised 480,000, 459,720 and 459,720 fully paid shares, respectively, with par value of 4, 4 and 3 roubles each, respectively.

In 2004, the Group acquired 19,319 of its own shares which constitute 4.20% of the Company's share capital. The Company paid 160,058,000 roubles ($5,579 at the exchange rates as of the dates of transactions) for the shares.

In 2005, the Group acquired 5,962 of its own shares which constitute 1.07% of the Company's share capital. The Company paid 24,410,000 roubles ($1,048 at the exchange rates as of the dates of transactions) for the shares.

Reserve Capital

According to the Russian Law, the Group creates a reserve capital in the amount of 5% of share capital per the Russian statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The reserve capital can be used only for covering losses as well as for redemption of the Company's bonds and purchase of own shares if there are no other sources of financing.

(All amounts are in thousands of US dollars, unless specified otherwise)

11. Equity (continued)

Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

The following reflects the income and share data used in earnings per share computations:

	2005	2004	2003
Profit from continuing operations attributable to equity holders of the parent entity	**$ 132,148**	$ 107,530	$ 1,821
(Loss)/profit from discontinued operations attributable to equity holders of the parent entity	**—**	(1,886)	237
Net profit attributable to equity holders of the parent entity	**$ 132,148**	$ 105,644	$ 2,058
Weighted average number of ordinary shares for earnings per share	**450,477**	456,130	459,720

The Group's annual earnings per share were as follows:

	2005	2004	2003
Earnings per share attributable to equity holders of the parent entity, (US dollars)			
Profit from continuing operations	**293.35**	235.74	3.96
(Loss)/profit from discontinued operations	**—**	(4.13)	0.52
Profit	**$ 293.35**	**$ 231.61**	**$ 4.48**

The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equals basic earnings per share.

Dividends

On September 30, 2005, shareholders of the Company approved distribution of dividends in respect of the results of 2005 in the amount of 949,920,000 roubles ($33,332 at the exchange rate as of the date of the transaction), which represents 1,979 roubles of dividends per share (63.06 US dollars at the exchange rate as of the date of the transaction).

In addition, in 2005, certain subsidiaries of the Group, accounted for under the pooling of interests method, declared dividends in the amount of $64,067 payable to the Company's parent.

12. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of December 31:

	2005	2004	2003
Russian banks	**$ 61,416**	$ 40,622	$ 6,111
Ministry of Finance of the Russian Federation	**2,138**	3,251	3,848
Interest payable	**159**	—	121
	$ 63,713	$ 43,873	$ 10,080

As of December 31, 2005, 2004 and 2003, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $17,292, $0 and $6,111, respectively, and long-term loans

(All amounts are in thousands of US dollars, unless specified otherwise)

12. Loans and Borrowings (continued)

and borrowings in the amount of $46,262, $43,873 and $3,848, respectively, including the current portion of long-term liabilities of $28,936, $855 and $855, respectively.

In 2005, average annual interest rates were 10.9% for short-term loans denominated in roubles and 11.7%, 9.0% for long-term loans denominated in roubles and US dollars, respectively.

In 2004, average annual interest rates were 11.7%, 9.0% for long-term loans denominated in roubles and US dollars, respectively.

In 2003, average annual interest rates were 10.0% for short-term loans denominated in roubles and 9.0% for long-term loans denominated in US dollars.

The liabilities are denominated in the following currencies:

	2005	2004	2003
Roubles	**$ 61,510**	$ 40,622	$ 6,121
US dollars	**2,203**	3,251	3,959
	$ 63,713	$ 43,873	$ 10,080

The liabilities are contractually repayable after the balance sheet date as follows:

	2005	2004	2003
Less than one year	**$ 46,387**	$ 855	$ 7,087
Between one year and two years	**16,898**	29,984	855
Between two years and five years	**428**	13,034	2,138
	$ 63,713	$ 43,873	$ 10,080

At December 31, 2005, the Group had equipment with a carrying value of $58,335 pledged as collateral under the loan agreements.

13. Finance Lease Obligations

In 2001-2003, the Group entered into lease agreements under which it had an option to acquire the leased assets at the end of lease term ranging from 1.5 to 2 years. The estimated average remaining useful life of leased assets varied from 1.5 to 5 years.

The leases were accounted for as finance leases in the consolidated financial statements. As at December 31, 2003, carrying value of the leased assets was $6,836. The leased assets were machinery and equipment items included in property, plant and equipment in the accompanying consolidated balance sheets (Note 6).

Future minimum lease payments were as follows at December 31, 2003:

	Principal	Interest	Total
2004	$ 4,121	$ 386	$ 4,507
2005	951	26	977
	5,072	412	5,484
Less: current portion	(4,121)	(386)	(4,507)
	$ 951	**$ 26**	**$ 977**

In 2004, the Group early repaid its obligations and purchased the leased items.

(All amounts are in thousands of US dollars, unless specified otherwise)

13. Finance Lease Obligations (continued)

In the year ended December 31, 2003, the average interest rate under the finance lease liabilities was 13%.

The finance lease liabilities were denominated in roubles and euros at December 31, 2003.

14. Post-Employment Benefits

In accordance with collective bargaining agreements, the Group provides to its employees lump-sum amounts payable at the retirement date. In addition, the Group pays benevolent contributions to *Pensioner of Raspadskaya*, a non-profit organisation, which provides regular lifetime pension payments to the Group's employees.

The post-employment benefits, provided by the Group, depend on years of service, level of compensation, and amount of pension payment under the collective bargaining agreements.

In 2004 and 2003, the Group did not consider its contributions to *Pensioner of Raspadskaya* as a constructive obligation and, consequently, the Group did not accrue liabilities in its financial statements. In 2005, the management determined that the Group's relationships with *Pensioner of Raspadskaya* represent a constructive obligation. The change in estimate resulted in a recognition of past service cost of $5,361 in the year ended December 31, 2005.

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2005, 2004 and 2003 and amounts recognised in the consolidated balance sheet as of December 31, 2005, 2004 and 2003 for the post-employment benefits are as follows:

Net Benefit Expense (recognised in cost of sales and general and administrative expenses)

	2005	2004	2003
Current service cost	**$ 335**	$ 203	$ 161
Interest cost on benefit obligation	**289**	245	176
Net actuarial loss recognised in the year	**33**	56	39
Past service cost	**5,361**	—	—
Net benefit expense	**$ 6,018**	$ 504	$ 376

Benefit Liability

	2005	2004	2003
Benefit liability	**$ 8,219**	$ 2,931	$ 2,470
Unrecognised net actuarial losses	**405**	757	529
Benefit obligation	**$ 8,624**	$ 3,688	$ 2,999

(All amounts are in thousands of US dollars, unless specified otherwise)

14. Post-Employment Benefits (continued)

Movements in Benefit Liability

	2005	2004	2003
At January 1	**$ 2,931**	$ 2,470	$ 2,135
Benefit expense	**6,018**	504	376
Contribution	**(529)**	(195)	(231)
Translation difference	**(201)**	152	190
At December 31	**$ 8,219**	$ 2,931	$ 2,470

The principal assumptions used in determining pension obligations for the Group's plan are shown below:

	2005	2004	2003
Discount rate	**8.0%**	8.0%	8.0%
Future benefits increases	**6.5%**	6.5%	6.5%

15. Trade and Other Payables

Trade and other payables were mainly denominated in roubles and consisted of the following as of December 31:

	2005	2004	2003
Trade accounts payable	**$ 7,658**	$ 4,513	$ 4,139
Accrued payroll	**2,688**	4,578	3,762
Promissory notes	**—**	—	19,329
Other payables	**1,448**	1,146	1,443
	$ 11,794	$ 10,237	$ 28,673

16. Taxes Payable

Taxes payable were denominated in roubles and consisted of the following as of December 31:

	2005	2004	2003
VAT payable	**$ 8,324**	$ 9,903	$ 1,047
Income tax	**1,125**	231	258
Other taxes	**3,096**	2,405	2,121
	$ 12,545	$ 12,539	$ 3,426

17. Commitments and Contingencies

Operating Environment of the Group

The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

17. Commitments and Contingencies (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2006, the Group plans to spend $7,000 under these programmes.

Site Restoration Costs

Under the Russian legislation, mining companies have obligations to restore mining sites. The owner of the licence bears this obligation. The Group owns a licence to develop a plot of land adjacent to the main exploration area by open-pit mining method. In 2004, the Group engaged ZAO Razrez Raspadsky to develop the plot. According to the agreement between the parties, ZAO Razrez Raspadsky performs all works and is liable for restoration of the site.

The plot is expected to be fully developed and closed in 2010. Estimated costs of restoration payable in 2010 will not exceed $4,800. If ZAO Razrez Raspadsky fails to meet its engagements, the Group will incur restoration costs.

Management believes that ZAO Razrez Raspadsky will perform necessary restoration works at its own expense in full compliance with the agreement and, as a result, the Company did not accrue a provision for site restoration costs in the accompanying consolidated financial statements.

Guarantees of Debts of Related Parties

On September 22, 2003, the Group guaranteed obligations of ZAO Razrez Raspadsky under the loan agreement with ZAO Gazprombank. The guarantee is limited to $19,000 and matures on September 1, 2010.

Credit Risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash, short-term deposits in banks and trade accounts receivable.

The Group maintains its available cash in Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash. The Group constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

17. Commitments and Contingencies (continued)

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable and promissory notes approximate their fair value.

18. Subsequent Events

On March 21, 2006, following the shareholders' resolution, the Company was reorganised into open joint stock company OAO Raspadskaya.

On April 28, 2006, OOO Raspadsky Ugol declared final dividends in the amount of $26,440 payable to the Company's parent.

On June 8, 2006, the shareholders approved the issue of 310,560,000 common shares with par value of 0.004 roubles per share each in exchange for the acquisition of 100% shares in OAO Mezhdurechenk Coal Company-96. The share issue was registered on June 30, 2006.

ERNST & YOUNG

■ Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (095) 705-9700
7 (095) 755-9700
Fax: 7 (095) 755-9701
www.ey.com/russia

■ ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (095) 705-9700
7 (095) 755-9700
Факс: 7 (095) 755-9701
ОКПО: 59002827

Report on Review of Interim Condensed Consolidated Financial Statements

The Shareholders and Board of Directors
OAO Raspadskaya

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of OAO Raspadskaya and its subsidiaries (the "Group") as at June 30, 2006 and the interim condensed consolidated statements of income, changes in equity and cash flows for the six-month periods ended June 30, 2006 and 2005, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

September 14, 2006

OAO Raspadskaya

Unaudited Condensed Consolidated Income Statement
(In thousands of US dollars, except for per share information)

	Notes	Six-month period ended June 30, 2006	2005
Revenue			
Sale of goods		**$ 216,394**	$ 310,544
Rendering of services		**5,224**	2,917
		221,618	313,461
Cost of revenue		**(134,724)**	(165,454)
Gross profit		**86,894**	148,007
Selling and distribution costs		**(5,915)**	(3,534)
General and administrative expenses		**(16,558)**	(11,382)
Social and social infrastructure maintenance expenses		**(2,853)**	(4,150)
Loss on disposal of property, plant and equipment		**(471)**	(432)
Foreign exchange gains/(losses), net		**(275)**	135
Other operating income/(expenses), net		**(1,201)**	(3,764)
Profit from operations		**59,621**	124,880
Interest income		**434**	2,158
Interest expense		**(4,221)**	(3,038)
Profit before tax		**55,834**	124,000
Income tax expense	5	**(16,246)**	(31,369)
Net profit		**$ 39,588**	$ 92,631
Attributable to:			
Equity holders of the parent entity		**$ 39,465**	$ 92,496
Minority interests		**123**	135
		$ 39,588	$ 92,631
Earnings per share:			
Basic and diluted, for profit attributable to equity holders of the parent entity, US dollars	9	**$ 0.08**	$ 0.21

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

OAO Raspadskaya

Unaudited Condensed Consolidated Balance Sheet
(In thousands of US dollars)

	Notes	June 30, 2006	December 31, 2005
		(Unaudited)	*(Audited)*
ASSETS			
Non-current assets			
Property, plant and equipment	6	**$ 1,288,147**	$ 289,258
Other non-current assets		**3,080**	2,582
		1,291,227	291,840
Current assets			
Inventories		**30,777**	18,552
Trade and other receivables		**19,311**	20,279
Prepayments		**4,740**	3,653
Receivables from related parties	8	**3,363**	11,856
Income tax receivable		**267**	274
Other taxes recoverable		**27,377**	47,004
Short-term investments and notes receivable		**739**	105
Cash and cash equivalents	7	**61,511**	26,946
		148,085	128,669
Total assets		**$ 1,439,312**	$ 420,509
EQUITY AND LIABILITIES			
Equity			
Parent shareholders' equity	9		
Issued capital		**$ 259**	$ 259
Treasury shares		**(1,156)**	(6,627)
Additional paid-in capital		**784,503**	1,402
Reserve capital		**7**	7
Accumulated losses		**(20,328)**	(13,518)
Unrealised gain on investments available-for-sale		**946**	650
Translation difference		**5,834**	8,535
		770,065	(9,292)
Minority interests		**4,041**	3,684
		774,106	(5,608)
Non-current liabilities			
Long-term loans	10	**12,028**	17,326
Long-term loan to related parties	8	**5,724**	—
Deferred income tax liabilities	5	**220,317**	12,685
Other long-term liabilities		**10,308**	8,289
		248,377	38,300
Current liabilities			
Trade and other payables		**26,046**	11,794
Short-term loans and current portion of long-term loans	10	**50,586**	46,387
Payables to related parties	8	**306,663**	317,091
Income tax payable		**6,483**	1,125
Other taxes payable		**6,244**	11,420
Current portion of other long-term liabilities		**972**	—
Dividends payable		**19,835**	—
		416,829	387,817
Total equity and liabilities		**$ 1,439,312**	$ 420,509

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

OAO Raspadskaya

Unaudited Condensed Consolidated Cash Flow Statement
(In thousands of US dollars)

	Notes	Six-month period ended June 30, 2006	Six-month period ended June 30, 2005
Cash flows from operating activities			
Net profit		**$ 39,588**	$ 92,631
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation, depletion and amortisation	6	**20,803**	16,655
Deferred income tax benefit	5	**(406)**	(3,302)
Loss on disposal of property, plant and equipment		**471**	432
Foreign exchange (gains)/losses, net		**275**	(135)
Interest income		**(434)**	(2,158)
Interest expense		**4,221**	3,038
Bad debt expense/(recovery)		**(124)**	587
		64,394	107,748
Changes in working capital:			
Inventories		**(6,976)**	(8,277)
Trade and other receivables		**3,034**	(30,755)
Prepayments		**96**	(1,754)
Receivables from / payables to related parties		**3,295**	21,458
Taxes recoverable		**25,919**	(19,646)
Trade and other payables		**8,351**	(3,985)
Taxes payable		**(2,680)**	3,486
Net cash flows from operating activities		**95,433**	68,275
Cash flows from investing activities			
Purchases of property, plant and equipment		**(39,777)**	(44,521)
Cash acquired through acquisition of subsidiaries	4	**31,947**	—
Other investing activities, net		**(130)**	2,398
Net cash flows used in investing activities		**(7,960)**	(42,123)
Cash flows from financing activities			
Purchases of treasury shares	9	**(1,207)**	(224)
Proceeds from sale of purchased treasury shares		**20,429**	—
Proceeds from loans and promissory notes		**286**	34,239
Repayment of loans and promissory notes, including interest		**(27,968)**	(3,545)
Dividends paid by the parent entity to its shareholders		**(46,275)**	(33,544)
Payments under finance leases, including interest		**(14)**	—
Net cash flows used in financing activities		**(54,749)**	(3,074)
Effect of foreign exchange rate changes on cash and cash equivalents		**1,841**	(1,952)
Net increase in cash and cash equivalents		**34,565**	21,126
Cash and cash equivalents at beginning of period		**26,946**	48,100
Cash and cash equivalents at end of period		**$ 61,511**	$ 69,226
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		**$ 4,167**	$ 2,734
Income taxes paid		**18,417**	43,082

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

OAO Raspadskaya

Unaudited Condensed Consolidated Statement of Changes in Equity
(In thousands of US dollars)

	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Accumulated profits (losses)	Unrealised gain on investments available-for-sale	Translation difference	Parent shareholders' equity	Minority interests	Total
At December 31, 2005	**$ 259**	**$ (6,627)**	**$ 1,402**	**$ 7**	**$ (13,518)**	**$ 650**	**$ 8,535**	**$ (9,292)**	**$ 3,684**	**$ (5,608)**
Net gains on available-for-sale financial assets	**—**	**—**	**—**	**—**	**—**	**296**	**—**	**296**	**—**	**296**
Effect of exchange rate changes	**—**	**—**	**—**	**—**	**—**	**—**	**(2,701)**	**(2,701)**	**234**	**(2,467)**
Total income and expense for the period recognised directly in equity	**—**		**—**	**—**	**—**	**296**	**(2,701)**	**(2,405)**	**234**	**(2,171)**
Net profit	**—**	**—**	**—**	**—**	**39,465**	**—**	**—**	**39,465**	**123**	**39,588**
Total income and expense for the period	**—**	**—**	**—**	**—**	**39,465**	**296**	**(2,701)**	**37,060**	**357**	**37,417**
Issue of share capital, net of transaction costs (*Note 4*)	**—**	**—**	**769,350**	**—**	**—**	**—**	**—**	**769,350**	**—**	**769,350**
Purchase of treasury shares *(Note 9)*	**—**	**(1,207)**	**—**	**—**	**—**	**—**	**—**	**(1,207)**	**—**	**(1,207)**
Sale of treasury shares *(Note 9)*	**—**	**6,678**	**13,751**	**—**	**—**	**—**	**—**	**20,429**	**—**	**20,429**
Distribution to the parent entity by subsidiaries *(Note 9)*	**—**	**—**	**—**	**—**	**(46,275)**	**—**	**—**	**(46,275)**	**—**	**(46,275)**
At June 30, 2006	**$ 259**	**$ (1,156)**	**$ 784,503**	**$ 7**	**$ (20,328)**	**$ 946**	**$ 5,834**	**$ 770,065**	**$ 4,041**	**$ 774,106**
At December 31, 2004	$ 256	$ (5,579)	$ 1,338	$ 7	$ (48,267)	$ —	$ 6,978	$ (45,267)	$ 3,681	$ (41,586)
Net gains on available-for-sale financial assets	—	—	—	—	—	155	—	155	—	155
Effect of exchange rate changes	—	—	—	—	—	—	1,272	1,272	(121)	1,151
Total income and expense for the period recognised directly in equity	—		—	—	—	155	1,272	1,427	(121)	1,306
Net profit	—	—	—	—	92,496	—	—	92,496	135	92,631
Total income and expense for the period	—	—	—	—	92,496	155	1,272	93,923	14	93,937
Issue of share capital, net of transaction costs (*Note 9*)	3	—	—	—	—	—	—	3	—	3
Purchase of treasury shares *(Note 9)*	—	(224)	—	—	—	—	—	(224)	—	(224)
Acquisition of minority interests in existing subsidiaries	—	—	23	—	—	—	—	23	(24)	(1)
Dividends declared by the parent entities to its shareholders *(Note 9)*	**—**	**—**	**—**	**—**	(33,544)	—	—	(33,544)	—	(33,544)
At June 30, 2005	$ 259	$ (5,803)	$ 1,361	$ 7	$ 10,685	$ 155	$ 8,250	$ 14,914	$ 3,671	$ 18,585

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

1. Corporate Information

These consolidated financial statements of OAO Raspadskaya (OAO Raspadskaya or the "Company") were authorised for issue in accordance with a resolution of the General Director on September 14, 2006.

The Company commenced operations in 1973. It was registered as a Russian closed joint stock company following its privatization in 1991. The registered office of the Company is 106, Mira street, Mezhdurechensk, the Kemerovo region, the Russian Federation. The Company's principal shareholder is Corber Enterprises Limited (Cyprus) ("Corber"), a 50/50 joint venture set up by Mastercroft Mining Limited, the ultimate subsidiary of Evraz Group S.A. (Luxembourg), and Adroliv Investments Limited (Cyprus) ("Adroliv").

OAO Raspadskaya and its subsidiaries (the "Group") derive approximately 98% of their revenues from sales of coal. Other revenue sources include transport-handling services and other non-production revenues.

In the six-month periods ended June 30, 2006 and 2005, approximately 31% and 33%, respectively, of the Group's revenues were generated in transactions with related parties. In addition, a significant part of the Group's purchases was made in transactions with related parties. For detailed information related to such activities refer to Note 8.

Controlling Interests in Subsidiaries Transferred to the Group by a Shareholder

In 2006 the Group went through reorganization. On April 12, 2006 one of the subsidiaries of the Company acquired 1% of shares of ZAO Razrez Raspadsky ("Razrez Raspadsky") from OAO Mezhdurechensk Coal Company-96 ("MUK-96"), an entity under common control with Adroliv. On May 31, 2006 Corber acquired 100% shares in MUK-96 from Adroliv. MUK-96 held 99% ownership in Razrez Raspadsky ("Razrez Raspadsky"). MUK-96 and Razrez Raspadsky hold certain mineral licenses and are involved in coal mining activities. Since May 31, 2006 MUK-96 and Razrez Raspadsky were under common control with the Company.

On September 14, 2006, the Company issued its 300,650,000 ordinary shares with a par value of 0.004 roubles each to Corber in exchange for all of the ordinary shares in MUK-96.

Exchange of the Company's ordinary shares for shares in MUK-96 is a transfer of controlling interest in a subsidiary in a transaction with an entity under common control. This transfer was part of the reorganization plan. Thus, the Company applied the pooling of interests method with respect to this transfer and presented its consolidated financial statements as if the transfer of controlling interests in this subsidiary had occurred from the date of the acquisition of the subsidiary by Corber. The nature and financial effect of the acquisition of shares in MUK-96 are disclosed in Note 4.

Working Capital Deficit

As of June 30, 2006, the Group had a working capital deficit arising from acquisitions of controlling interests in OOO Raspadsky Ugol, ZAO Raspadskaya Ugolnaya Company, ZAO OF Raspadskaya and ZAO Raspadskaya-Koksovaya from the Group's parent in June 2006. Subsequent to June 30, 2006, the Group substituted the liability to its parent with a short-term bridge bank loan, which matures on June 30, 2007. Management plans to refinance this loan on a long-term basis.

Management believes that cash flows from operating activities will be sufficient to meet the Group's obligations as they become due.

2. Basis of Preparation and Accounting Policies

Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2005.

Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Significant Accounting Policies

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for year ended December 31, 2005, except:

- IFRS 6 "Exploration for and Evaluation of Mineral Resources";
- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

The adoption of the standards, listed above, did not have significant impact on the Group's results or financial position.

3. Seasonality of Operations

There are no material seasonal effects in the business activities of the Group. The Group's business depends on commodity prices. Market price of coal was significantly lower in the first half of 2006, as compared to the first half of 2005, which led to decrease in revenue.

4. Acquisitions

As described in Note 1, on September 14, 2006, the Company issued its 300,650,000 ordinary shares to Corber in exchange for 100% ownership interest in MUK-96. Fair value of the issued shares by the Company was $771,075, which represents the consideration paid by Corber to Adroliv for 100% shares in MUK-96 amounting to $769,350 and cash consideration paid by the Group for 1% ownership in ZAO Razrez Raspadsky.

The consolidated financial position and the consolidated results of operations of MUK-96 were included in the Group's consolidated financial statements from May 31, 2006, as this was the date it

(In thousands of US dollars, unless specified otherwise)

4. Acquisitions (continued)

became under common control with the Company. The table below sets forth the fair values of MUK-96 consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

	May 31, 2006
Property, plant and equipment	$ 77,630
Mineral reserves	887,612
Inventories	3,940
Accounts and notes receivable	12,936
Taxes receivable	3,900
Cash	33,672
Total assets	**1,019,690**
Non-current liabilities	17,938
Deferred tax liabilities	208,062
Current liabilities	22,615
Total liabilities	**248,615**
Net assets	**$ 771,075**
Shares issued, at fair value	769,350
Cash paid	1,725
Purchase consideration	**$ 771,075**
Cash inflow on acquisition:	
Net cash acquired with the subsidiary	$ 33,672
Cash paid	(1,725)
Net cash inflow	**$ 31,947**

MUK-96 consolidated net loss for the period from May 31, 2006 to June 30, 2006 amounted to $2,804.

The acquisition of MUK-96 was accounted for based on provisional values as the subsidiary, at the date of issuance of these financial statements, has not completed purchase price allocation.

If the acquisition had occurred in the beginning of the year, revenues and net profit of the combined entity would be $216,394 and $47,051, respectively.

5. Income Taxes

Major components of income tax expense for the periods ended June 30 were as follows:

	2006	2005
Current income tax expense	**$ (16,652)**	$ (34,671)
Deferred income tax (expense)/benefit		
Relating to origination and reversal of temporary differences	**406**	3,302
Income tax expense reported in the consolidated income statement	**$ (16,246)**	$ (31,369)

Deferred income tax liabilities were $220,317 as at June 30, 2006 and $12,685 as at December 31, 2005. Increase in deferred income tax liabilities relates to deferred income tax liability recognised in the acquisition of subsidiary (Note 4).

(In thousands of US dollars, unless specified otherwise)

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2006	December 31, 2005
Cost:		
Land	**$ 43**	$ 41
Buildings and constructions	**67,000**	57,591
Machinery and equipment	**265,135**	158,885
Transport and motor vehicles	**23,481**	5,827
Mining assets	**1,019,094**	119,718
Other assets	**2,645**	2,003
Assets under construction	**90,552**	58,596
	1,467,950	402,661
Accumulated depreciation, depletion and amortisation:		
Buildings and constructions	**(4,233)**	(1,379)
Machinery and equipment	**(120,030)**	(67,096)
Transport and motor vehicles	**(4,473)**	(1,590)
Mining assets	**(47,808)**	(40,059)
Other assets	**(654)**	(399)
	(177,198)	(110,523)
Government grants:		
Machinery and equipment, net	**(2,605)**	(2,880)
	$ 1,288,147	$ 289,258

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $18,442 and $5,986 as of June 30, 2006 and December 31, 2005. Prepayments to constructors and suppliers as of December 31, 2006 include $3,561 prepayment to OOO Raspadskaya Trade Company, an entity under common control with the Company's shareholder.

(In thousands of US dollars, unless specified otherwise)

6. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the six-month period ended June 30, 2006 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2005 cost, net of accumulated depreciation and government grants	$ 41	$ 56,212	$ 88,909	$ 4,237	$ 79,659	$1,604	$ 58,596	$ 289,258
Additions	—	—	—	—	6,582	188	32,549	39,319
Assets acquired in business combination	—	4,848	45,522	8,663	887,612	64	18,533	965,242
Assets put into operation	—	211	15,703	6,642	—	281	(22,837)	—
Disposals	—	(121)	(322)	(17)	—	(61)	(145)	(666)
Reclassification	—	(738)	738	—	—	—	—	—
Depreciation & depletion charge	—	(1,126)	(14,021)	(726)	(5,186)	(191)	—	(21,250)
Amortisation of government grants	—	—	447	—	—	—	—	447
Change in site restoration provision	—	—	—	—	602	—	—	602
Translation difference	2	3,481	5,524	209	2,017	106	3,856	15,195
At June 30, 2006, cost, net of accumulated depreciation and government grants	$ 43	$ 62,767	$ 142,500	$ 19,008	$971,286	$1,991	$ 90,552	$1,288,147

As of June 30, 2006 and December 31, 2005 certain items of production equipment with an approximate carrying value of $62,005 and $34,719, respectively, were pledged to banks as collateral against loans to the Group.

7. Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2006	December 31, 2005
Russian roubles	$ **57,010**	$ 26,929
US dollars	**4,501**	17
	$ **61,511**	$ 26,946

The above cash and cash equivalents mainly consist of cash at banks.

8. Related Party Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(In thousands of US dollars, unless specified otherwise)

8. Related Party Disclosures (continued)

Amounts owed by/to related parties were as follows:

	Amounts due from related parties		Amounts due to related parties	
	June 30, 2006	December 31, 2005	**June 30, 2006**	December 31, 2005
OOO Trade House Evrazresource	**$ 3,153**	$ 2,674	**$ —**	$ —
ZAO Razrez Raspadsky	**—**	7,181	**—**	21,016
ZAO Raspadskaya Financial Industrial Company	**36**	671	**11**	7,114
OAO MUK-96	**—**	16		10
Other entities	**174**	1,314	**119**	238
Loans receivable/payable from/to related parties	**—**	—	**6,178**	—
Liabilities to Corber for transfers of ownership interests in subsidiaries	**—**	—	**306,079**	288,713
	$ 3,363	$ 11,856	**$ 312,387**	$ 317,091

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $3,017 as of June 30, 2006 from related parties.

Transactions with related parties were as follows in the six-month periods ended June 30:

	Sales to related parties		Purchases from related parties	
	2006	2005	**2006**	2005
OOO Trade House Evrazresource	**$ 46,336**	$ 102,847	**$ —**	$ —
ZAO Razrez Raspadsky	**792**	487	**37,749**	52,673
ZAO Raspadskaya Financial Industrial Company	**20,482**	110	**28,883**	44,810
OAO MUK-96	**518**	502	**—**	108
Other entities	**26**	—	**597**	441
	$ 68,154	$ 103,946	**$ 67,229**	$ 98,032

OOO Trade House Evrazresource is an entity under common control with the Company's shareholder. During the six-month periods ended June 30, 2006 and 2005, the Group sold to the entity approximately 20% and 34% of sales volumes of coal and coal concentrate, respectively. The transactions were made on terms equivalent to those that prevail in arm's length transactions.

ZAO Razrez Raspadsky was an entity under control of the Company's shareholder. The Group purchased mining and coal processing services from ZAO Razrez Raspadsky.

ZAO Raspadskaya Financial Industrial Company ("RFPK") is an entity under control of the Company's shareholder. RFPK sold coal concentrate to the Group and operated as the Group's sales agent.

OAO Mezhdurechensk Coal Company-96 ("MUK-96") was an entity under control of the Company's shareholder. MUK-96 purchases coal and coal concentrate from ZAO Raspadskaya.

(In thousands of US dollars, unless specified otherwise)

8. Related Party Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel totalled 2 persons as at June 30, 2006 and 2005. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following in the six-month periods ended June 30:

	2006	2005
Salary	**$ 550**	$ 564
Social security taxes	**20**	31
	$ 570	$ 595

9. Equity

Share Capital

At the Shareholders Meeting on March 20, 2006, shareholder approval was obtained to reorganize the Company from closed joint-stock company into an open joint stock company. On the same date, the Company's ordinary shares were subdivided in the ratio of one thousand for one share (the "Share Split") with a par value of 0.004 roubles each.

As of December 31, 2005 the Company's authorised and issued share capital consisted of 480,000,000 ordinary shares with par value 0.004 roubles each. On June 8, 2006 the Annual Shareholders Meeting resolved to increase the Company's authorised share capital by 310,560,000 ordinary shares. As of June 30, 2006, the Company's authorised and issued share capital consisted of 790,560,000 and 480,000,000 ordinary shares, respectively. On September 14, 2006, the Company issued 301,988,713 ordinary shares with par value 0.004 roubles each.

Treasury Shares

In the six-month periods ended June 30, 2006 and 2005, the Group purchased 1,278,442 and 2,539,000 ordinary shares, for $1,207 and $224, respectively.

In the six-month period ended June 30, 2006, the Group sold 25,370,558 ordinary shares to the Company's parent for $20,429. The difference between cost of these shares and sale price amounting to $13,751 was recorded as additional paid-in capital.

Earnings per Share

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal to basic earnings per share.

	Six-month period ended June 30,	
	2006	2005
Weighted average number of ordinary shares in issue	**507,730,796**	445,505,829
Profit for the year attributable to equity holders of the parent	**$ 39,465**	$ 92,496
Basic and diluted earnings per share, US dollars	**$ 0.08**	$ 0.21

(In thousands of US dollars, unless specified otherwise)

9. Equity (continued)

Earnings per Share (continued)

The weighted average number of ordinary shares for the six months ended June 30, 2006 included the effect of the 300,650,000 shares as having been issued by the Company on May 31, 2006 in connection with the Company's acquisition of MUK-96, which is described in Note 4. This is consistent with the IAS 33 "Earnings per Share" requirement for the acquirer to include the shares issued as part of the cost of a business combination in the weighted average number of shares from the same date it incorporates into its income statement the acquiree's profits and losses.

Distribution to the Parent Entity by Subsidiaries

In the six-month periods ended June 30, 2006 and 2005, certain subsidiaries of the Group, accounted for under the pooling of interests method, declared dividends in the amount of $46,275 and $33,544 payable to the Company's parent, respectively.

10. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of:

	June 30, 2006	December 31, 2005
Russian banks	**$ 60,789**	$ 61,416
Ministry of Finance of the Russian Federation	**1,710**	2,138
Interest payable	**115**	159
	$ 62,614	$ 63,713

As of June 30, 2006 and December 31, 2005, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $5,360 and $17,292, respectively, and long-term loans and borrowings in the amount of $57,139 and $46,262, respectively, including the current portion of long-term liabilities of $45,111 and $28,936, respectively.

In the six-month period ended June 30, 2006, average annual interest rates were 10.8% for short-term loans denominated in roubles, and 11.4% and 9.2% for long-term loans denominated in roubles and US dollars, respectively.

In the six-month period ended June 30, 2005, average annual interest rates were 10.9% for short-term loans denominated in roubles, and 11.7% and 9.0% for long-term loans denominated in roubles and US dollars, respectively.

The liabilities are denominated in the following currencies:

	June 30, 2006	December 31, 2005
Roubles	**$ 49,547**	$ 61,510
US dollars	**13,067**	2,203
	$ 62,614	$ 63,713

(In thousands of US dollars, unless specified otherwise)

10. Loans and Borrowings (continued)

The liabilities are contractually repayable after the balance sheet date as follows:

	June 30, 2006	December 31, 2005
Less than one year	**$ 50,586**	$ 46,387
Between one year and two years	**9,776**	16,898
Between two years and five years	**2,252**	428
	$ 62,614	$ 63,713

11. Commitments and Contingencies

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Contractual Commitments

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of $4,968 as of June 30, 2006.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. As of June 30, 2006, the Group's commitments under these programmes were $4,200 which are planned to be incurred in the second half of 2006.

11. Commitments and Contingencies (continued)

Environmental Protection

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

Credit Risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash, short-term deposits in banks and trade accounts receivable.

The Group maintains its available cash in Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash. The Group constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable and promissory notes approximate their fair value.

Insurance Policies

The Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

12. Subsequent Events

Borrowings

Subsequent to June 30, 2006, the Group signed a short-term bank loan agreement for $300,000.

Ernst & Young

■ Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (095) 705-9700
7 (095) 755-9700
Fax: 7 (095) 755-9701
www.ey.com/russia

■ ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (095) 705-9700
7 (095) 755-9700
Факс: 7 (095) 755-9701
ОКПО: 59002827

Independent Accountants' Examination Report

The Board of Directors
OAO Raspadskaya

We have examined the pro forma adjustments reflecting the transaction described in Note 1 and the application of those adjustments to the historical amounts in the accompanying pro forma financial consolidated balance sheets of OAO Raspadskaya (the "Company") as of December 31, 2005 and 2004, and the pro forma consolidated statements of income for the years then ended. The historical financial statements are derived from the historical consolidated financial statements of the Company, historical financial information of OAO Mezhdurechensk Coal Company-96 ("MUK-96"), and historical financial information of ZAO Razrez Raspadsky ("Razrez Raspadsky"), prepared in accordance with International Financial Reporting Standards, appearing elsewhere herein.

The consolidated financial statements of the Company for the years ended December 31, 2005 and 2004 were audited by us and in our report dated June 30, 2006 we expressed an unqualified opinion on them.

The pro forma adjustments referred to above are based upon management's assumptions described in Note 2. The Company's management is responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction described in Note 1, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma column reflects the proper application of those adjustments to the historical financial statement amounts in the pro forma consolidated balance sheets as of December 31, 2005 and 2004, and the pro forma consolidated statements of income for the years then ended.

Ernst & Young LLC

September 14, 2006

OAO Raspadskaya

Pro Forma Consolidated Balance Sheet
As of December 31, 2005
(In thousands of US dollars)

	Raspadskaya	MUK-96	Razrez Raspadsky	Elimination adjustments: Intragroup sales and purchases	Elimination adjustments: Intragroup dividends	Pro forma adjustments: Acquisition of MUK-96 and Razrez Raspadsky	Pro forma adjustments: Sales through entity under common control	Total
				(Note 3)	*(Note 4)*	*(Note 5)*	*(Note 6)*	
ASSETS								
Non-current assets								
Property, plant and equipment	$289,258	$18,608	$53,645	$ —	$ —	$ —	$ —	$ 361,511
Mineral reserves	—	1,887	2,936	—	—	844,243	—	849,066
Investments in subsidiaries	—	5,271	—	—	—	(5,271)	—	—
Deferred income tax assets	501	—	—	—	—	—	—	501
Other non-current assets	2,081	—	—	—	—	—	—	2,081
	291,840	25,766	56,581	—	—	838,972	—	1,213,159
Current assets								
Inventories	18,552	2,636	2,760	—	—	—	—	23,948
Trade and other receivables	20,279	64	279	—	—	—	—	20,622
Prepayments	3,653	512	567	—	—	—	—	4,732
Receivables from related parties	11,856	4,185	21,016	(28,213)	—	—	—	8,844
Taxes recoverable	47,278	1,725	4,120	—	—	—	—	53,123
Short-term investments	105	5,212	—	—	—	—	—	5,317
Cash and cash equivalents	26,946	2,196	3,231	—	—	—	—	32,373
Dividends receivable	—	15,150	—	—	(15,150)	—	—	—
	128,669	31,680	31,973	(28,213)	(15,150)	—	—	148,959
TOTAL ASSETS	$420,509	$57,446	$88,554	$(28,213)	$(15,150)	$838,972	$ —	$1,362,118
EQUITY AND LIABILITIES								
Equity								
Parent shareholders' equity								
Issued capital	$ 259	$ 12	$ 3	$ —	$ —	$ (15)	$ —	$ 259
Treasury shares	(6,627)	—	—	—	—	—	—	(6,627)
Additional paid-in capital	1,402	—	—	—	—	769,350	—	770,752
Reserve capital	7	4	—	—	—	(4)	—	7
Accumulated profits/(losses)	(13,518)	46,678	25,957	—	—	(144,488)	—	(85,371)
Unrealised gain on investments available-for-sale	650	—	—	—	—	—	—	650
Translation difference	8,535	(341)	16	—	—	16,570	—	24,780
	(9,292)	46,353	25,976	—	—	641,413	—	704,450
Minority interests	3,684	—	—	—	—	—	—	3,684
	(5,608)	46,353	25,976	—	—	641,413	—	708,134
Non-current liabilities								
Long-term loans	17,326	696	12,209	—	—	—	—	30,231
Long-term loans from related parties	—	—	5,439	—	—	—	—	5,439
Deferred income tax liabilities	12,685	1,488	968	—	—	195,834	—	210,975
Post-employment benefits	8,219	364	—	—	—	—	—	8,583
Other long term liabilities	70	220	926	—	—	—	—	1,216
	38,300	2,768	19,542	—	—	195,834	—	256,444
Current liabilities								
Trade and other payables	11,794	842	4,617	—	—	—	—	17,253
Short-term loans and current portion of long-term loans	46,387	5,733	6,139	—	—	—	—	58,259
Payables to related parties	317,091	9	9,070	(28,213)	—	1,725	—	299,682
Taxes payable	12,545	1,741	8,060	—	—	—	—	22,346
Dividends payable	—	—	15,150	—	(15,150)	—	—	—
	387,817	8,325	43,036	(28,213)	(15,150)	1,725	—	397,540
TOTAL EQUITY AND LIABILITIES	$420,509	$57,446	$88,554	$(28,213)	$(15,150)	$838,972	$ —	$1,362,118

The accompanying notes form an integral part of these pro-forma consolidated financial information.

OAO Raspadskaya

Pro Forma Consolidated Balance Sheet
As of December 31, 2004
(In thousands of US dollars)

	Raspadskaya	MUK-96	Razrez Raspadsky	Elimination adjustments: Intragroup sales and purchases	Elimination adjustments: Intragroup dividends	Pro forma adjustments: Acquisition of MUK-96 and Razrez Raspadsky	Pro forma adjustments: Sales through entity under common control	Total
				(Note 3)	*(Note 4)*	*(Note 5)*	*(Note 6)*	
ASSETS								
Non-current assets								
Property, plant and equipment	$226,423	$ 9,116	$55,284	$ —	$ —	$ —	$ —	$ 290,823
Mineral reserves	—	—	—	—	—	917,199		917,199
Investments in subsidiaries	—	3	—	—	—	(3)	—	—
Other non-current assets	672	—	—	—	—	—	—	672
	227,095	9,119	55,284	—	—	917,196	—	1,208,694
Current assets								
Inventories	12,681	1,386	2,031	—	—	—	—	16,098
Trade and other receivables	15,626	17	399	—	—	—	—	16,042
Prepayments	4,693	605	1,054	—	—	—	—	6,352
Receivables from related parties	3,180	4,154	7,204	(7,277)	—	—	—	7,261
Taxes recoverable	32,645	301	4,779	—	—	—	—	37,725
Short-term investments	7,440	1,442	—	—	—	—	—	8,882
Cash and cash equivalents	48,100	3,632	196	—	—	—	—	51,928
	124,365	11,537	15,663	(7,277)	—	—	—	144,288
Non-current assets classified as held for sale	2,387	—	—	—	—	—	—	2,387
	126,752	11,537	15,663	(7,277)	—	—	—	146,675
TOTAL ASSETS	$353,847	$20,656	$70,947	$(7,277)	$ —	$ 917,196	$ —	$1,355,369
EQUITY AND LIABILITIES								
Equity								
Parent shareholders' equity								
Issued capital	$ 256	$ 12	$ 3	$ —	$ —	$ (15)	$ —	$ 256
Treasury shares	(5,579)	—	—	—	—	—	—	(5,579)
Additional paid-in capital	1,338	—	—	—	—	769,350	—	770,688
Reserve capital	7	4	—	—	—	(4)	—	7
Accumulated profits/(losses)	(48,267)	17,188	22,530	—	—	(112,260)	—	(120,809)
Translation difference	6,978	860	917	—	—	41,328	—	50,083
	(45,267)	18,064	23,450	—	—	698,399	—	694,646
Minority interests	3,681	—	—	—	—	—	—	3,681
	(41,586)	18,064	23,450	—	—	698,399	—	698,327
Non-current liabilities								
Long-term loans	43,018	—	19,001	—	—	—	—	62,019
Payables to related parties	299,469	—	—	—	—	—	—	299,469
Deferred income tax liabilities	14,184	536	1,188	—	—	211,804	—	227,712
Post-employment benefits	2,931	159	—	—	—	—	—	3,090
Other long term liabilities	224	170	1,119	—	—	—		1,513
	359,826	865	21,308	—	—	211,804	—	593,803
Current liabilities								
Trade and other payables	10,237	362	10,181	—	—	5,268	—	26,048
Short-term loans and current portion of long-term loans	855	—	9,291	—	—	—	—	10,146
Payables to related parties	11,607	—	2,829	(7,277)	—	1,725	—	8,884
Taxes payable	12,539	1,365	3,888	—	—	—	—	17,792
	35,238	1,727	26,189	(7,277)	—	6,993	—	62,870
Liabilities directly associated with non-current assets classified as held for sale	369	—	—	—	—	—	—	369
	35,607	1,727	26,189	(7,277)	—	6,993	—	63,239
TOTAL EQUITY AND LIABILITIES	$353,847	$20,656	$70,947	$(7,277)	$ —	$ 917,196	$ —	$1,355,369

The accompanying notes form an integral part of these pro-forma consolidated financial information.

OAO Raspadskaya

Pro Forma Consolidated Income Statement
Year ended December 31, 2005
(In thousands of US dollars, except for per share information)

	Raspadskaya	MUK-96	Razrez Raspadsky	Elimination adjustments: Intragroup sales and purchases	Elimination adjustments: Intragroup dividends	Pro forma adjustments: Acquisition of MUK-96 and Razrez Raspadsky	Pro forma adjustments: Sales through entity under common control	Total
				(Note 3)	*(Note 4)*	*(Note 5)*	*(Note 6)*	
Revenue								
Sale of goods	$534,291	$ 40,537	$ 41,332	$(148,887)	$ —	$ —	$ 64,492	$ 531,765
Rendering of services	14,600	108	71,737	(77,036)	—	—	—	9,409
	548,891	40,645	113,069	(225,923)	—	—	64,492	541,174
Cost of revenues	(315,422)	(17,636)	(55,799)	224,871	—	(40,858)	(47,120)	(251,964)
Gross profit	233,469	23,009	57,270	(1,052)	—	(40,858)	17,372	289,210
Selling and distribution costs	(5,255)	—	—	—	—	—	—	(5,255)
General and administrative expenses	(25,587)	(640)	(5,015)	1,052	—	—	—	(30,190)
Social and social infrastructure maintenance expenses	(7,118)	—	—	—	—	—	—	(7,118)
Loss on disposal of property, plant and equipment	(1,188)	—	—	—	—	—	—	(1,188)
Foreign exchange gains/(losses), net	113	—	(581)	—	—	—	—	(468)
Other operating income/(expenses), net	(9,639)	(399)	(269)	—	—	—	—	(10,307)
Profit (loss) from operating activities	184,795	21,970	51,405	—	—	(40,858)	17,372	234,684
Dividend income	93	15,416	—	—	(15,416)	—	—	93
Interest income	3,294	246	—	—	—	—	—	3,540
Interest expense	(5,665)	(100)	(3,327)	—	—	—	—	(9,092)
Profit (loss) before income taxes	182,517	37,532	48,078	—	(15,416)	(40,858)	17,372	229,225
Income tax (expense) credit	(49,909)	(6,887)	(11,979)	—	—	9,131	(4,169)	(63,813)
Net profit (loss)	$132,608	$ 30,645	$ 36,099	$ —	$(15,416)	$(31,727)	$ 13,203	$ 165,412
Attributable to:								
Equity holders of the parent entity	$132,148	$ 30,645	$ 36,099	$ —	$(15,416)	$(31,727)	$ 13,203	$ 164,952
Minority interests	460	—	—	—	—	—	—	460
	$132,608	$ 30,645	$ 36,099	$ —	$(15,416)	$(31,727)	$ 13,203	$ 165,412
Earnings per share:								
Basic and diluted, for profit attributable to equity holders of the parent entity, US dollars (Note 7)	$ 0.29							$ 0.22

The accompanying notes form an integral part of these pro-forma consolidated financial information.

OAO Raspadskaya

Pro Forma Consolidated Income Statement
Year ended December 31, 2004
(In thousands of US dollars, except for per share information)

	Raspadskaya	MUK-96	Razrez Raspadsky	Elimination adjustments: Intragroup sales and purchases (Note 3)	Elimination adjustments: Intragroup dividends (Note 4)	Pro forma adjustments: Acquisition of MUK-96 and Razrez Raspadsky (Note 5)	Pro forma adjustments: Sales through entity under common control (Note 6)	Total
Revenue								
Sale of goods	$378,920	$20,391	$29,785	$ (91,210)	—	$ —	$ 75,390	$ 413,276
Rendering of services	12,729	325	30,158	(35,754)	—	—	—	7,458
	391,649	20,716	59,943	(126,964)	—	—	75,390	420,734
Cost of revenues	(214,658)	(9,528)	(35,436)	126,422	—	(28,538)	(49,054)	(210,792)
Gross profit	176,991	11,188	24,507	(542)	—	(28,538)	26,336	209,942
Selling and distribution costs	(5,476)	—	—	—	—	—	—	(5,476)
General and administrative expenses	(16,986)	(1,125)	(2,981)	542	—	—	—	(20,550)
Social and social infrastructure maintenance expenses	(3,956)	—	—	—	—	—	—	(3,956)
Gainloss on disposal of property, plant and equipment	133	—	—	—	—	—	—	133
Foreign exchange gains/ (losses), net	(92)	—	986	—	—	—	—	894
Other operating income/ (expenses), net	(811)	(306)	(548)	—	—	—	—	(1,665)
Profit (loss) from operating activities	149,803	9,757	21,964	—	—	(28,538)	26,336	179,322
Interest income	2,297	—	43	—	—	—	—	2,340
Interest expense	(4,715)	(184)	(3,195)	—	—	—	—	(8,094)
Profit (loss) before income taxes	147,385	9,573	18,812	—	—	(28,538)	26,336	173,568
Income tax (expense) credit	(39,241)	(2,472)	(4,174)	—	—	6,590	(6,321)	(45,618)
Net profit (loss)	$108,144	$ 7,101	$14,638	$ —	$ —	$ (21,948)	$ 20,015	$ 127,950
Attributable to:								
Equity holders of the parent entity	$107,530	$ 7,101	$14,638	$ —	$ —	$ (21,948)	$ 20,015	$ 127,336
Minority interests	614	—	—	—	—	—	—	614
	$108,144	$ 7,101	$14,638	$ —	$ —	$ (21,948)	$ 20,015	$ 127,950
Earnings per share:								
Basic and diluted, for profit attributable to equity holders of the parent entity, US dollars *(Note 7)*	$ 0.24							$ 0.17

The accompanying notes form an integral part of these pro-forma consolidated financial information.

1. Corporate Information

OAO Raspadskaya ("Raspadskaya" or the "Company") is an open joint stock company registered under the laws of the Russian Federation on March 21, 2006. The registered address of the Company is 109, Mira street, Mezhdurechensk, the Kemerovo region, the Russian Federation.

The parent of OAO Raspadskaya is Corber Enterprises Limited ("Corber"), a Cypriot limited liability company, which is under the joint control of Evraz Group S.A., a Luxembourg limited liability company, and Adroliv Investments Limited ("Adroliv"), a Cypriot limited liability company.

The Company (together with its subsidiaries the "Group") is a one of the major coal mining groups in Russia. It commenced operations in 1973. The Company was registered as a closed joint stock company following its privatization in 1991.

On September 14, 2006, the Company acquired controlling ownership interest in OAO Mezhdurechensk Coal Company-96 ("MUK-96") in a transaction with Corber which acquired controlling interest in MUK-96 on May 31, 2006 (Note 5). Prior to Corber's acquisition of a controlling interest in MUK-96 and Razrez Raspadsky, both were controlled by Adroliv.

MUK-96, an open joint stock company registered in the Russian Federation, is mainly involved in coal mining.

MUK-96 and one of the Company's subsidiaries hold 99 shares (99% ownership interest) and 1 share (1% ownership interest) in ZAO Razrez Raspadsky ("Razrez Raspadsky"), respectively. Razrez Raspadsky, a closed joint stock company registered in the Russian Federation, is mainly involved in rendering mining services to the Company, including open mine works at Raspadskaya mine.

2. Basis of Preparation

This pro forma consolidated financial information is based on the Company's historical consolidated financial statements included elsewhere in this document and MUK-96's and Razrez Raspadsky's historical financial information prepared in accordance with International Financial Reporting Standards ("IFRS") except for the matters as discussed below.

This historical financial information was adjusted to give effect to the May 31, 2006 MUK-96 acquisition and subsequent reorganization of the Group in a transaction under common control. The pro forma consolidated income statements for the twelve months ended December 31, 2005 and 2004 give effect to the MUK-96 acquisition as if it had occurred on January 1, 2004. The pro forma consolidated balance sheets as of December 31, 2005 and 2004 give effect to the MUK-96 acquisition on May 31, 2006.

MUK-96 and Razrez Raspadsky do not prepare historical IFRS financial statements. For the purposes of preparation of this pro forma consolidated financial information, 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 at May 31, 2006. The carrying value of property, plant and equipment at December 31, 2005 and 2004, and depreciation and depletion charges for the years ended December 31, 2005 and 2004 were determined through a roll-back of property, plant and equipment from May 31, 2006 to January 1, 2004.

The pro forma consolidated financial information is based on the assumption that all mining licenses owned by MUK-96 and Razrez Raspadsky on May 31, 2006 were acquired before January 1, 2004.

3. Intragroup Sales and Purchases

In the years ended December 31, 2005 and 2004, Razrez Raspadsky, MUK-96 and ZAO Raspadskaya Financial Industrial Company ("RFPK") purchased coal from the Company and sold coal concentrate to the Company. In addition, Razrez Raspadsky provided mining and other services to the Company.

3. Intragroup Sales and Purchases (continued)

Accounts receivable and payable, revenues and expenses, unrealised profit and transactions between MUK-96, Razrez Raspadsky and the Company were eliminated in the pro forma consolidated financial information.

4. Intragroup Dividends

On August 18, 2005, directors of Razrez Raspadsky approved the distribution of dividends for MUK-96 and ZAO Lease Company Respect in the amount of $29,706, of which $15,416 became payable to MUK-96. For the purposes of preparation of this pro forma consolidated financial information, intragroup dividends were eliminated.

5. Acquisition of MUK-96 and Razrez Raspadsky

On May 31, 2006, as part of the Group's reorganization, Corber, the Company's parent, acquired 350,000 ordinary shares with a par value of 1 Russian rouble each (100% ownership interest) in MUK-96 from Adroliv in exchange for its own 7,200 ordinary shares with par value 1 US dollar each and 4,800 preferred shares with par value of 1 US dollar each. Based on contractual agreements between the shareholders of Corber, the cost of the shares in MUK-96 was $769,350.

In addition, in April 2006, one of the Company's subsidiaries purchased 1% ownership interest in Razrez Raspadsky from MUK-96 for $1,725.

On September 14, 2006, Corber contributed all of MUK-96's shares to the Company in exchange for the Company's 300,650,000 newly issued ordinary shares with a par value of 0.004 roubles each. This exchange was accounted for using the pooling of interests method, under which assets, liabilities and contingent liabilities of MUK-96 and Razrez Raspadsky were recognised in the Company's pro forma consolidated financial information at the values recorded in Corber's consolidated financial statements.

6. Sales through Entity under Common Control

In the years ended December 31, 2005 and 2004, the Company, MUK-96 and Razrez Raspadsky had sales transactions with RFPK, an entity under control of Adroliv. This entity was a trader of the Group in those years and earned trading margins on reselling activities. Commencing June 1, 2006, the Group ceased its trading activities with this entity.

For the purpose of presentation of income statements comparative with the income statement for the six months ended June 30, 2006, the Group recognised trading margins earned by the entity under control of Adroliv in the pro forma consolidated income statements. Related income tax effect was recognised at the Russian statutory profit tax rate of 24%. Net profit recognised on these transactions in the pro forma consolidated income statements was considered as a distribution to Adroliv in the pro forma consolidated balance sheet.

7. Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

The Group has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal to basic earnings per share.

As the number of shares has increased as a result of the 2006 reorganisation of the Group involving business combinations and transactions between entities under common control and issuance of the Company's shares to minority shareholders, the earnings per share for the years ended December 31, 2005

(All amounts are in thousands of US dollars, unless specified otherwise)

7. Earnings per Share (continued)

and 2004 have been calculated based on the assumption that the number of shares issued on September 14, 2006 was outstanding from the beginning of the earliest period presented.

	Historical basis		Pro forma basis	
	2005	2004	2005	2004
Weighted average number of ordinary shares for basic earnings per share	450,477,000	456,130,000	450,477,000	456,130,000
Assumed issue of new shares in exchange for controlling interest in MUK-96 (Note 5), including the shares issued to minority shareholders	—	—	301,988,713	301,988,713
	450,477,000	456,130,000	752,465,713	758,118,713
Profit for the year attributable to equity holders of the parent	$ 132,148	$ 107,530	$ 164,952	$ 127,336
Basic and diluted earnings per share, US dollars	$ 0.29	$ 0.24	$ 0.22	$ 0.17

■ Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (495) 705-9700
7 (495) 755-9700
Fax: 7 (495) 755-9701
www.ey.com/russia

■ ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (495) 705-9700
7 (495) 755-9700
Факс: 7 (495) 755-9701
ОКПО: 59002827

Independent Accountant's Review Report

The Board of Directors
OAO Raspadskaya

We have reviewed the pro forma adjustments reflecting the transaction described in Note 1 and the application of those adjustments to the historical amounts in the accompanying unaudited pro forma consolidated statements of income of OAO Raspadskaya (the "Company") for the six-month periods ended June 30, 2006 and 2005. These historical consolidated financial statements are derived from the historical unaudited condensed consolidated financial statements of the Company, which were reviewed by us, appearing elsewhere herein, unaudited historical financial information of OAO Mezhdurechensk Coal Company-96 and unaudited historical financial information ZAO Razrez Raspadsky. Such pro forma adjustments are based on management's assumptions as described in Note 2. The Company's management is responsible for the pro forma consolidated financial information.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro forma adjustments and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion.

The objective of this pro forma consolidated financial information is to show what the significant effects on the historical financial information might have been had the transaction occurred at an earlier date. However, the unaudited pro forma consolidated financial information is not necessarily indicative of the results of operations or related effects on the financial position that would have been attained had the above-mentioned transaction actually occurred earlier.

Based on our review, nothing came to our attention that caused us to believe that management's assumptions do not provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transaction described in Note 1, that the related pro forma adjustments do not give appropriate effect to those assumptions, or that the pro forma column does not reflect the proper application of those adjustments to the historical financial statement amounts in the unaudited pro forma consolidated statements of income for the six-month periods ended June 30, 2006 and 2005.

Ernst & Young LLC

September 14, 2006

OAO Raspadskaya

Unaudited Pro Forma Consolidated Income Statement
Six-month period ended June 30, 2006
(In thousands of US dollars, except for per share information)

	Raspadskaya	MUK-96	Razrez Raspadsky	*Elimination adjustments* Intragroup sales and purchases (*Note 3*)	*Pro forma adjustments* Acquisition of MUK-96 and Razrez Raspadsky (*Note 4*)	*Pro forma adjustments* Sales through entity under common control (*Note 5*)	Total
Revenue							
Sale of goods	**$ 216,394**	**$18,323**	**$ 14,379**	**$(60,752)**	**$ —**	**$ 28,050**	**$ 216,394**
Rendering of services	**5,224**	**—**	**23,370**	**(26,671)**	**—**	**—**	**1,923**
	221,618	**18,323**	**37,749**	**(87,423)**	**—**	**28,050**	**218,317**
Cost of revenues	**(134,724)**	**(8,665)**	**(17,974)**	**87,423**	**(17,591)**	**(22,760)**	**(114,291)**
Gross profit/(loss)	**86,894**	**9,658**	**19,775**	**—**	**(17,591)**	**5,290**	**104,026**
Selling and distribution costs	**(5,915)**	**—**	**—**	**—**	**—**	**—**	**(5,915)**
General and administrative expenses	**(16,558)**	**(468)**	**(1,753)**	**—**	**—**	**—**	**(18,779)**
Social and social infrastructure maintenance expenses	**(2,853)**	**—**	**—**	**—**	**—**	**—**	**(2,853)**
Loss on disposal of property, plant and equipment	**(471)**	**—**	**—**	**—**	**—**	**—**	**(471)**
Foreign exchange gains/(losses) net	**(275)**	**—**	**969**	**—**	**—**	**—**	**694**
Other operating income/(expenses), net	**(1,201)**	**1,809**	**182**	**—**	**(1,669)**	**—**	**(879)**
Profit (loss) from operating activities	**59,621**	**10,999**	**19,173**	**—**	**(19,260)**	**5,290**	**75,823**
Interest income	**434**	**110**	**—**	**—**	**—**	**—**	**544**
Interest expense	**(4,221)**	**(430)**	**(640)**	**—**	**—**	**—**	**(5,291)**
Profit (loss) before income taxes	**55,834**	**10,679**	**18,533**	**—**	**(19,260)**	**5,290**	**71,076**
Income tax (expense) credit	**(16,246)**	**(2,284)**	**(4,393)**	**—**	**4,062**	**(1,270)**	**(20,131)**
Net profit (loss)	**$ 39,588**	**$ 8,395**	**$ 14,140**	**$ —**	**$(15,198)**	**$ 4,020**	**$ 50,945**
Attributable to:							
Equity holders of the parent entity	**$ 39,465**	**$ 8,395**	**$ 14,140**	**$ —**	**$(15,198)**	**$ 4,020**	**$ 50,822**
Minority interests	**123**	**—**	**—**	**—**	**—**	**—**	**123**
	$ 39,588	**$ 8,395**	**$ 14,140**	**$ —**	**$(15,198)**	**$ 4,020**	**$ 50,945**
Earnings per share:							
Basic and diluted, for profit attributable to equity holders of the parent entity, US dollars (*Note 6*)	**$ 0.08**						**$ 0.07**

The accompanying notes form an integral part of this unaudited pro-forma consolidated financial information

OAO Raspadskaya

Unaudited Pro Forma Consolidated Income Statement
Six-month period ended June 30, 2005
(In thousands of US dollars, except for per share information)

	Raspadskaya	MUK-96	Razrez Raspadsky	Elimination adjustments: Intragroup sales and purchases	Pro forma adjustments: Acquisition of MUK-96 and Razrez Raspadsky	Pro forma adjustments: Sales through entity under common control	Total
				(Note 3)	*(Note 4)*	*(Note 5)*	
Revenue							
Sale of goods	$ 310,544	$26,223	$ 18,504	$ (88,513)	$ —	$ 43,786	$ 310,544
Rendering of services	2,917	110	35,143	(35,033)	—	—	3,137
	313,461	26,333	53,647	(123,546)	—	43,786	313,681
Cost of revenues	(165,454)	(8,807)	(24,492)	123,311	(20,628)	(31,877)	(127,947)
Gross profit/(loss)	148,007	17,526	29,155	(235)	(20,628)	11,909	185,734
Selling and distribution costs	(3,534)	—	—	—	—	—	(3,534)
General and administrative expenses	(11,382)	(395)	(2,641)	235	—	—	(14,183)
Social and social infrastructure maintenance expenses	(4,150)	—	—	—	—	—	(4,150)
Loss on disposal of property, plant and equipment	(432)	—	—	—	—	—	(432)
Foreign exchange gains/ (losses), net	135	—	(560)	—	—	—	(425)
Other operating income/ (expenses), net	(3,764)	(71)	(417)	—	—	—	(4,252)
Profit (loss) from operating activities	124,880	17,060	25,537	—	(20,628)	11,909	158,758
Interest income	2,158	—	—	—	—	—	2,158
Interest expense	(3,038)	(1)	(1,804)	—	—	—	(4,843)
Profit (loss) before income taxes	124,000	17,059	23,733	—	(20,628)	11,909	156,073
Income tax expense	(31,369)	(4,667)	(5,631)	—	4,765	(2,858)	(39,760)
Net profit	$ 92,631	$12,392	$ 18,102	$ —	$(15,863)	$ 9,051	$ 116,313
Attributable to:							
Equity holders of the parent entity	$ 92,496	$12,392	$ 18,102	$ —	$(15,863)	$ 9,051	$ 116,178
Minority interests	135	—	—	—	—	—	135
	$ 92,631	$12,392	$ 18,102	$ —	$(15,863)	$ 9,051	$ 116,313
Earnings per share:							
Basic and diluted, for profit attributable to equity holders of the parent entity, US dollars *(Note 6)*	$ 0.21						$ 0.16

The accompanying notes form an integral part of this unaudited pro-forma consolidated financial information

1. Corporate Information

OAO Raspadskaya ("Raspadskaya" or the "Company") is an open joint stock company registered under the laws of the Russian Federation on March 21, 2006. The registered address of the Company is 106, Mira street, Mezhdurechensk, the Kemerovo region, the Russian Federation.

The parent of OAO Raspadskaya is Corber Enterprises Limited ("Corber"), a Cypriot limited liability company, which is under the joint control of Evraz Group S.A., a Luxembourg limited liability company, and Adroliv Investments Limited ("Adroliv"), a Cypriot limited liability company.

The Company (together with its subsidiaries the "Group") is one of the major coal mining groups in Russia. It commenced operations in 1973. The Company was registered as a closed joint stock company following its privatization in 1991.

On September 14, 2006, the Company acquired controlling ownership interest in OAO Mezhdurechensk Coal Company-96 ("MUK-96") in a transaction with Corber which acquired controlling interest in MUK-96 on May 31, 2006 (Note 4). Prior to Corber's acquisition of a controlling interest in MUK-96 and ZAO Razrez Raspadsky, both were controlled by Adroliv.

MUK-96, an open joint stock company registered in the Russian Federation, is mainly involved in coal mining. MUK-96 and one of the Company's subsidiaries hold 99 shares (99% ownership interest) and 1 share (1% ownership interest) in ZAO Razrez Raspadsky ("Razrez Raspadsky"), respectively. Razrez Raspadsky, a closed joint stock company registered in the Russian Federation, is mainly involved in rendering mining services to the Company, including open mine works at Raspadskaya mine.

2. Basis of Preparation

This pro forma consolidated financial information is based on the Company's historical unaudited consolidated financial statements included elsewhere in this document and MUK-96's and Razrez Raspadsky's unaudited historical financial information prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") except for the matters as discussed below.

This historical financial information was adjusted to give effect to the May 31, 2006 MUK-96 acquisition and subsequent reorganization of the Group in a transaction under common control. The pro forma consolidated income statements for the six-month periods ended June 30, 2006 and 2005 give effect to the MUK-96 acquisition as if it had occurred on January 1, 2004.

The pro forma consolidated balance sheet has not been presented in this pro forma consolidated financial information because the transaction described in Note 1 above was completed prior to June 30, 2006.

MUK-96 and Razrez Raspadsky do not prepare historical IFRS financial statements. For the purposes of preparation of this pro forma consolidated financial information, MUK-96 and Razrez Raspadsky compiled their historical financial information in accordance with IAS 34 except for property, plant and equipment which were accounted for at their fair values determined at May 31, 2006. The depreciation and depletion charges for the six-month periods ended June 30, 2006 and 2005 were determined through a roll-back of property, plant and equipment from May 31, 2006 to January 1, 2004.

The pro forma consolidated financial information is based on the assumption that all mining licenses owned by MUK-96 and Razrez Raspadsky on May 31, 2005 were acquired before January 1, 2004.

3. Intragroup Sales and Purchases

In the six-month periods ended June 30, 2006 and 2005, Razrez Raspadsky purchased coal from the Company and sold coal concentrate and provided mining and other services to the Company. In addition, MUK-96 sold coal to ZAO Raspadskaya Financial Industrial Company ("RFPK") and RFPK sold coal concentrate to the Company.

3. Intragroup Sales and Purchases (continued)

Revenues and expenses, unrealised profits, and transactions between Razrez Raspadsky and the Company, and between MUK-96 and RFPK were eliminated in the pro forma consolidated financial information.

4. Acquisition of MUK-96 and Razrez Raspadsky

On May 31, 2006, as part of the Group's reorganization, Corber, the Company's parent, acquired 350,000 ordinary shares with a par value of 1 Russian rouble each (100% ownership interest) in MUK-96 from Adroliv in exchange for its own 7,200 ordinary shares with par value of 1 US dollar each and 4,800 preferred shares with par value of 1 US dollar each. Based on contractual agreements between the shareholders of Corber, the cost of the shares in MUK-96 was $769,350.

In addition, in April 2006, one of the Company's subsidiaries purchased 1% ownership interest in Razrez Raspadsky from MUK-96 for $1,725.

On September 14, 2006, Corber contributed all of MUK-96's shares to the Company in exchange for the Company's 300,650,000 newly issued ordinary shares with a par value of 0.004 roubles each. This exchange was accounted for using the pooling of interests method, under which assets, liabilities and contingent liabilities of MUK-96 and Razrez Raspadsky were recognised in the Company's pro forma consolidated financial information at the values recorded in Corber's consolidated financial statements.

5. Sales through Entity under Common Control

In the six-month periods ended June 30, 2006 and 2005, MUK-96 had sales transactions with RFPK, an entity under control of Adroliv. This entity was a trader of MUK-96 in those periods and earned trading margins on reselling activities. Commencing June 1, 2006, the Group ceased its trading activities with RFPK.

For the purpose of presentation of income statements comparative with the income statement for six-month period ended June 30, 2006, the Group recognised trading margins earned by the entity under control of Adroliv in the pro forma consolidated income statements. Related income tax effect was recognised at the Russian statutory profit tax rate of 24%. Net profit recognised on these transactions in the pro forma consolidated income statements was considered as a distribution to Adroliv.

6. Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

The Group has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal to basic earnings per share.

As the number of shares has increased as a result of the 2006 reorganisation of the Group involving business combinations and transactions between entities under common control and issuance of the Company's shares to minority shareholders, the earnings per share for the six-month periods ended

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Earnings per Share (continued)

June 30, 2006 and 2005 have been calculated based on the assumption that the number of shares issued on September 14, 2006 was outstanding from the beginning of the earliest period presented.

	Historical basis		Pro forma basis	
	Six-month periods ended June 30,			
	2006	2005	2006	2005
Weighted average number of ordinary shares for basic earnings per share	**507,730,796**	445,505,829	**507,730,796**	445,505,829
Assumed issue of new shares in exchange for controlling interest in MUK-96 (Note 4), including the shares issued to minority shareholders	**—**	—	**252,157,221**	301,988,713
	507,730,796	445,505,829	**759,888,017**	747,494,542
Profit for the year attributable to equity holders of the parent	**$ 39,465**	$ 92,496	**$ 50,822**	$ 116,178
Basic and diluted earnings per share, US dollars	**$ 0.08**	$ 0.21	**$ 0.07**	$ 0.16

IMC Group Consulting Ltd
Innovate Office Building
Lake View Drive
Sherwood Park
Nottingham
NG15 0DT
United Kingdom
Tel: +44 (0) 1623 726 166
Fax: +44 (0) 1623 729 359
Email John.Warwick@imcgcl.com
http://www.imcgcl.com

The Directors
OAO Raspadskaya
Lomonosovskiy Avenue 43, Block 2
Moscow 119192

23rd October 2006

Dear Sirs,

MINERAL EXPERT'S REPORT FOR THE COAL ASSETS HELD BY

OAO RASPADSKAYA IN RUSSIA

INTRODUCTION

Purpose of Report

This report has been prepared by IMC Economic and Energy Consultants Limited (IMC) for inclusion in the offering memorandum to be published by OAO Raspadskaya (the Company) in connection with the offering of ordinary shares in the Company (the Offering) and the proposed listing of the ordinary shares of the Company on the Russian Trading System stock exchange and the Moscow Interbank Currency Exchange.

IMC was instructed by the Directors of the Company to prepare a Mineral Expert's Report (MER) for the coal assets of OAO Raspadskaya and its subsidiaries. This report, which summarises the findings of IMC's review, has been prepared in order to satisfy the requirements of a Mineral Expert's Report as set out in the Prospectus Directive and the Prospectus Rules in conjunction with the recommendations of the CESR.

IMC has conducted its review in accordance with the requirements of the EU Prospectus Directive and, with respect to resources and reserves, the "Australasian Code for Reporting Mineral Resources and Reserves" published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code"). The JORC Code establishes the nature of evidence required to ensure compliance with the JORC Code. The review was conducted with regard to the JORC Code because it is internationally recognised. In this report, all resource and reserve estimates are reported in accordance with the JORC Code and have been substantiated by evidence obtained from our site visits and observation. They are supported by details of drilling results, analyses and other evidence and take account of all relevant information supplied to us by OAO Raspadskaya's management and the directors.

In accordance with the EU Prospectus Directive, only Proved and Probable Reserves have been valued. Other assets of OAO Raspadskaya, which include resources, have not been valued.

Capability and Independence

This report was prepared on behalf of IMC by the signatories to this report, details of whose qualifications and experience are set out in Appendix A to this report.

IMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industry.

IMC has received, and will receive, professional fees for its preparation of this report. However, none of IMC or its directors, staff or subcontractors who contributed to this report has any interest in the Company or the mining assets reviewed or the outcome of the Offering.

Drafts of this report were provided to OAO Raspadskaya, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Scope of Work/Materiality/Limitations and Exclusions

IMC has independently valued the reserves of OAO Raspadskaya by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the mine plans relating to productivity, production, operating costs, capital expenditure and revenues. All opinions, findings and conclusions expressed in this report are those of IMC.

Inherent Mining Risks

Mining, and in particular underground coal mining, is carried out in an environment where not all events are predictable. Whilst an effective management team can, firstly, identify the known risks, and secondly, take measures to manage and mitigate these risks, there is still the possibility for unexpected and unpredictable events to occur. It is therefore not totally possible to remove all risks or state with certainty that an event that may have a material impact on the operation of a mine, will not occur.

Glossary of Terms

Defined and technical terms used in this report are set out in Appendix B to this report.

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1 OVERVIEW

IMC Group Consulting Limited (IMC) were engaged in May 2006 to provide independent, technical, consultancy services relative to reviewing four coal mining operations of the OAO Raspadskaya (the Company or OAO Raspadskaya). This independent Mineral Expert's Report (MER) presents the findings and conclusions of our review.

OAO Raspadskaya is located 16km to the north of the town of Mezhdurechensk in Kemerovo Oblast. OAO MUK-96 (MUK-96) lies immediately to the north east of Raspadskaya, ZAO Razrez Raspadsky (Razrez Raspadsky) immediately to the south and south east of OAO Raspadskaya and ZAO Raspadskaya Koksovaya (Raspadskaya Koksovaya) 3km south of Raspadskaya (OAO Raspadskaya, MUK-96, Razrez Raspadsky, Raspadskaya Koksovaya and certain other subsidiaries of OAO Raspadskaya collectively referred to as Raspadskaya group). The mines are connected to Mezhdurechensk by all-weather road and railway.

Figure 1.1: Location of Raspadskaya Group of Mines

The locality has a harsh continental climate with winter temperatures down to -40^{o}C and summer temperatures up to around 35^{o}C.

The topography is characterised by low rolling hills with deciduous trees, primarily aspen, birch-trees, spruce and some evergreens. A number of small creeks and streams drain the area. The road and railway have been built in a valley occupied by a small river, the River Olzherass. The elevation of the mine is 300 m above sea level.

1.1 Description of Assets

IMC were contracted by OAO Raspadskaya to value the coal resources and reserves of its three underground mines and one open pit mine. These mines are:

Raspadskaya mine, being an active underground mine, which currently produces around 8.0 Mt/yr, is the largest mine operated by OAO Raspadskaya. The mine started production in 1973 and now produces in excess of eight million tonnes of run-of-mine (ROM) coal per year. The coal is produced using the retreat longwall mining method. Mining is currently in four seams ranging in thickness from 0.66m up to 5.67m.

MUK-96, being an active underground mine, which is currently producing around 1.3 Mt/year, was commissioned in 1996. Future production is set to increase to 3.0 Mt/yr in 2010.

Raspadskaya Koksovaya, which is currently under development, will extract K and KO grade coal from a lower series of seams accessed by three inclines. Construction started in 2004 and mining work at the beginning of 2006.

Annual production is forecast at 1.5 Mt/year in 2008 increasing to 3.0 Mt/year during 2009. The mine is the newest one within the Raspadskaya group.

Razrez Raspadsky, being an active opencast mine, operates a contour mining operation of the outcrop of exposed seams using a truck and shovel and highwall mining equipment. The operations are currently in two areas of the Raspadskaya mine licence, with a new area immediately adjacent to Raspadskaya Block 5 (for which the company has been recently granted a licence) being developed.

This valuation is restricted to the reserves within the licensed areas owned by OAO Raspadskaya and its subsidiary companies.

Table 1-1: Summary of Assets

Mine	Status	Type	Principal Mining Method	Date Mine Commenced Operation
Raspadskaya mine	Operating	Underground	Mechanised longwall	1973
MUK-96	Operating	Underground	Mechanised longwall	1996
Raspadskaya Koksovaya	Development	Underground	Longwall or room and pillar	Construction started 2004
Razrez Raspadsky	Operating	Opencast/highwall	Truck-shovel opencast Highwall mining	2003

The coal mining assets owned in whole by the Company are judged by IMC to be technically adequate to achieve the production targets set within the business plan for five years from 2006.

1.2 Resources and Reserves Controlled by OAO Raspadskaya

1.2.1 Reserves

Reserves have been re-classified into proved and probable categories. Reserves included within the 20 year mining plan are classified as proved reserves. These reserves have mostly been partially developed and sampled underground. They have been heavily explored and in parts are also adjacent to areas currently being mined therefore coal quality and mining recoveries can be predicted with a high degree of confidence. Cost data are available within the business plan for the mine.

Mining conditions become a little more unpredictable as mining moves deeper therefore reserves deeper than those included in the 20 year mining plan are classified as probable reserves. Projected cost data suggest that this material can be extracted economically but there is a higher degree of risk and uncertainty.

1.2.2 Reliability of Resource and Reserve Estimates

The resource and reserve estimates prepared by the mine staff are considered reasonable and reliable. The reasons for this are that mine production to date has shown that the major coal seams are consistent and of high quality and that the data used in the calculation of resources and reserves is of good quality. Also resources and reserves calculated by the mine must be submitted to a government ministry periodically for review and approval. This independent verification increases the confidence in the resources and reserves calculated by the mine. Thirdly, mining recovery factors used in the calculation of industrial reserves are based on previous experience gained in mining the deposit. These factors can be predicted reasonably accurately.

As the MUK-96 mining area is in the same area of the deposit as at Raspadskaya mine but dealing with the higher seams in the sequence the verification done at the Raspadskaya mine was deemed sufficient to indicate that the tonnages calculated at MUK-96 were also reasonable.

1.2.3 Resources

Total resources within the current license areas of OAO Raspadskaya and its subsidiaries, including reserves, and excluding possible additional resources, are shown below.

Table 1-2: Total Resources Controlled by OAO Raspadskaya

Mine	Measured Resource (Mt)	Indicated Resource (Mt)	Total Resource (Mt)
Raspadskaya mine	865.629	1.754	867.383
MUK-96	311.211		311.211
Raspadskaya Koksovaya	190.354	52.223	242.577
Razrez Raspadsky	39.726		39.726
Total	1406.920	53.977	1460.897

1.2.4 Reserves

Total reserves controlled by OAO Raspadskaya are shown below.

Table 1-3: Total Reserves Controlled by OAO Raspadskaya

Mine	Proved Reserve (Mt)	Probable Reserve (Mt)	Total Reserve (Mt)
Raspadskaya mine	139.389	311.414	450.804
MUK-96	48.842	153.882	202.724
Raspadskaya Koksovaya		100.772	100.772
Razrez Raspadsky	19.480	7.753	27.233
Total	207.711	573.821	781.533

1.3 Production Planning

The production plan from the different sites is shown below.

Table 1-4: Planned Annual Production and Development

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
					(‘000t)					
Mine Raspadskaya	8026	8196	8232	8220	8021	8151	8162	8119	8198	8095
MUK-96	1300	1800	2100	2500	3000	3000	3000	3000	3000	3000
Razrez Raspadsky*	2500	3000	3000	3000	3000	3000	3000	3000	3000	3000
Raspadskaya Koksovaya			1284	3000	3003	3003	3003	3003	3003	3003
Total	11826	12996	14616	16720	17024	17154	17165	17122	17201	17098

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(‘000t)					
Mine Raspadskaya	8085	8094	8085	8001	8060	8108	8080	8051	8111	8212
MUK-96	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Razrez Raspadsky*	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Raspadskaya Koksovaya	3003	3003	3003	3003	3003	3003	3003	3003	3003	3003
Total	17088	17097	17088	17004	17063	17111	17083	17054	17114	17215

* From 2014 production planned from prospective area, currently unlicensed

There is little risk of failure to achieve the plan until 2013 but after then further production will depend on obtaining new licences.

2 UNDERGROUND MINE OPERATIONS

2.1 Raspadskaya Mine

2.1.1 Summary of Geology

Coal within the mine fields of OAO Raspadskaya occurs in gently dipping Permian sediments of the Ilyinskaya and Yerunakovskaya sub-series of the Kolchuginskaya Series of Upper Permian age. This coal is part of a very extensive coal field which lies in the southwest part of the Tom-Usinsk geological-economic area of the Kuzbass. There are many large open cast and underground coal mines operating in this area.

The geology of the four mines, including three operating and one under construction, within OAO Raspadskaya is described below.

The sediments and associated coal seams in the Raspadskaya mine are contained within a tectonic structure called the Tomusinskaya monocline, with dip 6°-15° to the north (the steeper dips are usually nearer to the outcrops of the seams). Regional folding occurs as gentle flexures and faulting, which where observed generally exhibit fairly minor displacements.

Overlying the Permian coal measures are Jurassic sediments consisting of conglomerates, gravelites and sandstones. These sediments rest unconformably in relation to the Permian strata and cut through the lower seam sequences and are seen within the opencast areas to lie directly above Seam 6-6A. This contact between the Permian and Jurassic forms a boundary to mining in the area and pillars are left to prevent groundwater passing into the mine.

The mining area of the Raspadskaya mine, as defined by the limits of the two existing mine licences, covers an area of approximately 14km × 6.5km. Nineteen coal seams occur in the mine over a stratigraphic thickness of approximately 600m. All seams are in the main licence but only seams 1 to 10 are included in the licence extension (the Raspadskaya 2 Licence)

Small amplitude faulting is found throughout all seams in the mining area. There are three types of faults. Low angle thrust faults form 80% of all disturbances; throws vary from 0.15m to 30m. Normal faults form only about 10% of all disturbances, with throws of 0.7m to 12.5m. High angle reverse faults account for final 10% of all disturbances, with throws of 0.5m to 5.0m.

Normal faults and high angle reverse faults are located near or immediately under channel sandstones which have washed out the coal, suggesting that the location of channels may have been structurally controlled. The main trend of faulting is relatively consistently north-south across the area. These faults are of the first type mentioned above and the majority have relatively small amplitudes. A second trend running north-west to south-east is also seen but faults along this trend are rare.

The structure of the deposit is simple and each of the seams is continuous and geological correlation of seams is well established. The seams are uniformly spaced with 50 to 60 metres of competent strata between working seams, and with the interburden consisting of siltstones, silty mudstones and sandstone.

Coal seams, numbered from bottom to top, are remarkably consistent in thickness and quality across the area. Some of the seams split into thinner seams, being denoted by a suffix letter.

Table 2-1 shows seam characteristics based on development drivage, or by exploration in undeveloped seams.

Table 2-1: Coal Seam Parameters for Raspadskaya Mine

Seam	Coal Seam Structure: Degree of Complexity	Number of Stone Bands	Thickness of Stone Bands (m)	Seam Morphology	Typical Thickness of Seam (m): Based on Exploration: Whole Seam Range / Average	Based on Exploration: Clean Coal Range / Average	Based on Development Drivage: Whole Seam Range / Average	Based on Development Drivage: Clean Coal Range / Average
14	Simple to Moderately Complex	1 to 3	0.05 - 0.50	Irregular	0.40 - 1.67 / 1.03	0.40 - 1.15 / 0.88	0.40 - 1.30 / 0.82	0.45 - 1.05 / 0.75
13a	Simple to Moderately Complex	0 to 2	0.05 - 0.30	Irregular	0.40 - 2.03 / 1.04	0.40 - 1.97 / 0.94		
13	Simple to Moderately Complex	0 to 4	0.05 - 0.30	Irregular	0.40 - 1.69 / 1.00	0.40 - 1.49 / 0.84		
12	Simple to Moderately Complex to Complex	1 to 7	0.05 - 0.69	Irregular	0.94 - 2.63	0.89 - 2.33	2.07 - 2.84 / 2.53	1.78 - 2.30 / 1.93
11	Simple to Moderately Complex	0 to 3	0.05 - 0.10	Fairly Regular	1.77 - 3.10 / 2.42	1.68 - 3.00 / 2.32	1.73 - 3.08 / 2.26	1.66 - 2.36 / 2.17
10	Simple to Moderately Complex	0 to 2	0.05 - 0.10	Regular	1.59 - 3.03 / 2.33	1.54 - 2.93 / 2.23	1.87 - 2.90 / 2.30	1.79 - 2.75 / 2.22
9 - 10	Simple to Moderately Complex	1 to 3	0.05 - 0.15	Regular	3.87 - 4.66 / 4.14	3.72 - 4.41 / 4.03	4.19 - 4.80 / 4.35	4.10 - 4.65 / 4.20
9	Simple	0 to 1	0.02 - 0.05	Regular	1.29 - 2.21 / 1.69	1.27 - 2.16 / 1.66	1.55 - 2.35 / 2.02	1.50 - 2.30 / 1.95
7 - 7a	Complex	1 to 7	0.02 - 0.50	Regular	2.77 - 4.95 / 3.87	2.52 - 4.50 / 3.57	2.92 - 4.70 / 3.90	2.80 - 4.51 / 3.63
7a	Moderately Complex	1 to 3	0.05 - 0.10	Fairly Regular	1.14 - 2.09 / 1.51	1.40 - 1.57 / 1.37	—	—
7	Moderately Complex	1 to 3	0.05 - 0.15	Fairly Regular	2.25 - 2.97 / 2.53	2.20 - 2.90 / 2.40	2.90 - 3.18 / 3.06	2.70 - 3.03 / 2.71
7в.п.	Simple to Moderately Complex	1 - 2	0.05 - 0.15	Fairly Regular	1.04 - 1.59 / 1.35	0.90 - 1.53 / 1.29		
7н.п.	Simple	0 - 1	0.05 - 0.10	Irregular	0.20 - 1.67 / 1.15	0.20 - 1.63 / 1.11		
6 - 6a	Complex	1 to 6	0.05 - 0.50	Regular	3.17 - 5.69 / 4.53	2.97 - 5.44 / 4.38	3.64 - 5.40 / 4.49	3.59 - 5.18 / 4.34
4 - 5	Complex	1 - 5	0.05 - 0.35	Fairly Regular	1.68 - 3.08 / 2.30	1.55 - 2.68 / 2.14	3.06 - 2.68 / 2.62	2.86 - 2.08 / 2.48
5	Moderately Complex	1 - 2	0.05 - 0.20	Fairly Regular	0.77 - 2.08 / 1.26	0.74 - 1.98 / 1.23		
4	Simple to Moderately Complex	0 - 2	0.02 - 0.10	Irregular	0.20 - 1.44 / 0.78	0.20 - 1.35 / 0.76		
3 - 3a	Moderately Complex	1 to 3	0.03 - 0.40	Fairly Regular	1.77 - 3.49 / 2.38	1.52 - 3.34 / 2.26	2.21 - 2.85 / 2.70	2.10 - 2.57 / 2.43
3a	Simple to Moderately Complex	0 - 2	0.02 - 0.10	Fairly Regular	0.50 - 1.45 / 1.13	0.50 - 1.40 / 1.08		
3	Simple to Moderately Complex	1 - 2	0.05 - 0.10	Irregular	0.60 - 1.56 / 1.23	0.60 - 1.45 / 1.18		
2	Simple to Moderately Complex	0 - 2	0.01 - 0.10	Irregular	0.40 - 1.35 / 0.78	0.40 - 1.20 / 0.72		
1	Simple to Moderately Complex	0 - 2	0.01 - 0.15	Irregular	0.20 - 1.29 / 0.89	0.20 - 1.15 / 0.87		

Generally the rocks surrounding the coal are medium strength sandstones and siltstones. The interburden rocks are easily caved and thus are highly suited to longwall mining. However, the sandstones are porous and permit water inflow to the mine. This hazard decreases with depth of cover and is not a major problem in current and planned working areas.

The coal is low sulphur, low phosphorus and has low inherent ash. Quality varies slightly between seams, but all seams meet the market requirements for this type of coal.

Table 2-2: Average Coal Quality Parameters of the Working Seams

Seam No.	Coal Type	Moisture (% adb)	Volatile % (daf)	Ash %	Fixed Carbon	Vitrinite Reflectance	Sulphur %	Phosphorus %	CV (kcal/kg)
10	GZh	1.65	36.8	13.4	84.70	73	0.32	0.060	8375
9-10	GZh	1.27	37.6	8.0	—	—	0.60	0.045	8418
9	GZh	1.35	38.3	10.0	84.29	78	0.49	0.055	8419
7-7a	GZh	1.30	37.9	15.6	84.82	75	0.53	0.055	8398
7	GZh	1.23	38.0	8.59	—	—	0.65	0.062	8495
6-6a	GZh	1.23	37.6	12.7	85.52	79	0.47	0.079	8495
3-3a	Zh	—	37.2	—	—	—	0.99	—	8484

2.1.2 Summary of Resources and Reserves

As part of the Reserves Valuation, IMC reviewed OAO Raspadskaya reserve estimates to confirm their reasonableness and to establish that the reserve base is sufficient to enable the OAO Raspadskaya's 20 year production plans to be achieved. Also IMC restated the reserves according to the Joint Ore Reserves Committee Standard (JORC) of Australia.

2.1.2.1 Methodology of JORC Resource and Reserve Determination

Within the current Russian system of reserves, balance reserves are regarded as being the economic reserves based on certain parameters: the coal thickness is greater than 0.7 m and ash content less than 30%. New parameters recently approved by the Ministry of Natural Resources of the Russian Federation include a minimum thickness of 1.30m. So far only the balance reserves at Raspadsky opencast operations have been recalculated to the new standards; these reserves have been included according to the new standard while reserves at the other mines are included in the old standard.

These balance reserves are converted into measured, indicated and inferred resources under the JORC Standard, on the basis of spacing of observation points (primarily drill holes).

Resources with borehole spacing of ≤500m are classified as Measured Resource, those with a spacing of ≥500m but ≤1,000m classified as Indicated Resource, and those with spacing of ≥1,000m but ≤3,000m classified as Inferred Resource. The spacing of boreholes were examined and measured from the electronic seam plans provided to IMC and the resources were classified based on these measurements.

2.1.2.2 Raspadskaya Mine and MUK-96 Resources

All balance reserves within the Raspadskaya Main Licence and the MUK-96 Main Licence can be classified as Measured Resources based on the above borehole spacing. For the Mine Raspadskaya-2 Licence and MUK-96 No.2 Licence the balanced reserves had also been calculated for the whole area but not all the balance reserves have been approved by the State Committee and there is still some drilling to complete in these licence areas. However the areas involved are small in comparison to the drilling already completed and because of the demonstrated continuity and consistency of the major coal seams over many kilometres, boreholes were extrapolated about 500m for measured resources giving the area almost total coverage in the part not yet explored. This part is in the centre of the northern licence area and seams are be seen to be consistent on either side of the area not yet drilled adding further geological assurance as to the continuity over the yet unexplored area. Therefore it has been determined that the balanced reserves within the boundaries and depth constraints in the Mine Raspadskaya-2 Licence area and MUK-96 No.2 Licence area can also be determined as Measured Resources.

2.1.3 Raspadskaya Resources and Reserves

2.1.3.1 Resources

The following tables show the total resources available to Raspadskaya mine that are, at present, calculated by the mine as being under licence. These resources include what will be determined as the reserve for the mine.

As stated above the majority of the calculated tonnage can be classified under JORC as being in the Measured Resource category. Only a very minor part of the resource will fall into the Indicated Resource Category.

The Russian categorisation with regard to borehole spacing in this case is much more conservative than that used for international standards and most boreholes are less than the 500m spacing that can be used in JORC. This combined with the continuity of the seams over large areas lead to the categorisation of coal, determined as C1 under the Russian system (that are usually re-categorised as indicated resources), into the measured resource category under JORC in this case. Therefore it is the opinion of the consultant that the resources available to the mine as at the 1st January 2006 under an international classification system are as shown below.

Table 2-3: Raspadskaya Mine Resources under JORC at 1st January 2006

Licence Area	Measured Resource (Mt)	Indicated Resource (Mt)	Total Resource (Mt)
Raspadskaya Main Licence area	615.019		615.019
Mine Raspadskaya-2 Licence area	250.610	1.754	252.364
Total	865.629	1.754	867.383

Some verification of resource calculations was conducted during this review. Individual areas within random seams covered by a resource classification within the Mine Raspadskaya-2 Licence were measured approximately and the tonnage calculated. This calculated tonnage compared fairly closely with the tonnages reported and therefore full recalculation of the balance reserves on the Raspadskaya Main Licence was considered unnecessary as it was concluded that the balance reserves were reasonable.

2.1.3.2 Reserves

The reserves at Raspadskaya mine are derived from resources above. To qualify as reserves under international systems the coal should be economically extractable. This tends to be shown under the Russian System as the "Industrial Reserve" and is usually based on planned panel layouts within current mining plans and takes into account operational loss.

At OAO Raspadskaya these reserves were calculated down to the −210 m level. The consultants have taken the mining plan and schedule and assessed the reserves based on these but have calculated the totals down to the level limit of the mining licence which is greater than the −210 m level.

However, where no mining plans were available for particular seams, the conservative limit taken by the company of −210 m was retained, and the figures calculated by the company for those seams were used.

Since 1st January 2006 Raspadskaya mine has produced coal from a number of faces and developments. This total has been subtracted from the total proved reserves to arrive at the reserves statement for 30th June 2006.

Table 2-4: Summary of Reserves for Raspadskaya Mine as at 30th June 2006

Licence Area	Proved Reserve (Mt)	Probable Reserve (Mt)	Total Reserve (Mt)
Remaining reserves Raspadskaya Main Licence and Mine Raspadskaya-2 Licence areas (all seams) as at 30th June 2006	139.389	311.414	450.804

2.1.3.3 Further Resources available to Raspadskaya Mine

Further resources are available to Raspadskaya mine in two areas. At Raspadskaya 3, to the north of the present licence area, resources have been calculated for the seams presently being worked in the main area, Seams 10, 9, 7-7a, 6-6a, and 3-3a, as well as Seams 7 and 4-5. Further resources are also available to the company in Block VI-VIII where Seam 3-3a to Seam 9-10 are available. This area is only classed as a resource because of a lack of a mining licence which will be applied for when it is required. These resources are shown below.

Table 2-5: Further Resources available to Raspadskaya Mine

Area	Total Resource Tonnage (Mt)
Raspadskaya 3	222.470
Raspadsky VI-VIII	85.214
Total	307.684

2.1.4 Mining Operations

Raspadskaya underground mine is divided into mining blocks, each served by vertical shafts and with a coal conveying system via drifts to the surface. Each seam is separately accessed from the shafts.

The nature of the deposit means that seams must be extracted in descending order. This practice is well established and the workings in all seams are correctly staggered. There are however exceptions to this when the seams are deemed too thin and are not part of the reserves in balance. At Raspadskaya mine, extraction of the planned seams does not undermine and destroy any economic reserves of coal.

Most development is carried out in seam using roadheaders or continuous miners. Most panel development is carried out as twin entry systems, greatly simplifying ventilation and coal transport. The standards of work seen during the visits were good. Individual headings are achieving good levels of advance but could be improved further.

All developments are supported with roofbolts, with additional cable bolt support where needed. Many kilometres of roadways were seen during the underground visits and all were in good condition, even where geological faults were present.

Face conditions and standards of work seen during the underground visits were all very good, reflecting the high performances being achieved.

Production uses both Russian-sourced and imported high capacity equipment. All faces currently working and most planned during the next 20 years have a good working thickness of 1.6-4.5m, allowing high levels of production and a good choice of high capacity equipment. Long faces and long panel runs result in very large reserves in each panel, with most panels containing 2-5 million tons.

There is a detailed programme for equipment replacement and major overhaul which takes into account the requirements for all the equipment at the mine, surface and underground. Although the anticipated repairs and replacements are indicated within the long-term operation plans at the mine, the mine draws up specific plans on an annual basis.

Overall, the methods of mining, the standards of work, the type and condition of equipment and the capacity of the underground and surface infrastructure are all adequate to achieve the operating plan for the mine.

Recent production at Raspadskaya mine has been as follows.

Table 2-6: Production & Development Performance in 2003 to 2005

	2003	2004	2005
Underground production (‘000t)	8,448	8216	6,395
High Wall mining (‘000)	153	1505	2211
Development (m)	28,000	28,500	27,900

The long-term strategy at Raspadskaya mine is to maintain production at the current level of around 8 Mt/year from five longwalls plus associated developments. Reserves at the mine are sufficient to maintain the planned level of output far beyond the 20 years of the valuation. The workings will be divided into the five target seams with generally one production face in each seam.

Table 2-7: Planned Annual Production and Development

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Face Production ('000t)	7526	7696	7732	7720	7521	7651	7662	7619	7698	7595
Development ('000t)	500	500	500	500	500	500	500	500	500	500
Total Production ('000t)	8026	8196	8232	8220	8021	8151	8162	8119	8198	8095
Development (m)	26791	27398	27525	27483	26774	27238	27277	27122	27404	27038

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Face Production ('000t)	7585	7594	7585	7501	7560	7608	7580	7551	7611	7712
Development ('000t)	500	500	500	500	500	500	500	500	500	500
Total Production ('000t)	8085	8094	8085	8001	8060	8108	8080	8051	8111	8212
Development (m)	27004	27033	27003	26705	26914	27084	26985	26880	27095	27455

The future production and development plans conform to levels already being achieved. Average production per face has remained steady during the past three years at around 145,000t per month. This is the average level required to achieve the future mining plan. As no adverse conditions are expected that would impede future workings, the consultants believe this plan is achievable with very low risk of failure.

2.1.5 Coal Preparation

The new Raspadskaya coal preparation plant (Raspadskaya Preparation Plant) was commissioned in October 2005. The plant is designed to treat the output from Raspadskaya mine, MUK-96 and Razrez Raspadsky. Prior to the commissioning of Raspadskaya Preparation Plant, the output from the mine complex was treated under contract at the adjacent Kuzbaskaya coal preparation plant and other preparation plants. Some OAO Raspadskaya coal is still prepared at Kuzbaskaya coal preparation plant.

2.1.5.1 Washability Data

The washability data upon which the new coal preparation plant was designed was generated from analysis of samples of the feed to the Kuzbaskaya preparation plant and from the Raspadskaya deep mine. The data indicates that the target ash content of around 8.0% in the clean coal concentrate could be achieved on the smaller size fractions on a single density separation but the larger fractions would have to be treated using a three product separator to remove the relatively small percentage of middlings. This has influenced and guided the process design and equipment selection.

2.1.5.2 Process design and capacity

Raspadskaya Preparation Plant process technology was chosen to maximise yield of +35 micron clean coal to concentrate. To fully maximise concentrate yield would require the incorporation of high capital cost flotation, filtration and thermal drying equipment which the company considered was not an economically viable option.

In order to improve the yield of concentrate particularly during the summer months when moisture levels are not critical for transportation, the process design allows the flexibility to feed filter cake from the primary thickener press into the clean coal concentrate, providing ash levels can be contained within the target parameters.

The process design creates the potential for yields and throughput rates to be significantly affected by increases in the fines content of the ROM coal feed to the plant.

The design incorporates a combination of two-stage high pressure hydro-cyclones, spiral classifiers and screen-bowl centrifuges for the dewatering of the fine coal which allows the concentrate moisture to be reduced to a level which, following a degree of 'air drying' within the enclosed stock building would ensure that the target product moisture content of 8% could be met.

The nominal maximum capacity of the plant is 1,250 tonnes per hour of ROM. Operational experience since commissioning has shown however, that the throughput rate is reduced if the plant has to treat significantly higher proportions of the opencast coal which has been shown to have a much higher percentage of minus 0.15mm material. The records of the plant operation to date indicate that it is capable of operating at around its design throughput rate. However, to achieve an annual target of 7.5 Mt/year, the plant will need to operate at around 71% utilisation at its design rate of nominally 1250 t/hour based on the 364 days/year, 24 hrs/day operating regime. It should be noted that utilisation over the period January to May 2006 was averaging around 65%.

Raspadskaya Preparation Plant appears to have been well engineered and incorporates a combination of good quality modern western and indigenous processing equipment which should provide reliable and efficient operation.

Raspadskaya Preparation Plant management have indicated that there are adequate volumes available in its own worked out opencast areas local to the mine to cater for the volumes of rejects produced by the plant for at least 50 years.

A summary analysis of total delays on a month by month basis over the same period is given in Table 2-8. This includes all delays for routine planned maintenance.

Table 2-8: Summary of Delay & Effect on Throughput Rates

Month	Total Delays Hrs	Available Time Hrs	Actual Operating hrs	ROM Washed	T.P.H
Jan	314	720	406	468772	1155
Feb	213	672	459	550936	1200
Mar	205	744	539	638927	1185
Apr	248	720	472	602850	1277
May	273	744	471	543297	1153

It can be seen from the figures in the table that plant utilisation based on the planned operational regime is only around 65%.

The Company record delays under numerous categories which are summarised in Table 2-9.

Table 2-9: Summary of Delays January to May 2006

	Delay Category							
Month	Planned	Process	Mech	Elec	Stone bunker full	Full clean coal stock	o/size lumps	Others
Jan	40	118	22	9	94	0	21	10
Feb	35	88	15	10	19	0.25	33	13
Mar	62	90	25	10	12	2	3	1
Apr	35	135	13	7	13	10.5	5.5	8.5
May	13	93	5	5	5	10	11.5	17.5

The data reviewed by IMC did not detail the causes of the individual delays, nor did it highlight whether any particular process problem was predominant. The figures do however indicate that mechanical and electrical reliability is improving as the equipment and systems settle down following commissioning. The concern must be the disproportionate amount of delay due to 'process' problems.

The records of the plant operation to date indicate that it is capable of operating at around its design throughput rate. However, to achieve an annual target of 7.5 Mt/year, the plant will need to operate at around 71% utilisation at its design rate of nominally 1250 t/hour.

2.1.5.3 Product Quality

The principle objective is to provide a coking coal with the following basic parameters:

Ash (ar) < 10.5%
Moisture (ar) 8.0% (no more than 7.0% during winter months).
Sulphur < 0.6%
Plastimetry 'y' between 17 and 19 mm.

The achievement of these parameters on a consistent ongoing basis is influenced to a degree by the ratio of deep mined to opencast coal.

Table 2-10 summarises the analysis results for the main coking coal concentrate produced over the period January to May 2006.

Table 2-10: Summary of Despatches and Average Analysis

2006	Tonnage	Ash % Plant	Ash % As Loaded	Moisture % Plant	Moisture % As Loaded
Jan	336023	8.6	8.9	9.4	7.9
Feb	419805	8.5	8.8	9.9	8.2
Mar	476351	8.8	9.0	9.7	8.0
Apr	455682	8.5	8.9	10.2	8.3
May	424679	8.4	8.6	10.1	8.1

The average monthly yields of clean coal concentrate over the five month period January to May 2006 have been 72.9-76.9%. ROM coal ash over the same period has been recorded as 28.0-30.6%. IMC believe that these are indicative of ROM coal ash content running at higher than planned levels with a consequential effect on yields. The ten year production plan for the existing mine is based on an average yield of clean coal concentrate of around 78%, with a middlings yield of 2.7% and an average ROM coal ash of 23.4%.

Should ROM ash content continue at similar levels to those recorded between January and May 2006, the projected saleable yields in the production plan will not be achieved.

2.1.5.4 Quality Control Facilities

The Company has given careful consideration to the quality control equipment, systems and procedures in use throughout the plant. Automatic sampling systems are strategically placed to provide representative samples of the feed to the plant, saleable products from the plant, and on final consignment loading. In addition to these systems, a comprehensive sampling programme is in place to monitor individual process flows throughout the plant as an aid to maintaining and improving process efficiency.

The Company have installed a technical laboratory on site which is equipped with high quality, state of the art analytical equipment including elemental analysers and systems for measuring plastic layer thickness. In addition to normal proximate analysis, the laboratory also has the capability to carry out elemental ash analysis.

The laboratory is staffed with qualified personnel and is maintained in an excellent operational condition. The Company is intending for the laboratory to seek external accreditation at the earliest opportunity following the completion of the minimum twelve months operation.

2.1.5.5 Capital Replacements

IMC have reviewed the capital replacement programme and would conclude from the information that the company are planning to maintain Raspadskaya Preparation Plant to the high standard necessary to achieve the utilisation required to meet the Business Plan.

2.1.5.6 Proposed Plant Extension

The Company is planning to extend their operations with the introduction of Raspadskaya Koksovaya deep mine. The characteristics of the coal from this mine classify it as a K or KO grade. The limited washability data relating to the proposed seams indicates that the coal will be a difficult coal to wash with a greater percentage of middlings and near gravity material. The company is aware of this particular issue and is planning to incorporate middlings recovery in both the large and small coal dense medium processes within a proposed new plant.

The Company's ten year capital investment programme includes a total of RR 1,033,498,000 (approx $38.28m at 2005 prices) for the construction of the new coal preparation plant extension which is scheduled for completion during 2008.

Yield of clean coal concentrate will be lower than is currently being achieved from the existing plant. The current Business Plan envisages average yield of concentrate from the new plant of around 70% with around 15% of middlings.

2.1.5.7 Conclusions

Raspadskaya Preparation Plant haa been constructed to a high standard incorporating good engineering standards and high quality processing equipment.

The decision not to incorporate froth flotation prevents the maximising of coal concentrate yields.

Raspadskaya Preparation Plant is well managed by a highly professional and capable team supported by appropriate technical expertise.

Mechanical and electrical reliability is progressively improving during the post commissioning period, however, process delays appear to be the most significant problem area.

Average plant utilisation levels recorded over the January to May 2006 period were running below the level required to achieve the planned 7.5 Mt/year ROM throughput. The principle area of concern with regards to plant throughput is the fines treatment section of the plant. Significant increases in fines content of the ROM coal will lead to a reduction in the throughput rate and a loss in yield.

The current coal preparation facilities should be capable of achieving the target throughput of 1250 t/hour, subject to continuous ongoing improvements in plant utilisation, average run of mine ash contents remaining around the levels projected in the Business Plan, and control of the fines content in the run of mine coal.

The financial plans in place for Raspadskaya Preparation Plant should ensure that the necessary revenue and capital replacement requirements are provided.

2.1.6 Capital Expenditure Programme

The Company's capital expenditure programme is provided in Section 6.1

2.1.7 Infrastructure

Raspadskaya mine has an extensive surface infrastructure located over a large area. This allows sufficient space to accommodate the new expansion plans for the coal preparation plant extension. The majority of the buildings are old, dating back to before the original start of the mine in 1973. However, there is an ongoing repair programme which keeps the facilities in a state of satisfactory repair. Workshop facilities are well equipped and the mine appears capable of doing all but highly technical repairs.

Coal transport from the mine is completely by belt conveyor from the underground workings, via drifts to Raspadskaya Preparation Plant.

Raspadskaya is supplied by a twin overhead 110 kV power line which is provided from the Mezhdurechensk Main 220/110 kV Substation some 17 km from the mine. The incoming supplies are transformed down to 6 kV for the supply of the underground workings and individual locations of the surface plant.

The water consumption requirements for OAO Raspadskaya are provided from a series of wells, boreholes and the Olzherass River. The mine pumping facilities are designed for handling the maximum water inflows of 3,400 m^3/hr. The capacity of the existing pumping systems is sufficient to cope with the water inflows in the peak periods of surface floods and snow melt.

Mine waste from Raspadskaya Preparation Plant and directly from the mine is trucked to a disused opencast site owned by the mine. The trucking distance is approximately 7 km from Raspadskaya Preparation Plant.

2.1.8 Health and safety

Raspadskaya mine is operated in conformity with Russian mining legislation and is subject to government safety oversight through the State Safety Inspection.

The mine is subject to significant levels of methane inflow and spontaneous combustion in all seams. Methane is controlled by pre-drainage through boreholes in the seam and by the traditional Russian system of drainage via sewer gates. The mine has a comprehensive system of atmospheric monitoring to detect methane build-up or signs of spontaneous combustion.

2.1.9 Environment

OAO Raspadskaya has licences to extract water from the Olzherass River and to discharge industrial, domestic and mine water into the Olzherass River. Details of the licences are shown below.

Table 2-11: Licences for Water Extraction and Discharge

Name	Licence No.	Licensee	Date of Issue	Date of Expiry	Comment
Licence for water consumption	KEM 00409 БРДИО	ZAO Raspadskaya (predecessor of OAO Raspadskaya)	3 June 2005	1 January 2010	Licensed for water intake from Olzherass River
Disposal of industrial, domestic and mine water . . .	KEM 00280 ТРДВХ	ZAO Raspadskaya	24 March 2003	1 July 2006	Licensed for discharge into Olzherass River from two outlets

Water is pumped out of the mine into the water treatment plant via settling ponds before discharge into the Olzherass River. Several elements in the water discharges exceed permitted levels, particularly suspended solids, iron and oil. This indicates that additional settling of the mine water is required, together with an effective oil trap.

The mine pays penalties that are levied on the excess discharges. There do not appear to be any legal proceedings arising from these discharges. There is a plan to improve treatment of three types of water: industrial water and sewage, mine water and rainwater.

Air discharges are not a significant problem.

2.1.10 Labour

At the date of valuation the total manpower at Raspadskaya mine was 4,422, including industrial workers and management and technical staff. In addition there are 88 staff employed by the subsidiary company OOO Raspadskaya-Joy which carries out contract development work at Raspadskaya mine.

Raspadskaya has developed a programme for attracting and training new staff, with its own training centre, licensed to train in a range of mining-oriented subjects.

The mine works four six-hour shifts per day underground and three eight-hour shifts on the surface. Individual workers work five shifts per week on a rotation basis. This pattern conforms to Russian standards.

2.2 MUK-96

2.2.1 Summary of Geology

MUK-96 works the same coal series as the Raspadskaya mine. However the MUK-96 licenses cover only the upper seams 11-19. Jurassic sediments similarly overlie the Permian coal bearing strata. These sediments rest unconformably on the Permian strata and are seen to cut through the seam sequences. Where Jurassic strata are present, pillars are left to prevent groundwater passing into the mine.

The tectonic structure of the site is simple. In general the coal bearing sediments are monoclinally bedded with a north-westerly dip at an azimuth of 300-330° and with dip angles of 6-12°. This monoclinal structure is complicated by small folded undulations and by disjunctive faults. This small amplitude faulting is found throughout all seams in the mining area. The fault types, prevalence and size are as described for Raspadskaya.

The structure of the deposit is simple and each of the seams of interest is continuous. The geological correlation of seams is well established. The seams are uniformly spaced with approximately 50 to 60m of competent strata between working seams, and with the interburden consisting of siltstones and sandstone.

Seams 15, 17 and 19 are included within the whole site boundary of the main licence, with the additional seams 11, 12, 13 and 14 available in the extension licence area. The lower seams in the main license belong to Raspadskaya. Excluded from mining are Seams 13a, 16, 16a, 18-lower leaf, 18-middle leaf, and 18-upper leaf, as these seams were off-grade by thickness, very variable and very often thin out entirely. Seam 19 in the north-eastern part of the site is partly worked out by opencast Olzherassky. The table below lists the seam characteristics.

The rocks surrounding the coal are medium strength sandstones and siltstones. The strata are relatively consistent, although in some seams the sandstones have an irregular erosion contact with the siltstones which in some cases also affected the seam, forming washouts.

As at Raspadskaya mine the seams must be extracted in descending order. Again this practice is well established and the workings are usually correctly staggered.

There is a high degree of confidence regarding coal quality data, geological data and production data. The coal at MUK-96 is similar to that of Raspadskaya mine. The coal is low sulphur, low phosphorus and has a low inherent ash. Quality varies slightly between seams, but all seams meet the market requirements for this type of coal.

Coal within seams is referred to Grade GZHO and can be used in the blend for the layered coking process. The main quality parameters from borehole samples and mining (currently no mining works in seams 11 and 12) for each of the seams are shown in Table 2-12.

Table 2-12: Coal Seam Parameters for MUK-96

	Coal Seam Structure				Seam Thickness (m)		
Seam	**Degree of Complexity**	**Number of Stone Bands No. (Samples)**	**Thickness of Stone Bands (m) Range Average (Samples)**	**Seam Morphology**	**Whole Seam Range Average**	**Clean Coal Range Average**	**Interval to Seam Above (m) Range Average**
19	Fairly Complex to Complex	1-10 (90)	0.05-0.35 0.15 (90)	Fairly Regular	2.54-12.98 10.20 (90)	2.54-12.85 9.86 (90)	40-180 130
18vp	Simple to Fairly Complex	0-3 (31)	0.05-0.40 0.23 (31)	Irregular	0.44-4.7 2.58 (31)	0.44-3.40 1.96 (31)	3-17 8
18sp	Simple to Fairly Complex	0-6 (28)	0.05-0.50 0.10 (28)	Irregular	0.20-5.25 2.70 (28)	0.20-4.46 2.33 (28)	2-12 5
18np	Simple to Fairly Complex	0-5 (34)	0.05-0.70 0.38 (34)	Irregular	0.39-4.69 2.54 (34)	0.39-2.84 1.51 (34)	40-70 60
17	Simple to Fairly Complex	0-4 (155)	0.05-0.36 0.22 (155)	Fairly Regular	1.88-4.40 2.71 (155)	1.84-4.04 2.60 (155)	40-102 84
16a	Simple to Fairly Complex	0-3 (85)	0.05-0.10 0.07 (85)	Irregular	0.3-2.46 1.35 (85)	0.27-2.18 1.22 (85)	1-16 8
16	Simple to Fairly Complex	0-2 (91)	0.10-0.40 0.25 (91)	Irregular	0.24-3.62 1.24 (91)	0.22-3.02 1.0 (91)	2-21 11
15	Fairly Complex	1-6 (160)	0.05-0.40 0.13 (160)	Regular	3.24-4.17 3.57 (160)	2.84-3.60 3.25 (160)	50-94 75
14	Simple to Fairly Complex	0-3 (38)	0.05-0.60 0.30 (38)	Irregular	0.14-2.30 1.22 (38)	0.14-1.88 1.01 (38)	18-77 36
13	Simple to Fairly Complex	0-5 (187)	0.05-0.25 0.15 (187)	Irregular	0.40-1.69 1.24 (187)	0.40-1.69 1.04 (187)	12-81 65
13a	Simple	0-1 (4)	0.05-0.10 0.07 (4)	Irregular	0.15-1.37 0.88 (4)	0.15-1.37 0.84 (4)	53-65 59
12	Simple to Fairly Complex	0-3 (194)	0.05-0.14 0.10 (194)	Irregular	0.70-2.73 1.33 (194)	0.54-2.64 1.23 (194)	20-80 50
11	Simple to Fairly Complex	0-4 (190)	0.05-0.10 0.07 (190)	Regular	2.36-3.46 2.95 (190)	2.27-3.35 2.82 (190)	0.55-50 22

Table 2-13: Average Coal Quality Parameters of the Seams Present at the MUK-96 Mine

		Quality Characteristics by Samples from Boreholes								Quality Characteristics by Samples from Mining				
Seam	**Grade**	**Moisture % (Samples)**	**Ash Clean Coal % (Samples)**	**Ash ROM % (Samples)**	**Volatiles % (Samples)**	**Plasticity mm (Samples)**	**Sulphur % (Samples)**	**Phosphorus % (Samples)**	**Reflectance %**	**Moisture %**	**Ash Clean Coal %**	**Ash ROM %**	**Volatiles %**	**Plasticity mm**
19	GZhO	0.37-3.17 2.05 (54)	5.2-14.6 9.1 (55)	6.8-22.2 13.2 (51)	33.2-39.3 35.7 (55)	8-12 10 (55)	0.14-0.37 0.25 (9)	0.0107-0.079 0.036 (10)	0.80	2.20	7.4	10.5	35.8	11
17	GZhO	0.96-3.46 1.92 (90)	4.7-15.7 8.3 (90)	7.0-20.4 12.8 (55)	33.2-38.6 35.4 (90)	9-14 10 (90)	0.00-0.38 0.20 (6)	0.0100-0.040 0.022 (9)	0.82	2.20	6.7	12.6	36.6	12-13
15	GZhO	0.53-2.95 1.81 (106)	4.3-14.3 7.8 (107)	9.6-29.9 16.4 (99)	30.8-38.9 34.3 (107)	9-14 11 (107)	0.18-0.33 0.28 (9)	0.0020-0.170 0.025 (11)	0.85	1.70	5.8	11.5	35.6	12
13	GZhO	0.41-3.67 1.68 (126)	4.9-19.7 9.5 (126)	8.7-32.4 16.5 (106)	27.7-37.8 33.1 (126)	8-14 10 (126)	0.22-0.38 0.30 (10)	0.0007-0.047 0.019 (10)	0.86	1.81-2.30	7.4-5.1	7.9-11.4	35.4-33.8	13-11
12	GZhO	0.78-3.46 1.69 (107)	4.2-18.9 8.4 (107)	9.2-30.9 16.4 (91)	30.0-39.6 34.8 (107)	9-15 11 (107)	0.11-0.68 0.34 (7)	0.0680-0.260 0.063 (10)	0.86					
11	GZhO	0.10-3.42 1.71 (135)	3.7-18.6 8.2 (135)	5.9-26.9 13.3 (112)	30.7-38.8 34.5 (135)	8-17 11 (135)	0.24-0.41 0.32 (9)	0.0170-0.048 0.180 (8)	0.86					

2.2.2 Summary of Resources and Reserves

2.2.2.1 Resources

MUK-96 resources include what will be determined as the reserve for the mine. All seams can be classified under JORC as being in the Measured Resource category as the total resource that will fall into the Indicated Resource Category is small enough to be insignificant.

The Russian categorisation with regard to borehole spacing in this case is much more conservative than that used for international standards and most boreholes are less than the 500 m spacing that can be used in JORC. This combined with the continuity of the seams over large areas lead to the categorisation of coal determined as C1 and in most cases C2 under the Russian system into the measured resource category under JORC.

It is the opinion of the consultant that the resources available to the mine as at the 1st January 2006 under an international classification system are as shown below.

Table 2-14: MUK-96 Resources under JORC as at 1st January 2006

Licence Area	Measured Resource (Mt)	Indicated Resource (Mt)	Total Resource (Mt)
MUK-96 Main Licence area	14.368		14.368
MUK-96 No.2 Licence area	296.843		296.843
Total	311.211		311.211

2.2.2.2 Reserves

The reserves at the mine come from the resources above and are defined as those tonnages calculated by the mine staff as Industrial Reserves. These reserves were calculated down to the −210 m level, again showing the conservative approach to the reserves calculations and the figures take into account operational losses. The consultants have followed a similar approach to that at Raspadskaya mine with the assessment of the reserves at MUK-96. Since 1st January 2006 the mine has produce coal from a number of faces and developments. This total has been subtracted from the total proved reserves to arrive at the reserves statement for 30th June 2006.

Table 2-15: Summary of Reserves for MUK-96 as at 30th June 2006

Licence Area	Proved Reserve (Mt)	Probable Reserve (Mt)	Total Reserve (Mt)
Total remaining Reserves (MUK-96 Main Licence and MUK-96 No.2 Licence areas) at 30th June 2006	48.842	153.882	202.724

2.2.2.3 Further Resources available to MUK-96

Further resources are available to the mine in the area of Raspadskaya 3 Upper to the north of the present licence area. For MUK-96 these resources have been calculated for the seams included in the reserves. The total resource in six identified seams is 66.289 Mt and a large part of these resources are of measured resource category. Only small areas are assigned to the indicated category but these will be upgraded when the exploration is complete in 2008. No attempt has been made to recalculate the resource figures in the potential Raspadskaya 3 area.

2.2.3 Mining Operations

MUK-96 is located at the eastern part of the Raspadskaya deposit and has been developed to work the upper seams, Seams 11-19. It is a new drift mine that is currently working in Seam 15 close to the outcrop. Future plans involve extending the current workings to the dip in Seam 15 and to develop Seam 11 for production from 2010. Other seams will be developed later.

The interburden rocks are easily caved and thus are highly suited to longwall mining. However, the sandstones are porous and permit water inflow to the mine. This hazard decreases with depth of cover and is not expected to be a major problem.

The mine works by conventional mechanised longwall systems, with all development in seam. Panels in the upper levels of Seam 15 are relatively small as it is necessary to leave a support pillar beneath a small river. From 2009 panels will be much larger, containing between 2.5 and 4.0Mt.

The current face is equipped with a poor quality KM130 complex. This will be replaced on the next panel by new MKT powered supports and Joy shearer and conveyor. Faces in Seam 15 are planned to use imported high capacity equipment.

The mine has a simple structure with all roadways driven in coal. Development is currently carried out by Ukrainian P110 roadheaders. While these machines can perform reasonably well, they will not be able to achieve the full amount of development that is necessary in future years. The mine plans to buy two Joy continuous miners in 2007. With low seam gradients the continuous miners should perform well and be capable of high drivage rates.

In order to provide replacement face capacity to achieve the production plan, the annual development drivage will need to increase from the current 7380m/year to 17380m/year from 2009. This increase should be possible with the two new continuous miners.

Future development will follow the present method described for Raspadskaya. All roadways are driven with a rectangular profile and are supported by roofbolts. Conditions seen during the mine visit were excellent, even where there was some faulting.

The conditions in the deeper levels of both seams are unclear as more exploration is required. However, the large reserves available in the two planned seams, plus other seams currently unplanned, will be sufficient to support the planned level of production considerably in excess of this 20 year valuation period.

MUK-96 has a programme for equipment replacement of major equipment which takes into account the requirements for production and development.

The surface infrastructure at MUK-96 is small, being limited to ventilation fans, coal loading from the drift conveyor into trucks and facilities for taking materials into the mine. Most of the support services are provided by Raspadskaya mine. MUK-96 has few repair and maintenance facilities and is reliant on the workshop facilities provided by Raspadskaya mine for the majority of their repairs and maintenance requirements.

In view of the conditions and current performance at MUK-96, and in similar conditions at Raspadskaya mine, the operating plan appears achievable.

Recent production at MUK-96 has been as follows.

Table 2-16: Production Performance 2003 to 2005

	2003	2004	2005
Production '000t	1,007	912	1,111

The mine is still in its development phase. Production is planned to increase steadily to a level of 3.0 Mt/year by 2010. It is planned to work one face at a time in Seam 15 producing between 1.5 and 1.8 Mt/year. From 2010, Seam 11 will be brought into the plan with a second face working in this seam. Total mine production, including development coal is then planned to be 3.0 Mt/year.

Table 2-17: Planned Annual Production & Development

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Face Production ('000t)	1180	1560	1830	2200	2635	2635	2635	2635	2635	2635
Development ('000t)	120	240	270	300	365	365	365	365	365	365
Total Production ('000t)	1300	1800	2100	2500	3000	3000	3000	3000	3000	3000
Development (m)	7380	11000	13000	17380	17380	17380	17380	17380	17380	17380

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Face Production ('000t) . .	2635	2635	2635	2635	2635	2635	2635	2635	2635	2635
Development ('000t)	365	365	365	365	365	365	365	365	365	365
Total Production ('000t) . .	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Development (m)	17380	17380	17380	17380	17380	17380	17380	17380	17380	17380

In view of the conditions and current performance at MUK-96 and Raspadskaya mine, this target appears reasonable.

2.2.4 Coal Preparation

There is no coal preparation facility at MUK-96. Coal is transported from the drift entrance by truck directly to Raspadskaya Preparation Plant.

2.2.5 Capital Expenditure Programme

The capital expenditure programme for the mine, schedules the capital requirements for main developments such as the move into production in Seam 11 in 2008 with the purchase of an additional set of longwall equipment.

The budgeted expenditures appear to take into account the requirements for production and development equipment at intervals based on current experience of utilisation and reliability. They appear to be appropriate and match the production requirements through the 20 years of the valuation period. The Company's capital expenditure programme is provided in Section 6.1

2.2.6 Infrastructure

The surface infrastructure at MUK-96 is small, being limited to ventilation fans, coal loading from the drift conveyor into trucks and facilities for taking materials into the mine. Most of the support services are provided by Raspadskaya mine. MUK-96 has few repair and maintenance facilities and is reliant on the workshop facilities provided by Raspadskaya mine for the majority of their repairs and maintenance requirements.

The electricity supply is from Raspadskaya mine via a twin 6kV lines. Water supply and water treatment facilities are shared with Raspadskaya mine.

2.2.7 Health and safety

MUK-96 is operated in conformity with Russian mining legislation and is subject to government safety oversight through the State Safety Inspection.

The mine workings are close to the surface and so methane emissions are very little and there is potential for outburst. As the workings become deeper, increased methane emissions will be encountered and drainage systems will be needed.

2.2.8 Environment

MUK-96 has a licence to extract water from the South Olzherass River. Details of the licence are shown below.

Table 2-18: Licence for Water Extraction

Name	Licence No.	Licensee	Date of Issue	Date of Expiry	Comment
Licence for water consumption	KEM 00196 ТРДВХ	MUK-96	10 December 2001	10 December 2006	Licensed for water intake from South Olzherass River

Water is pumped from the mine and on to Raspadskaya mine where it is treated with water from the other group mines.

Air discharges are not a significant problem.

2.2.9 Labour

Current total manpower at MUK 96 is 495, including 433 industrial workers and 62 management and technical staff, and is planned to increase in line with the increased mining activity to 726 by the end of 2008. Most of the increase is for face workers and mechanics/electricians.

The workforce is generally young and turnover is moderate at about 15%.

The mine follows the standard Russian work regime in mines.

Overall, the manpower appears suitable for current and planned operations.

3 UNDERGROUND DEVELOPMENT PROJECTS

3.1 Raspadskaya Koksovaya

3.1.1 Summary of Geology

The Raspadskaya Koksovaya deposit is contained within the Kemerovskaya measures of the Olzherassky Coal Deposit, the upper boundary of which is located at the roof of Seam I and the lower boundary is taken at the floor of Seam XVII. These Measures are divided into two groups: the Upper Group characterised by thick coal seams, III, IV, and VI, and the Lower Group characterised by fairly thin seams, with the exclusion of the thick seam, Seam VIII-IX.

The Upper Group of coal seams occurs among thick strata of sandstones that include conglomerates. However the immediate roof and floor of the seams are composed of siltstones and carbonaceous mudstones. The Lower Group of coal seams occurs principally in clay type (mudstones, carbonaceous mudstones, and fine grained carbonaceous siltstones) sequence. The whole sequence contains 17 coal seams with aggregated thickness of 42m. With an average overall sequence thickness of 267m, the workable coal amounts to 15.5% of the total.

The Olzherassky Coal Deposit is shown to have a uniform tectonic structure. General north-east strike and north-west dip of the strata is complicated by four gently dipping flexure folds. The folds are directed diagonally to the strike of monocline with the principal fold axis direction at an azimuth of 5-10°. However, only the steadily dipping limb of the Olzherassky Fold is seen at the Koksovaya site.

The main type of disjunctive tectonics at the Olzherassky deposit are represented by sub-meridian faulting dipping in east direction at 20°-5°. The maximum displacements are observed in the upper part of Kemerovskaya Measures. It is noted that in the lower sections of these measures, displacements are gradually dying out. In all, seven faults have been identified within the area by geological exploration. The general continuity of Kemerovskaya measure is to the north-east. The faults identified stretch linearly sometimes as a curve. (+/−20°) and they intersect coal seams at 30°-75°, average 45°, in the plan. Shear planes dips on the section are gently sloping to south east against coal seam dip, at 8-16°, sometimes at 20°. The throws of these faults as seen at the seams range between 2-12 m.

The structure of the deposit is simple and each of the seams of interest is shown to be continuous over the area that has been explored. Over this area the geological correlation of the seams is well established. The seams are spaced with approximately 26 to 28 metres of strata between them, except for Seams IV and V which join in places. The interburden generally consists of siltstones and sandstone.

The main seam characteristics are shown in Table 3-1.

Table 3-1: Coal Seam Parameters Raspadskaya Koksovaya

Seam	Coal Seam Structure: Degree of Complexity	Number of Stone Bands Range / Average	Thickness of Stone Bands (m) Range / Average	Seam Morphology	Seam Thickness: Whole Seam (m) Range / Average	Clean Coal (m) Range / Average
III	Very Complex	1-12 / 5	0,02-0,45 / 0.15	Regular	8,20-12,35 / 9.24	7,75-11,6 / 8.76
IV-V	Very Complex	1-17 / 8	0,02-0,45 / 0.20	Fairly Regular	9,05-11,35 / 10.86	7,7-10,85 / 9.68
IV	Very Complex	0-8 / 3	0,02-0,35 / 0.18	Fairly Regular	2,37-4,15 / 2.92	1,8-3,24 / 2.47
V	Complex	3	0,02-0,25 / 0.12	Fairly Regular	4,40-8,41 / 6.03	3,85-7,62 / 5.44
VI	Very Complex	1-6 / 3	0,05-1,59 / 0.49	Regular	1,24-5,60 / 1.93	1,24-5,60 / 2.38

The roof and floor rocks are medium strength sandstones and siltstones, although some sandstones have an irregular erosion contact with the siltstones and in some cases may also affect the seam. The sandstones are porous and permit water inflow to the mine. There is significant water inflow into the development workings in the valley of the Olzheras River. This hazard decreases with depth of cover and is not expected to be a problem at Raspadskaya Koksovaya.

3.1.1.1 Coal Quality

As the only data available to assess the qualities of the coals is from the explorations holes then the degree of confidence regarding coal quality data cannot be as high as that for the other mines of OAO Raspadskaya.

The seams are low in sulphur and phosphorus and have a low inherent ash. These coals are of K and KO grades under the Russian system. The main quality parameters for each of the seams are indicated in Table 3-2.

3.1.1.2 Raspadskaya Koksovaya Resources

The balance reserves within the Raspadskaya Koksovaya licence had to be classified into Measured and Indicated Resource due to the fact that the exploration had not been completed. Within the Stage 1 area down to the −250m level all the resource is within the Measured category. However in the Stage 2 (−250 m to the licence boundary) only a part of this was measured by extrapolation from existing boreholes, the rest was in the Indicated Category.

Table 3-2: Average Coal Quality Parameters of the Seams present at Raspadskaya Koksovaya

		Quality Characteristics by Samples from Boreholes								Quality Characteristics by Samples from Mining				
Seam	Grade	Moisture % (Samples)	Ash Clean Coal % (Samples)	Ash ROM % (Samples)	Volatiles % (Samples)	Plasticity mm (Samples)	Sulphur % (Samples)	Phosphorus % (Samples)	Reflectance %	Moisture %	Ash Clean Coal %	Ash ROM %	Volatiles %	Plasticity mm
III	K	0.90	10.2	13.9	25	13	0.40	0.01	1.2	NA	NA	NA	NA	NA
IV-V	KO	0.90	10.5	15.8	22	10	0.30	0.01	1.2	NA	NA	NA	NA	NA
VI	KO	0.80	12.7	18.8	22	12	0.34	0.01	1.3	NA	NA	NA	NA	NA

NA = Not yet available

3.1.2 Summary of Resources and Reserves

Raspadskaya Koksovaya resources as with the other mines include what will be determined as the reserve for the mine. Again the Russian categorisation with regard to borehole spacing is much more conservative than that used for international standards and most boreholes are less than the 500 m spacing that can be used in JORC. This combined with the continuity of the seams over large areas lead to the categorisation of coal determined as C1 under the Russian system into the measured resource category under JORC. Therefore it is the opinion of the consultant that the resources available to the mine as at the 1st January 2006 under an international classification system are as shown below.

Table 3-3: Raspadskaya Koksovaya Resources under JORC

Licence Area	Measured Resource (Mt)	Indicated Resource (Mt)	Total Resource (Mt)
Raspadskaya Koksovaya Licence area	190.354	52.223	242.577
Total	190.354	52.223	242.577

3.1.2.1 Reserves

The above resource figure includes the reserves for Raspadskaya Koksovaya. The industrial reserves figures however were calculated for the whole mine area but realistically they can only be assessed down to the −300 m level due to the level of exploration. This is based on the knowledge that there is seam continuity and the seam thickness is consistent down to that level. The consultants have taken the mining plan and schedule and assessed the reserves based on this premise and have calculated the totals down to the level limit of −300 m.

Table 3-4: Summary of Reserves for Raspadskaya Koksovaya Mine as at 30th June 2006

Licence Area	Proved Reserve (Mt)	Probable Reserve (Mt)	Total Reserve (Mt)
Raspadskaya Koksovaya Licence area (all seams)		100.772	100.772

The main differences between Industrial and IMC calculated reserves is the level to which the reserves area taken. This was discussed at the mine and it was decided that the deeper parts of the mine area could only be a resource until the final exploration is completed. At that time as there are plans for extraction of Seam III the resource could be upgraded to reserve.

3.1.2.2 Further Resources available to Raspadskaya Koksovaya

Further resources are available to the mine in the area of Koksovaya Zapadnaya adjacent to the present licence area. Total resources in this area, as calculated by the company, are 290.468 Mt. Most of these resources will be of Indicated or Inferred category as detailed drilling over the area is still required.

3.1.3 Mining Operations

Raspadskaya Koksovaya is currently in course of development with drivage of the three surface drifts in progress. Development in coal is planned to commence in January 2008 and production in August 2008. Three seams have been targeted for work: III, IV-V and VI. Two of the seams are around 10m thick and the full section cannot easily be mined in one pass and will require extraction in two slices. The method of work is still being considered, with both longwall and room and pillar systems being considered. Current thinking is to work the upper seam, Seam III, first. Seam III will have a production life of about 20 years and so it is not necessary to design workings in the other seams at this stage.

The formal mine design has not yet been carried out and so different options are being considered. The presence of faults will limit the efficiency of longwall working and so a variant of room and pillar mining is being considered to work the upper slice. The method of working the lower slice has not yet been considered in detail.

The use of continuous miner systems will allow flexibility between production and development as similar equipment will be required for both. The number of production panels can be varied according to production demand and the ability of development to provide replacement production capacity.

The company's business plan gives an indication of the planned method of work but there is clearly a need for more planning of panel layout and dimensions and the method of deploying the room and pillar equipment between development and production operations. At this stage, the consultants accept that sufficient reserves exist to achieve the planned output of coal and that the planned number and specification of continuous miners and associated equipment have the capacity to produce the planned output.

The mine has a schedule showing a programme for equipment replacement. The programme anticipates the use of continuous miners and shuttle cars and primarily deals with the replacement of these production systems for the room and pillar mining.

Raspadskaya Koksovaya is currently under development and plans first production in August 2008. An initial production target, including coal from development, has been set at 1.5 Mt/year. As the mine develops away from the drifts, the face capacity will be doubled to allow production to increase to 3.0 Mt/year. The planned production at Raspadskaya Koksovaya is shown below.

Table 3-5: Planned Annual Production and Development

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Face Production ('000t)			647	2320	2351	2351	2351	2351	2351	2351
Development ('000t)			637	680	652	652	652	652	652	652
Total Production ('000t)			1284	3000	3003	3003	3003	3003	3003	3003
Development (m)	2880	1800	11240	12000	11500	11500	11500	11500	11500	11500

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Face Production ('000t)	2351	2351	2351	2351	2351	2351	2351	2351	2351	2351
Development ('000t)	652	652	652	652	652	652	652	652	652	652
Total Production ('000t)	3003	3003	3003	3003	3003	3003	3003	3003	3003	3003
Development (m)	11500	11500	11500	11500	11500	11500	11500	11500	11500	11500

The Company's business plan extends to 2016. Beyond that date production and development activity are assumed to continue at the same level for valuation purposes. This can be justified in view of the quantity of reserves and the losses already built into the mining system. Until the mining system has been decided and the production plan finalised, it is not possible for the consultant to state his level of confidence in achieving this plan.

3.1.4 Capital Expenditure Programme

The capital expenditure programme for Raspadskaya Koksovaya includes the cost of mine development, surface and underground, and equipment for infrastructure, development and production. The programme schedules the capital requirements for the start of production during 2008 and for ongoing purchase of additional and replacement equipment.

The Company's budgeted figures appear to be appropriate and match the production and anticipated scheduled replacement requirements through the 20 years of the valuation period. The total budget for the 20 year period is RR4.277 billion. The Company's capital expenditure programme is provided in Section 6.1

3.1.5 Coal Preparation

There will be no coal preparation facility at Raspadskaya Koksovaya. Coal will be transported from the drift entrance by conveyor directly to Raspadskaya Preparation Plant for processing.

3.1.6 Infrastructure

The mine will have a simple underground infrastructure, using conveyors for mineral transport and monorail system for transport. The current surface structure is limited to servicing the initial development of the mine. The future surface infrastructure will be limited to the facilities necessary at the mine entrance, such as ventilation, electricity supply, coal handling and transport systems. Other services will be shared with Raspadskaya.

The electricity supply will be by 6kV overhead line from Raspadskaya No.1 substation.

A small water reservoir will be sited at the mine for fire fighting and mine water supply. A settling pond will be constructed to treat mine water. Other supplies and treatment will be from the Raspadskaya mine.

3.1.7 Health and safety

Raspadskaya Koksovaya will be operated in conformity with Russian mining legislation and is subject to government safety oversight through the State Safety Inspection.

The seams at Raspadskaya Koksovaya are known to be liable to spontaneous combustion and will need precautions during mine design and operation.

Methane make is expected to be moderate in the early workings but to increase with depth, requiring drainage. In view of the potential problems with spontaneous combustion and methane a comprehensive air monitoring system will be needed at the mine.

There will be an increasing liability to rock burst with depth, which must be taken into consideration during mine design.

3.1.8 Environment

Raspadskaya Koksovaya is located alongside the River Olzherass some three kilometres south of the Raspadskaya mine and coal preparation plant complex Raspadskaya.

It is expected that the operations will have little effect on the environment. The workings will be deep and located under a remote hilly area and the effect on the surface from subsidence will be negligible.

Mine water is to be treated on the surface prior to discharge into the local river. There are currently no licences for water extraction or discharge.

After the initial developments of the inclines the amount of stone drivage will be small. Currently the waste is being used for ballast in making up the new surface site.

3.1.9 Labour

The drift development work is being carried out by Olzherasskoye Shaft Sinking Company, a subsidiary of OAO Raspadskaya. Other staff at the mine has been transferred from Raspadskaya mine. Numbers are planned to build up to 900 by the time of full production.

The mine will work the same shift pattern as the other mines in OAO Raspadskaya.

4 SURFACE MINING OPERATIONS

4.1 Razrez Raspadsky

4.1.1 Summary of Geology

Razrez Raspadsky operations are based in four locations. Raspadsky West and Raspadsky East are sited within the Raspadskaya licence area and geological structure and the coal seam parameters and coal quality are as described for Raspadskaya (seams 7-7a, 6-6a, 4-5 and 3-3a). The Olzherassky opencast operations work at the outcrop of the MUK-96 license area and the structure and seam parameters and quality are as described for MUK-96 (seams 19, 18, 17 and 15).

The fourth operation is at Glukhovsky which contains the same seams as at Raspadskaya mine, Seams 3 to 11, but which have differing seam unions to those seen at Raspadskaya mine, especially in the lower sequence where seams begin to coalesce and join together in an easterly direction.

Small amplitude faulting is found throughout all seams in the mining areas. These however have limited effect on opencast operations.

Table 4-1: Coal Seam Parameters at Glukhovsky Opencast

Seam	Coal Seam Structure: Degree of Complexity	Coal Seam Structure: Number of Stone Bands	Coal Seam Structure: Thickness of Stone Bands (m)	Seam Morphology	Typical Thickness of Seam (m), Based on Exploration: Whole Seam (Range / Average)	Typical Thickness of Seam (m), Based on Exploration: Clean Coal (Range / Average)
12	Simple and fairly complex	0-3	0.05-0.14 / 0.10	Irregular	0.70-2.73 / 1.33	0.54-2.64 / 1.23
11	Simple and fairly complex	0-4	0.05-0.10 / 0.07	Regular	2.36-3.46 / 2.95	2.27-3.35 / 2.82
11,9-10	Complex	2-13	0.05-0.20 / 0.10	Fairly Regular	7.32-10.83 / 9.34	6.80-9.83 / 8.48
9-10	Simple and fairly complex	0-8	0.05-0.26 / 0.15	Regular	2.80-5.55 / 4.75	2.12-5.36 / 4.57
7-7a	Fairly complex	0-6	0.05-0.15 / 0.10	Fairly Regular	2.42-4.87 / 3.35	2.25-4.63 / 3.08
6-6a	Complex	2-9	0.03-0.43 / 0.09	Fairly Regular	2.65-6.46 / 4.97	2.43-5.69 / 4.54
6-6a,5	Complex	6-11	0.03-0.39 / 0.90	Fairly Regular	6.79-8.69 / 7.83	5.89-8.02 / 7.71
6-6a,4-5	Complex	6-14	0.03-0.47 / 0.09	Fairly Regular	7.86-9.52 / 8.28	6.80-7.90 / 7.18
5.4-5	Simple and fairly complex	0-5	0.04-0.24 / 0.05	Irregular	0.35-3.70 / 1.80	0.35-3.13 / 1.69
3-3a	Fairly complex	0-6	0.05-0.59 / 0.09	Irregular	0.26-3.78 / 2.89	0.26-3.53 / 2.54
2a	Simple	0-2	0.05-0.10 / 0.05	Irregular	0.4-1.20 / 0.82	0.4-1.05 / 0.74

Table 4-2: Average Coal Quality Parameters at Glukhovsky Opencast

		Quality Characteristics based on Borehole Probes							Genetic Characteristics	
Seam	Grade	W^a %	A^d coal %	A^d total %	V^{daf} %	Y mm	S^d %	P^d %	R_0 %	eOK %
13	GZhO	0.41-3.67 / 1.68(126)	4.9-19.7 / 9.5(126)	8.7-32.4 / 16.5(106)	27.7-37.8 / 33.1(126)	8-14 / 10(126)	0.22-0.38 / 0.30(10)	0.0007-0.047 / 0.019(10)	0.86	21
12	GZhO	0.78-3.46 / 1.69(107)	4.2-18.9 / 8.4(107)	9.2-30.9 / 16.4(91)	30.0-39.6 / 34.8(107)	9-15 / 11(107)	0.11-0.68 / 0.34(7)	0.0680-0.260 / 0.063(10)	0.86	15
11	GZhO	0.10-3.42 / 1.71(135)	3.7-18.6 / 8.2(135)	5.9-26.9 / 13.3(112)	30.7-38.8 / 34.5(135)	8-17 / 11(135)	0.24-0.41 / 0.32(9)	0.0170-0.048 / 0.180(8)	0.86	13
11-9-10	GZhO	0.99-2.6 / 1.65(8)	5.6-10.4 / 8.2(8)	7.7-25.8 / 15.0(8)	33.7-35.9 / 34.8(8)	10-13 / 11(8)				
9-10	GZhO	0.65-3.04 / 1.55(91)	4.4-14 / 7.9(91)	7.3-29.5 / 12.4(83)	30.8-41 / 35.8(91)	10-16 / 13(91)	0.33-0.72 / 0.50(9)	0.0040-0.110 / 0.070(7)	0.87	13
	GZh	0.95-2.9 / 1.38(52)	3.3-11.5 / 7.7(52)	7.4-18.4 / 11.4(37)	34.1-38.1 / 36.4(52)	16-23 / 20(52)	0.50(9)	0.070(7)	0.87	13
7-7a	GZhO	0.68-2.2 / 1.38(67)	4.9-14.8 / 9.2(67)	9.3-26.2 / 15.6(64)	30.9-39.4 / 36.0(67)	10-16 / 13(67)	0.52-1.18 / 0.77(9)	0.0490-0.148 / 0.094(9)	0.87	13
	GZh	0.69-2.82 / 1.33(79)	3.8-15.1 / 8.9(79)	6.1-22.1 / 14.0(64)	32.4-39.8 / 36.2(79)	15-25 / 19(79)	0.77(9)	0.094(9)	0.87	13
6-6a	GZhO	0.65-2.6 / 1.44(64)	6.2-12.8 / 8.8(64)	8.6-24.2 / 16.5(52)	30.5-38.9 / 35.6(64)	8-17 / 13(64)	0.58-1.1 / 0.73(7)	0.0140-0.640 / 0.145(10)	0.88	12
	GZh	0.64-1.89 / 1.15(75)	4.9-13.7 / 9.0(75)	10.0-28.3 / 15.9(63)	34.1-40.8 / 36.2(75)	15-27 / 21(75)	0.73(7)	0.145(10)	0.88	12
6-6a, 5	GZhO	0.71-1.93 / 1.12(21)	7.6-15 / 9.6(22)	12.6-27.7 / 18.5(22)	33.7-38.2 / 36.0(22)	17-26 / 21(22)	0.58-1.1 / 0.73	0.0140-0.640 / 0.145	0.88	12
6-6a, 4-5	GZhO	0.88-1.08 / 0.97(10)	6.5-10.4 / 8.9(10)	16.6-23.8 / 20.2(10)	34.8-37.1 / 36.0(10)	20-26 / 23(10)	0.58-1.1 / 0.73	0.0140-0.640 / 0.145	0.88	12
5	GZhO	0.59-2.31 / 1.37(36)	4.8-16.6 / 9.3(37)	9.3-37.9 / 19.9(26)	32.3-38.6 / 35.1(37)	8-18 / 13(37)	0.35-1.08 / 0.68(9)	0.0096-0.064 / 0.034(9)	0.88	14
	GZh	0.71-2 / 1.19(35)	5.0-15.5 / 8.9(35)	8.2-30.6 / 16.7(26)	34.4-38.6 / 36.1(35)	15-27 / 21(35)	0.68(9)	0.034(9)	0.88	14
4-5	GZhO	1.01-2.11 / 1.67(5)	6.8-13.4 / 9.4(5)	15.1-27.8 / 20.7(4)	34.0-37 / 35.3(5)	10-15 / 13(5)			0.88	14
	GZh	0.73-1.61 / 1.11(30)	5.2-10.4 / 8.3(30)	13.7-33 / 21.5(27)	34.6-38.8 / 36.0(29)	15-27 / 20(30)			0.88	14
3-3a	GZhO	0.62-3.69 / 1.47(28)	7.0-25.3 / 10.1(28)	10.5-32.7 / 20.6(25)	31.3-37.8 / 35.2(28)	10-16 / 13(28)	0.40-1.62 / 0.93(9)	0.0107-0.062 / 0.039(9)	0.90	15
	Zh	0.81-1.97 / 1.28(19)	7.5-14.1 / 10.2(19)	11.8-32.9 / 21.6(17)	33.5-37.9 / 35.6(19)	12-18 / 15(19)			0.90	15
	Zh	0.60-2.32 / 1.15(72)	6.1-18.2 / 9.5(72)	10.2-36 / 19.6(62)	32.8-37.9 / 35.1(72)	17-28 / 21(72)			0.91	15

4.1.2 Summary of Reserves and Resources

4.1.2.1 Resources

All seams can be classified under JORC as being in the Measured Resource category. The Russian categorisation with regard to borehole spacing combined with the continuity of the seams over large areas lead to the categorisation of coal determined as C1 under the Russian system into the measured resource category under JORC. Therefore it is the opinion of the consultant that the resources available to the mine as at the 1st January 2006 under an international classification system are as shown below.

These resources include what will be determined as the reserve for the mine.

Table 4-3: Razrez Raspadsky Resources under JORC as at the 1st January 2006

Licence Area	Measured Resource (Mt)	Indicated Resource (Mt)	Total Resource (Mt)
Raspadskaya mine Licence area	16.286		16.286
MUK-96 Main Licence area	3.640		3.640
Glukhovsky Licence area	19.800		19.800
Total	39.726		39.726

4.1.2.2 Reserves

The reserves at the opencasts come from the resources listed above. These reserves were calculated for the area to be extracted taking into account estimated losses and dilution. For the Glukhovsky mine area an outline extraction plan has been established and the industrial reserves under the Russian system have been calculated using that plan.

The proved reserves are those reserves that are planned to be worked and that have had economic evaluation. However no indication was given on planned workings at the Olzherassky deposit, and therefore these have been recorded as probable reserves.

Working has taken place at Razrez Raspadsky in 2006, with an estimated 1.0Mt extracted in the first six months. This has been subtracted from the calculated reserves at 1st January 2006 to give the following totals for the opencast operations as at 30th June 2006.

Table 4-4: Reserves All Opencast Licence Areas as at 30th June 2006

Opencast Site	Proved Reserve (Mt)	Probable Reserves (Mt)	Total Reserves (Mt)
Razrez Raspadsky	4.480	4.553	9.033
Olzherassky		3.200	3.200
Glukhovsky	15.000	0	15.000
Totals	19.480	7.753	27.233

4.1.2.3 Further Resources available to the Mine

Further attainable resources are available to the mine for opencast mining in the future in the adjacent areas along the borders of the present licence.

4.1.3 Mining Operations

Razrez Raspadsky operations are currently in the Raspadskaya licence area. Two more areas are being prepared for opencast and highwall mining. Mining is planned at the outcrop of the upper seams in the MUK-96 licence area. This will be a short-life operation working from 2008-2010. The other new area is the Glukhovsky deposit, immediately adjacent to Raspadskaya mine; a mining licence for this deposit has recently been granted and production is scheduled to commence in 2007.

Mining in the current areas is usually by a combined opencast and highwall mining system. A trench is created using opencast mining and worked by highwall mining from one or both highwalls created by the trench. At MUK-96, highwall mining will be used where the stripping ratio is too high for efficient opencast working.

The opencast is worked by the truck-shovel system of operation using mainly imported machinery. The overburden is drilled and blasted and then tipped either on dumps adjacent to the workings or in adjacent mined out areas. Average transport distance for overburden is only 1.5 km. Coal in the opencast is loaded by backhoe hydraulic shovels and transported by truck for about 10 km to the coal preparation plant. The planned mining system at MUK-96 is the same as currently used in the Raspadskaya deposit.

Razrez Raspadsky has two SHM highwall miners which are designed to mine the coal for a depth of up to 300m into the highwall, but the actual length is usually much less due to poor roof conditions or the presence of old underground workings. The mining system appeared to be operating well and to be capable of producing good levels of production.

At Glukhovsky the average stripping ratio is near the maximum usually considered economic for Russian opencasts. The mine contains the full range of seams from Seam 1 to Seam 13. It will comprise a single opencast pit with adjacent external overburden dumping. It is planned to work to the licensed limit at the 280m horizon, a depth of up to 220m. The mine is planned to be a conventional truck-shovel operation. Equipment will be transferred from the Razrez Raspadsky workings and be supplemented by new higher capacity equipment.

The company has a comprehensive range of earth moving and excavating machinery and has recently purchased a new fleet of ten 100t capacity trucks to replace the fleet of Belaz trucks which are currently contracted to move the overburden. This new fleet is being assembled on site and put into service as soon as they are commissioned. There are four Komatsu HD785-5 and six Caterpillar 777D machines. The company plans to have the fleet fully operational during summer 2006, allowing them reduce the reliance on contracted plant.

There is currently no plan for highwall mining at Glukhovsky. However, this method should be possible at the northern highwall but a licence extension will be required.

The infrastructure for the current opencast operations in the Raspadskaya deposit are integrated with the main operations of the underground mine. Temporary structures relating directly to the opencast operations are designed for easy transfer to new sites. The roadway infrastructure is large but appears well maintained. The company has constructed a workshop for the maintenance and overhaul of the large moving plant under cover.

IMC believes that the opencast and mining operations are being carried out to good standards and that the production plan for the licensed deposits is realistic and achievable.

Historical coal production from Razrez Raspadsky opencast has been as follows.

Table 4-5: Production Performance in 2003 to 2005

	2003	2004	2005
Production '000t	153	1,505	2,211

The mining strategy for Razrez Raspadsky is to extract the remaining available reserves at the two current sites in the Raspadskaya deposit while preparing Glukhovsky for mining. The small outcrop reserves at MUK-96 will also be mined during the production build-up at Glukhovsky. These deposits are expected to be exhausted by 2013, at which time mining will commence at other prospective areas available for mining in the future.

Annual production from the highwall mining operations will vary according to the availability and conditions of the remaining reserves.

Production is planned to reach 3.0 Mt per year from a mixture of opencast and highwall mining by 2007 and to be maintained at that level for at least 20 years, with a potential life of more than 40 years.

Table 4-6: Planned Annual Production and Development ('000t)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Raspadskaya deposit	2500	2000								
MUK-96 deposit			1600	1300	700					
Glukhovsky deposit		1000	1400	1700	2300	3000	3000	3000		
Prospective areas*									3000	3000
Total production	2500	3000	3000	3000	3000	3000	3000	3000	3000	3000
Overburden removal ('000 m^3)	16800	19000	20000	18000	18000	18000	18000	18000	18000	18000

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Raspadskaya deposit										
MUK-96 deposit										
Glukhovsky deposit										
Prospective areas*	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Total production	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Overburden removal ('000 m^3)	18000	18000	18000	18000	18000	18000	18000	18000	18000	18000

* Currently unlicensed

4.1.4 Capital Expenditure Programme

The capital expenditure programme for the opencast operations has been drawn up for the working years until the existing licence areas are mined out. At the scheduled rate of production these licensed areas will be exhausted by the end of 2013.

The capital expenditures include the scheduled replacement of production components for the highwall miners, wheel loaders and excavators. The current purchasing programme for the new dump trucks is also included.

The budgeted figures would appear to be appropriate and match the production requirements through the 8 years of the valuation period. The Company's capital expenditure programme is provided in Section 6.1.

4.1.5 Infrastructure

The infrastructure for the current opencast operations in the eastern and western parts of the Raspadskaya deposit are integrated with the main operations of the underground mine. Most technical and administrative facilities are shared with Raspadskaya mine, including main power supply, main workshops and stores and administration. Structure relating directly to the opencast operations includes temporary buildings housing bathing and changing facilities, local administration and stores. An area is in use for assembly and maintenance of new and existing machinery. All of the structures can be easily moved to a new site on completion of mining and restoration work.

Because of the spread out area of activity, the roadway infrastructure is large but appears well maintained.

4.1.6 Health and safety

There appear to be no significant safety issues at the opencast mines.

Haul roads are being regularly watered to reduce dust make and the operations appear well-managed and tidy. The highwalls seen during the visit were generally stable but there were some signs of weakness and slips of the softer upper layers. This should not be a problem provided people are trained to avoid close proximity to the highwall.

4.1.7 Environment

Razrez Raspadsky does not have its own water extraction or discharge licences. Water use and discharge issues are covered by the OAO Raspadskaya licences.

Opencast operations always have a major impact on the local environment. However, the plan for ongoing restoration of the site during the life of the mine will reduce the long-term impact on the land surface.

The make of mine water in the current workings appears to be low. Any excess water that cannot be used in the mining process can be treated in the general treatment facilities at the Raspadskaya mine.

The haul roads are watered to reduce dust make but the remote location of the workings make dust and noise of no significant environmental concern away from the mining operations.

All mining operations must include an environment plan within the approved mine design. This sets levels of various emissions which must be agreed with the environmental authorities. Any excess discharges are subject to penalty payments or possible stopping of mining operations.

4.1.8 Labour

Total manpower for the opencast and highwall mining operations is 706, comprising 62 management and technical staff and 644 workers. This number is planned to remain constant until 2010. The average age of the workforce is fairly young at 38 years.

Razrez Raspadsky works three eight-hour shifts per day. Individual workers work five shifts per week on a rotation basis. This pattern conforms to Russian standards.

5 COMPANY ISSUES

5.1 Production

IMC has reviewed the forecast production levels for the coal operations of OAO Raspadskaya and have found them to be attainable with the facilities at the disposal of the Company. IMC has reviewed the markets and believe the level of demand for both coking and thermal coal will remain high for the foreseeable future (subject to the comments in Section **7**, Risks and Synergies) and believe that the production levels at the mines are achievable given the equipment currently being operated.

5.2 Management

During the course of the Reserves Valuation, IMC consultants were in regular contact and have held numerous discussions with all levels of OAO Raspadskaya management. Based on this contact, IMC is satisfied that OAO Raspadskaya has established a capable management team at each of its mines and that management understand the key drivers and risks at each mine and have developed credible mine operational plans that address these issues.

Although projected results are subject to variances in accuracy and to risks typically associated with mining, the mine plans are based on sound reserves, sound technology, supportable production levels and adequate infrastructure. IMC found nothing during the preparation of this mineral expert's report (MER), which would have a material impact upon the forecast production or capital or operating costs of any of the mines within OAO Raspadskaya.

5.3 Transport

A railway connects OAO Raspadskaya with the main Novokuznetsk-Mezhdurechensk-Abakan line. This branch line has a capacity sufficient for current and planned coal production at the mine.

The mine is served by an all-weather road for transport of people, materials and equipment.

5.4 Health, Safety and Environment

IMC has reviewed the health and safety management systems and their implementation. Direct health and safety responsibility rests with line management and is coordinated by the Deputy Technical Director for Industrial Safety.

Health and safety records have not been provided to the consultant.

Both current underground mines have significant makes of methane and a liability to spontaneous combustion, with Raspadskaya Koksovaya expected to be similarly liable. The mines carry out preventive measures to extract methane and to minimise the risk of ignitions, and have a comprehensive system of atmospheric monitoring to detect methane build-up or signs of spontaneous combustion.

The mine conforms to normal Russian standards in the provision of safety equipment. Standards of work, levels of tidiness and condition of equipment all compare favourably with other Russian mines.

All mining plans include an environmental plan within the approved mine design. OAO Raspadskaya generally conforms to Russian standards in terms of emissions and discharges, although some water discharges exceed permitted levels for suspended solids. Penalties are levied on excess discharges. Razrez Raspadsky carries out an ongoing programme of site restoration during the mining process.

The opencast operations have a major impact on the local environment. However, the plan for ongoing restoration of the site during the life of the mine will reduce the long-term impact on the land surface.

5.5 Statutory Authorisations

OAO Raspadskaya and its subsidiaries own the following mining licences. Originals of these licences were reviewed by IMC.

Table 5-1: Mining Licenses of OAO Raspadskaya and Its Subsidiaries

Name	Licence No.	Licensee	Date of Expiry	Comment
Raspadskaya Main Licence (Southern Licence)	KEM12677T Э	ZAO Raspadskaya (predecessor of OAO Raspadskaya)	1 March 2014	Includes right to mine Seam 1 to Seam 24, down to floor of Seam 1
Mine Raspadskaya-2 Licence (Northern Licence)	KEM11889T Э	ZAO Raspadskaya	15 November 2023	Includes right to mine Seam 3-3a to Seam 10, down to level −250m.
MUK-96 Main Licence (Southern Licence)	KEM00635T Э	MUK-96	1 December 2019	Includes right to mine Seam 15 to Seam 19, down to level +190m
MUK-96 No.2 Licence (known as Raspadskaya-2 Upper)	KEM13024T Э	MUK-96	20 March 2025	Includes right to mine Seam 11 to Seam 19, down to level −220m.
Raspadskaya Koksovaya Licence	KEM11578T Э	Raspadskaya Koksovaya	1 July 2057	Includes right to all coal seams above the base of Seam VI, down to level −540 m.
Glukhovsky Licence area	KEM13446T Э	Razrez Raspadsky	20 December 2025	Includes right to mine coal down to level +280m

Mining operations carried out by Razrez Raspadsky in the Raspadsky opencast mining area are within the licence of Raspadskaya Main Licence. Razrez Raspadsky's planned workings in the Olzherassky mining area are within the two licences of MUK-96.

5.6 Environmental Management

The mines are all subject to Russian federal legislation regarding environmental standards that must be adhered to. Each mine is operated according to a mine technical-economic plan that must be approved by various government bodies, including the state environmental inspection. This plan includes methods that the mine will use to manage environmental issues, such as water treatment and discharges, dust emissions, tipping of waste and restoration during and after mining.

Each mine has licences and permits setting maximum permissible emissions, procedures for waste disposal and methods of land restoration.

There is no requirement to comply with any international environmental standards.

IMC know of no historic liabilities for any of the four mining companies.

5.6.1 Mine Restoration Cost

In accordance with Russian law, when mining operations cease the land must be restored to a standard described in the mine's technical design document and approved by various government authorities. Each of OAO Raspaskaya's mining operations will be required to carry our restoration activity, including rehabilitation of dumps and settling ponds, filling shafts and drift entries, removing surface structures and clearing the surface of the industrial site for recultivation.

The calculated total cost of restoration works for the four mines is shown below.

Table 5-2: Summary of Mine Closure Costs

Mine	Closure Costs (RR million)
Raspadskaya mine	228.140
MUK-96	9.414
Raspadskaya Koksovaya	7.386
Razrez Raspadsky	2.459
Total	247.399

The high closure costs for the Raspadskaya mine compared to the other mines reflects its large quantity of buildings and structures, which provide services to all four mines. Raspadskaya mine closure costs also include restoration of the large waste dumps serving all mines.

Normally the restoration work is carried out at closure of the mine or of sites that are no longer required. In the case of the Raspadskaya mine, MUK-96 and Raspadskaya Koksovaya, the mines are planned to continue beyond the 20-year period of the valuation and so the closure costs have not been included in the financial model. In the case of Razrez Raspadsky, dump restoration will take place during the mining process and be covered by operating costs. The closure costs attributed to Razrez Raspadsky relate to building demolition and site clearance which, also, is planned to be beyond the 20-year valuation period. If any of the mines are closed before 2026 their closure costs would apply immediately.

5.7 Marketing

IMC has reviewed the coking coal supply situation in Russia and particularly in the Kemerovo region. IMC believes that by 2015 the Kemerovo region production of lean coking coals will reduce by 25%, lean coals by 20% and poorly coking coals by nearly 50%. IMC also believe that GZh grade (the main grade at Raspadskaya mine) is in the best position in the Kuznetsk coal field at the moment because at the current coal production rate it provides an optimum blend proportion (about 15%). In the future, the share of this grade will decrease due to exhaustion of reserves, with a subsequent increase in GZhO grade as a preferred coal for coking.

Coals of K and KO grades, which are the most valuable coals for coking, are very limited in the region. Raspadskaya Koksovaya should be in a strong position to supply grade K and KO coking coal for blending.

IMC believe that the tendency toward mutual integration of the Russian and world coal markets will intensify in the future and, as a consequence, the internal and external market will see gradual alignment of prices, and the price forecasts which are relevant for the world coal market will hold true for the Russian market as well. This tendency is typical not only for the coal market, but for the entire market of energy resources.

IMC are of the opinion that in the medium term world prices will continue to decrease to $70-80 in real terms. The consultants believe that during the consolidation of the world and Russian coking coal markets, the current prices in Russia will be maintained at an average level of $65/t in real terms adjusted for the cycle.

IMC experts prepared the following matrix for defining the supply and demand situation for near 5 years:

Table 5-3: Demand & Supply. Source *Abare* 2005, *Tex Reports* 2005, *IMC* data

	2005	2006	2007	2008	2009	2010
Demand						
Africa	4.3	5	5	5	5	5
North America	8.7	8.8	9	9.2	9.3	9.5
South America	20	21.9	24.9	26.3	27.8	29.4
Japan	65.8	65.7	66.3	66.8	67	67.2
China	10.1	15.5	16.7	18	19.3	20.6
India	22	25	27	28	30	32
Korea	20.7	20.9	21.1	21	21	21
Other Asia	13	13.5	13.9	14.8	14.8	14.8
Europe	74.8	76.4	77.3	77.7	78.2	78.5
Ociania	6	6	6.1	6.1	6.1	6.1
Total	**245.4**	**258.7**	**267.3**	**272.9**	**278.5**	**284.1**
Supply						
Africa	3.1	3.1	3.1	3.5	3.5	3.5
Canada	28.5	33.7	34.5	35.3	36.1	36.5
USA	25	26	27	28	28	28
South America	3.7	3.7	3.9	3.9	3.9	3.9
China	3.4	3.6	3	3.3	3.5	3.3
Indonesia	3.5	4.4	5.3	11.2	17.2	17.7
Other Asia	4	4.5	4.5	4.4	5.5	5.5
Australia	122.9	132.6	140.1	146.5	154.3	159.5
New Zealand	2.5	3.4	4.6	4.8	5.4	5.4
Russia	11.5	13.1	15.2	16.4	16.9	19.9
Europe	9.2	7.5	7.3	6.9	6.9	6.5
World Supply	**217.3**	**235.6**	**248.5**	**264.2**	**281.2**	**289.7**

Based on the above data and the factors mentioned earlier, IMC believe that the FOB prices for coking coal have risen to such a level that there will be a significant resistance to FOB prices falling significantly. The international mining companies are implementing a coordinated strategy for stabilisation of prices of raw materials for the iron and steel industry. This policy has already produced the first results (an 18% increase in ore prices for APR customers).

Price trends in the Russian coking coal markets will differ to a certain extent from the world prices as resources are limited and as a result there is a shortage of valuable coking coal grades, and it is practically impossible to cover this shortage by imports.

On the basis of the demand-supply data IMC sees the prices for the period 2006-2026 as follows:

Table 5-4: Coal Prices. IMC Forecast

Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
FCA price: US$	$63.00	$62.00	$59.00	$61.00	$59.00	$61.00	$63.00	$64.00	$65.00	$65.00
Year	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
FCA price: US$	$65.00	$65.00	$65.00	$65.00	$65.00	$65.00	$65.00	$65.00	$65.00	$65.00
Year	**2026**									
FCA price: US$	$65.00									

The consultants see this price forecast as being realistic for OAO Raspadskaya.

6 CAPITAL EXPENDITURE PROGRAMME AND VALUATION

6.1 Capital Expenditure

This report gives the capital expenditure plan to implement the main activities of OAO Raspadskaya operations for 20 years from the second half of 2006 to the first half of 2026. The annual budget varies from RR441.0 million to RR2,818.7 million.

Table 6-1: Capital Expenditure Budget (RR, millions)

Operations	2006 Q3-4	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Raspadskaya mine	150.0	934.6	729.0	979.8	711.7	674.8	676.2	885.1	475.4	348.6	463.0
MUK-96	343.4	404.4	841.1	48.3	170.1	128.5	191.8	282.3	221.2	304.9	478.6
Raspadskaya Koksovaya	182.0	522.9	1087.7	22.2	25.0	25.5	35.9	147.6	144.1	625.9	313.0
Razrez Raspadsky	141.4	105.0	160.8	574.6	88.4	34.2	141.8	50.5			
Total	816.7	1966.9	2818.7	1107.8	995.3	863.0	1045.6	1365.6	840.7	1279.4	1254.6

Operations	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 Q1-2	Total
Raspadskaya mine	819.8	929.0	894.3	676.4	589.3	301.8	473.3	577.5	712.5	340.3	13342.2
MUK-96	95.4	807.0	57.9	215.4	66.6	169.8	565.6	166.4	106.6	88.3	5753.8
Raspadskaya Koksovaya	35.3	50.9	25.0	25.0	141.4	635.0	169.0	25.9	25.0	12.5	4277.0
Razrez Raspadsky											779.5
Total	950.4	1786.9	977.2	916.8	797.3	1106.6	1208.0	769.8	844.1	441.0	24152.5

The capital expenditure programme for the Raspadskaya mine consists of the capital costs for construction of the auxiliary shaft in Block 6 in 2012 and on-time purchase of the development and production equipment, which is based on the experience on equipment use and its reliability.

The MUK-96 capital expenditure budget takes into account requirements to begin production in Seam 11 in 2008 and to purchase an additional face complex.

The Raspadskaya Koksovaya capital expenditure budget covers the development and production equipment to commission the mine in 2008. The budget has been changed to suit the requirement to purchase higher capacity production equipment. It is related to the delivery of heavy duty shuttle cars and six development/production complexes.

The Razrez Raspadsky capital expenditure programme is designed to provide equipment until the end of the mine life and licence reserves depletion (8 year period). Planned equipment includes replacement units for highwall miner, automatic loader, excavators and trucks.

6.2 Valuation of Reserves

6.2.1 Methodology

There are three main approaches by which companies can be valued: profit, market and assets. During a business assessment all options are considered and the most suitable approach is selected for particular cases. The profit method considers future profits, discounted for the purpose of including the relative risk level. The market approach establishes value based on the price paid for the alternative investments. The company assets approach sets the value based on the hypothetical sale of the main company assets; this method is suitable if the company appears financially unstable.

The profit valuation has two main methods: discounted cashflow method and profit capitalisation method. The first method is recommended to be used for those companies, which have a history of economic activity (preferably profitable activity) and which are at the stage of growth and stable economical development. The second method is recommended for assessment of companies with stable level of profit or if their profits have steady rates of growth.

The Net Present Value (NPV) method of valuation is normally used for companies at an advanced development stage or those actually in operation.

If the operating costs of the mines are similar and they all produce a suitable coal then the NPV of the individual mining operations can be determined by apportioning the total NPV of the company. Under this methodology the cash flow model is built for the group of companies as a whole and the resulting NPV is split into each mining company share in proportion to its share in the total products output taking into account capital costs and changes in the working capital.

For OAO Raspadskaya IMC has used the discounted net cash flow method under the revenue evaluation approach. Net cash flow on invested capital is the only indicator that shows accurately the true ability of the company to create wealth. The indicator shows the company's revenue before paying debt and debt interest, and it does not allow any distortions which could be caused by different borrowing levels, i.e. it represents a true cash flow available to the providers of the loan and equity capital after paying taxes and meeting the company's own reinvestment requirements. The net cash flow will be forecast for a period of 20 years from the first half of 2026, using 2006 prices.

Cash flow is calculated in roubles and is nominal. To ensure compliance with the discount factor, the estimates are converted into US Dollars at the official Central Bank of the Russian Federation exchange rate for every production unit. It should be noted that with fluctuations in the rouble and basic world currency exchange rates, as well as with a rise in prices for energy resources, it is impossible to forecast a change in prices with a high level of confidence.

6.2.2 Assumptions

The valuation is based exclusively on current coal reserves.

The weighted average cost of capital adopted in our valuation as a discount rate is 10%.

IMC has considered that a recent guidance by AIM with respect to the applicable discount rate for the mineral resource companies can be adopted in this instance. IMC has further verified that a 10% real discount rate is indeed applicable for the Russian economic environment and, specifically in case of OAO Raspadskaya, through a calculation of the discount rate in accordance with common valuation methodologies. Thus, the levered equity discount factor of 12.5% should be used as an estimated nominal WACC of OAO Raspadskaya. This corresponds to a real WACC of 10% as applied to our 20-year forecast.

The estimate used the official exchange rate of the Central Bank of the Russian Federation as at 30th June 2006 of RR 27.0789 Rouble to USD 1.

The capital expenditure required for achieving the planned level of production adopted in the estimation of the cash flow is that given in section 2.6 Capital Costs.

Taking into account quality characteristics of OAO Raspadskaya coal and its demand in the international and Russian markets, the consultants believe the sales forecast to be realistic. A reduction in supply of lean coking coals is forecast for the Kemerovo region by 2015 and the qualities produced at OAO Raspadskaya should be in good demand. The valuation envisages that all coal produced at OAO Raspadskaya will be sold.

The coking coal price forecast adopted in the estimates for the period of 2006-2026 is as follows.

Table 6-2: Forecast of Future Selling Prices

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014-2026
Average price:									
RR/t	1745	1717	1634	1690	1634	1690	1745	1773	1800

IMC believes the price forecast to be realistic for OAO Raspadskaya coal. The assessment of future coal prices is based on historical data, current prices and forecast of market supply and demand.

6.2.3 Valuation Results

IMC has valued each of the four mining companies within OAO Raspadskaya at a discount rate of 10%. IMC has verified that a 10% discount rate is appropriate for the Russian economic environment. A WACC value of 10% was calculated during the course of the valuation.

IMC believes the costs used in the valuation model to be realistic for the Raspadskaya operations at today's prices. The valuation has the following NPV for the four mining companies.

Table 6-3: Reserves Valuation

Mine	Value $million
Raspadskaya mine	1 556.6
MUK-96	514.3
Razrez Raspadsky	296.7
Raspadskaya Koksovaya	487.2
Consolidated Total	2 854.8

6.2.4 Sensitivities

The valuation has been tested for sensitivity to changes in production, selling price, capital costs and operating costs. The table below shows the effect of +/−10% variance in each parameter for the consolidated value.

Table 6-4: Sensitivity Testing of NPV

	Value $ million		
Mine	−10%	Base	+10%
Production output	2 390.6		3 318.7
Selling price	2 263.9		3 445.5
Capital cost	2 893.7	2 854.8	2 815.6
Operating cost	3 152.8		2 556.6

Both production output and selling price have a significant effect on NPV. Operating costs have less effect and capital very little effect, due to capital being small compared to total costs. Overall, the testing has shown the valuation to be robust.

7 RISKS AND SYNERGIES

Where risks are likely to impact on the Company's forecast production, capital and operating costs by less than 10%, they are not considered significant. Any identified significant risks which are not adequately addressed in the Company's production plans are considered to be "material".

7.1 Sales and Marketing

OAO Raspadskaya has contracts for a large proportion of sales for the next five years. Also, Evraz, a major shareholder in OAO Raspadskaya, can be expected to continue to buy OAO Raspadskaya coking coal for its steel plants. Therefore the risk of losing markets appears low.

7.2 Political Risk

With most of OAO Raspadskaya's markets being internal within Russia, the political risk can be considered low. The international rating for Russia country risk has reduced in recent years.

7.3 Comments

With the exception of Raspadskaya Koksovaya, the OAO Raspadskaya operations are mature and so the risk of significant change in environmental risk is small. Raspadskaya Koksovaya is located on the bank of the Olzherass River and so will need to take precautions to prevent discharge of untreated water and waste. However, the development plans together with the environmental awareness by management should minimise the risk.

8 CONCLUSION

IMC has reviewed each of the mines in OAO Raspadskaya and has undertaken a valuation of the reserves. IMC concludes from this review that:

- The geological and geotechnical understanding of OAO Raspadskaya, together with hazard identification, is of a sufficient level to support short, medium and long-term planning as appropriate;
- The mine plans appropriately reflect geological and geotechnical understanding and account for predicted mining hazards;
- OAO Raspadskaya's mining equipment (either in place or planned in the capital forecasts) is suited to its mine plans and supports the production levels forecasted;
- Coal handling and preparation plants and other infrastructure are capable of supplying appropriate quality products to satisfy the markets at the forecast volumes;
- Environmental issues are being well managed and there are no foreseeable issues that could significantly impede production;
- The assumptions used in estimating both capital and operating costs are appropriate and reasonable;
- Capital and operating costs used in the financial models reflect the mine plans, development and construction schedules and the forecast production levels;
- Key risks identified by IMC are understood by management and appropriate action to mitigate these risks has been taken. Further, the mine plans and cost forecasts appropriately account for these risks; and
- The drivers of the production and cost forecasts are understood by management and are receiving the management focus required.

The consolidated value of the coal reserves of OAO Raspadskaya over a 20-year period, discounted at 10%, is US$2,854.8 million.

Yours Faithfully,

John S Warwick BSc (Hon's), FIMMM, CEng

Director

IMC Group Consulting Limited,

IMC Group Consulting Ltd
Innovate Office Building
Lake View Drive
Sherwood Park
Nottingham
NG15 0DT
United Kingdom

Appendix A

Qualifications and Experience of Signatories

Qualifications and Experience of Signatories

John Warwick is a Chartered Engineer with over 30 years experience in all aspects of mining, general management, contracting and consulting. He has Bachelor of Science degrees in Mining Engineering and Electrical Engineering and holds a UK Mine Manager's First Class Certificate of Competency. He is highly experienced in extraction and processing of base metals, coal and various industrial minerals in UK and overseas. John is at present the Mining Director of IMC for whom he has worked in Ukraine, Russia, Czech Republic, Kosovo, Poland, Bulgaria, Hungary, Bangladesh, Albania, Iran, South Africa, DR Congo, Kazakhstan, China, North Korea, USA, Indonesia and UK. He has been Project Director for Mineral Expert's Reports, Competent Person's Reports and Due Diligence for stock market flotation's and company sales assignments in several commodities including chrome, potash, phosphate, copper, nickel, iron ore, cobalt and coal operations.

John Bacharach, Managing Director of IMC Economic and Energy Consulting Ltd, is a mining engineer with more than 30 years of practical experience. He has a Bachelor of Science degree in Mining Engineering, Associate of the Royal School of Mines, Fellow of the Institution of Materials, Minerals and Mining, Chartered Engineer and Professional Engineer. He has held senior positions with direct responsibility for mining and processing operations. He is IMC's Director responsible for CIS operations and is based in Moscow. He has worked as Project Director on numerous projects in the mining and minerals sector for a wide variety of donors and private sector clients. Recent mining sector consulting projects include reserve valuations for many major producers, technical assessments, pre-feasibility studies, design concepts for new mining developments.

Ian Robertson is a mining engineer with extensive project management experience. He is a Bachelor of Science (Mining Engineering) and has a UK First Class Certificate of Competency. He has a background of more than 30 years in the coal mining sector, including extensive experience in Russia since 1993 and has been based in Moscow since 2005. He leads IMC's mining team in Russia and has carried out many recent assessments for new and operating mines and mining companies, including Reserve Valuations for several major Russian mining companies.

David Foster has 34 years experience of exploration and mining geology specialising mainly in coal deposits having attained his Honours Degree in Geology. Within IMC he leads the geological deposit modelling activities of the company and participates in projects both in the UK and overseas. He is familiar with a wide range of geological and mine modelling software and has wide expertise in the assessment of reserves and resources. He is at present the Principal Geologist at IMC and has worked extensively on numerous projects in the past 12 years internationally in Spain, USA, United Arab Emirates, Poland, Montenegro, Ireland, Indonesia, India, Iran, Kazakhstan, China and Russia as well as extensively in the UK.

Brian Everett has the degree of AMEME Hons (Mechanical Engineering) and a CNG in Coal Preparation Technology. He is an accomplished Engineer and Manager whose career has encompassed independent consultancy, Mining Mechanical Engineering, Process Engineering, Management of Processing Plants, Project Management, Marketing and Quality Assurance and Statutory responsibility for a complex and continuous process business operating under IPC authorisation. He has a wide experience in the interpretation of coal washability and quality data, coal utilisation and preparation in relation to all sectors of the coal business. He is an effective communicator with a wide experience of dealing with people at all levels within an organisation and with suppliers and clients

Mike Strickland is a senior engineer with more than 25 years international experience gained in the mining industries of North America, Europe, Africa, Asia and the CIS. He has a degree of Bachelor of Science (Mining Engineering). His background spans the commercial and operational aspects of mining, and the technology and utilisation of mining equipment. He has considerable experience in assessing investment and market opportunities and is familiar with the needs of banks and other financial institutions for documentation concerning project developments. Mike has substantial experience in operation, selection, marketing and manufacturing of industrial plant and material handling systems and was at one time Exports Sales and Marketing Director for a leading European mining equipment manufacturer.

Alexei Zhury is a mining specialist in marketing and economics. After a first degree in engineering, he obtained a PhD in Economic Science at Moscow State Mining University. He has nine years experience working in the Russian coal industry in marketing and economics. He was economics specialist for a mining company on a new mine investment project. He is now employed by IMC as an economist and marketing expert for Reserve Valuations and other projects.

Appendix B

Glossary of Terms

Glossary of Terms

The following definitions shall apply to the technical terms used herein:

"adit"	a horizontal or nearly horizontal entrance/access to an underground mine from surface. Often starting from the side of a hill
"air dried (ad)"	the analysis of a sample that has been partially dried to approximate inherent or bed moisture an intermediate vanadium chemical in the recovery process
"balance reserves"	the reserves within the Russian system of reserve classification that are considered economic to mine based on conformity with required seam or ore body dimensions and quality
"blast"	an explosion or violent detonation caused by the discharge of dynamite or other explosive material. Primarily used to refer to the loosening of coal overburden
"borehole"	a hole made with a drill, auger or other tool for exploring strata in search of minerals
"room and pillar"	a mining method in which supporting pillars are formed as development proceeds, and which may subsequently be mined
"calorific value"	the heat of combustion of a unit quantity of coal. It is expressed in kilocalories per kilogramme (kcal/kg) or mega joules per kilogramme (MJ/kg). The gross calorific value includes all heat of vapourisation of water. Net calorific value assumes that all water is in the vapour phase
"cash costs"	the operating costs of the business that include mining, processing, distribution and overheads, but exclude depreciation, amortisation, tax and interest
"coal mine"	an operating mine producing coal
"coal preparation"	collectively, physical and mechanical processes applied to make a product suitable for a particular use
"coke"	bituminous coal from which the volatile components have been removed
"coking coal"	coal used to create coke—which is consumed in the steel reduction process
"concentrate"	material that has been processed to increase the content of contained material or mineral relative to the contained waste
"continuous miner"	mining machine designed to remove coal from the face with the use of cutting machines and to load that coal into shuttle cars or onto conveyors
"contractor"	an independent operator who mines another party's coal or ore for that party, usually at a predetermined price
"conveyor haulage"	a mechanical system that conveys coal or ore from a receiving point to a discharge point
"core"	a cylindrical sample of rock obtained during core drilling
"crush, crushing, crushed"	a mechanical method of reducing the size of rock
"crusher"	a machine for crushing rock or other materials
"cyclone"	a classifying (or concentrating) separator into which pulp is fed, so as to take a circular path. Coarser and heavier fractions of solids report at the apex of long cone while finer particles overflow from a central vortex. Also called hydrocyclone
"dilution"	the contamination of ore with barren wall rock. The assay of the ore after mining is frequently lower than when sampled in place
"dip"	the angle of inclination downward that a coal bed makes with a horizontal plane
"discard/dirt/stone"	the material extracted from the ROM coal and finally discarded either prior to or after coal cleaning
"drillhole"	a circular hole made in rock, often in conjunction with a core barrel in order to obtain a core sample
"exploration"	the work involved in the intentional searching for a mineral, prospect or deposit

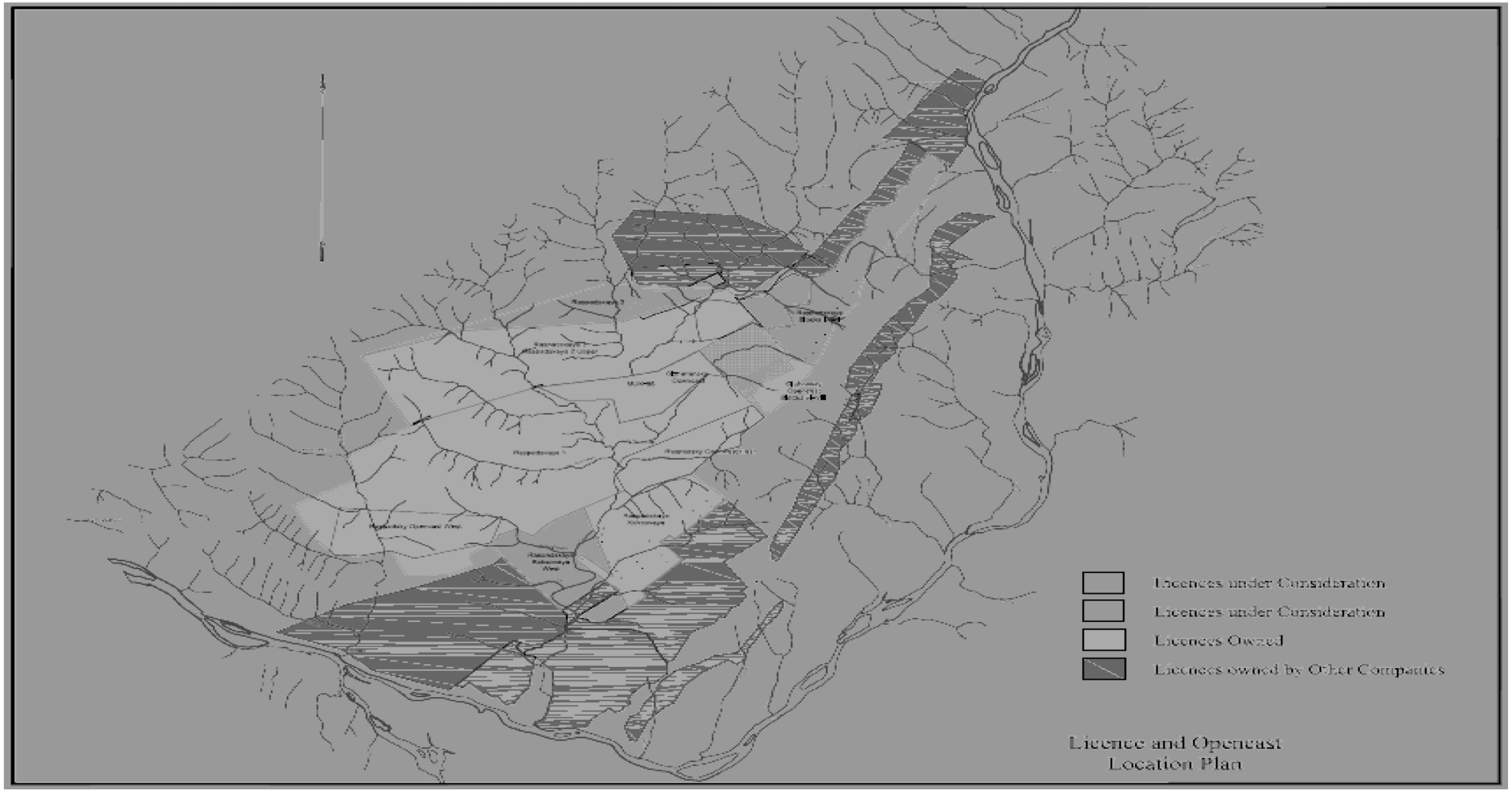
"face (coalface)"	the working area or end of a development heading or entry
"fault"	a fracture in the earth, one side of which is displaced with respect to the other in any direction
"floor"	the bottom or lowermost part of an underground working
"FOB"	free on board
"fractured"	breaks in rock formations due to intense faulting or folding
"froth flotation"	a coal cleaning process applied to the beneficiation of fine particles typically 0.5 millimetres in diameter. Hydrophobic coal particles attach themselves to air bubbles in a water medium and rise to the surface to form a froth
"geology"	the science dealing with the formation of the earth and mineral deposits
"highwall"	the face of exposed overburden and coal in an opencast mine
"Indicated Resources"	the resources for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence
"Industrial Reserves"	the part of the balance reserves under the Russian system of reserves classification that are considered possible to mine
"Inferred Resources"	a mineral resource inferred from geoscientific evidence, drill holes, underground openings or other sampling procedures where the lack of data is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability
"in-situ reserves"	the tonnages of in-situ coal contained within seams or sections of seams in the ground for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken
"joints"	a fracture or parting that cuts through and abruptly interrupts the physical continuity of a rock mass
"JORC Code"	Report of the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
"LHD"	load haul dump vehicle
"LME"	London Metal Exchange
"longwall mining"	mining method in which a coal face is mined using a shearer mounted on an armoured chain conveyor that runs along the full length of the coal face. Hydraulic jacks support the roof over the worked-out area. As the longwall face advances, the roof behind the jacks is allowed to cave
"losses—geological"	ore lost due to unpredictable geological phenomena
"losses—mining"	ore lost due to mining operations
"mining licence"	permission to mine minerals from a mineral rights area
"magnetite"	a magnetic mineral (Fe3O4)
"magnetic separation"	the separation of magnetic materials from non-magnetic materials using magnetic forces
"Measured Resources"	the resources for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence
"metallurgical coal"	coking coal and pulverised coal
"middlings"	a product of coal preparation that, by reason of its ash content, is intermediate between coal and discard
"mined-out"	an area where all economic material has been extracted
"mineral rights"	the ownership of the minerals on or under a given surface with the right to remove the said minerals
"Mt"	million tonnes
"Mtpa"	million tonnes per annum
"NPV"	net present value
"opencast"	mine where overlying strata overburden is removed, coal is extracted and the overburden is replaced

"outcrop"	the edge or surface of a mineral deposit or sedimentary bed, which appears upon the surface
"overburden"	the alluvium, soil and rock that must be removed in order to expose an ore deposit
"pillar"	a portion of a metal or coal deposit left in place in an underground mine to provide support for the roof
"plant"	fixed or moveable equipment required in the process of winning or processing the ore
"plies"	successive thin layers of coal or rock
"preparation plant yield"	ratio of cleaned coal to run of mine coal, expressed as a percentage
"Probable Reserves"	measured and/or indicated resources which are not yet proven but of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
"project"	a coal deposit which is in the pre-operating phase of development and, subject to capital investment, feasibility investigations, statutory and management approvals and business considerations, may be commissioned as a coal mine
"Proved Reserves"	measured mineral resources of which detailed technical and economic studies have demonstrated that extraction can be justified at the time of determination and under specific economic conditions
"reject"	the material extracted from the ROM coal feed during cleaning, for re-treatment or discard
"reserves"	those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken. Reserves are classified as either proved or probable
"resources"	all of the potential minerals in a defined area based on points of observation and extrapolations from those points. Potential minerals are defined as minerals which have been or could be beneficiated to give a quality acceptable for commercial usage in the foreseeable future and
"ROM coal feed"	ROM coal supplied to a plant or machine, in which it undergoes some form of preparation
"ROM" or "run-of-mine"	a mineral in its raw, untreated state subsequent to extraction and prior to sizing and other beneficiation
"roof"	the overhead part of an underground mine working
"room"	the excavated tunnel between the pillars in the underground mine workings
"royalty"	a share of the product or profit reserved by the owner for permitting another to exploit the property
"seam"	a mineralised regular vein producing or affording any kind of metallic ores or coal
"shaft"	a vertical or inclined excavation, commonly from the surface, of limited cross-sectional area compared to its depth. It is used for mining, draining water, ventilation, lowering and hoisting men, product and waste and lowering materials
"shuttle car"	a trackless vehicle used specifically for being loaded with ROM coal by a continuous miner and shuttling back and forth to a conveyor where the coal is dumped
"slurry"	a fluid comprising fine solids suspended in a solution
"specific gravity" or "SG"	the ratio of the weight of any substance to an equal volume of water
"spirals"	mineral separators, having a spiral flow pattern and relying on specific gravity differences to separate minerals
"stockpile"	an accumulation of ore or mineral
"stripping"	removing the overburden material from a coal or mineral deposit
"stripping ratio"	the ratio of tonnes of waste mined to tonnes of ore mined in an opencast mining operation

"subsidence"	the sinking or settling of material, especially over an underground mining operation
"tailings"	finely ground rock from which valuable minerals have been extracted by milling
"tailings dam"	one to which the slurry is transported, the solids settling while the liquid may be withdrawn
"t" or "tonne"	metric tonne equivalent
"tonnage"	the number of tons
"topographical"	the physical features of a district or region delineated on a map
"total sales"	the total sales from a particular mine or operation for the whole year regardless of ownership
"tpa"	tonnes per annum
"washing plant"	a plant designed to size and clean material to produce predetermined sizes of product
"waste"	rock lacking sufficient grade and/or other characteristics or ore to be economic
"waste parting"	rock or material of no commercial value residing within the ore horizon/reef
"working face"	part of the mine where ore extraction work is underway, usually where coal is being cut and produced

Appendix C

Maps of Asset Location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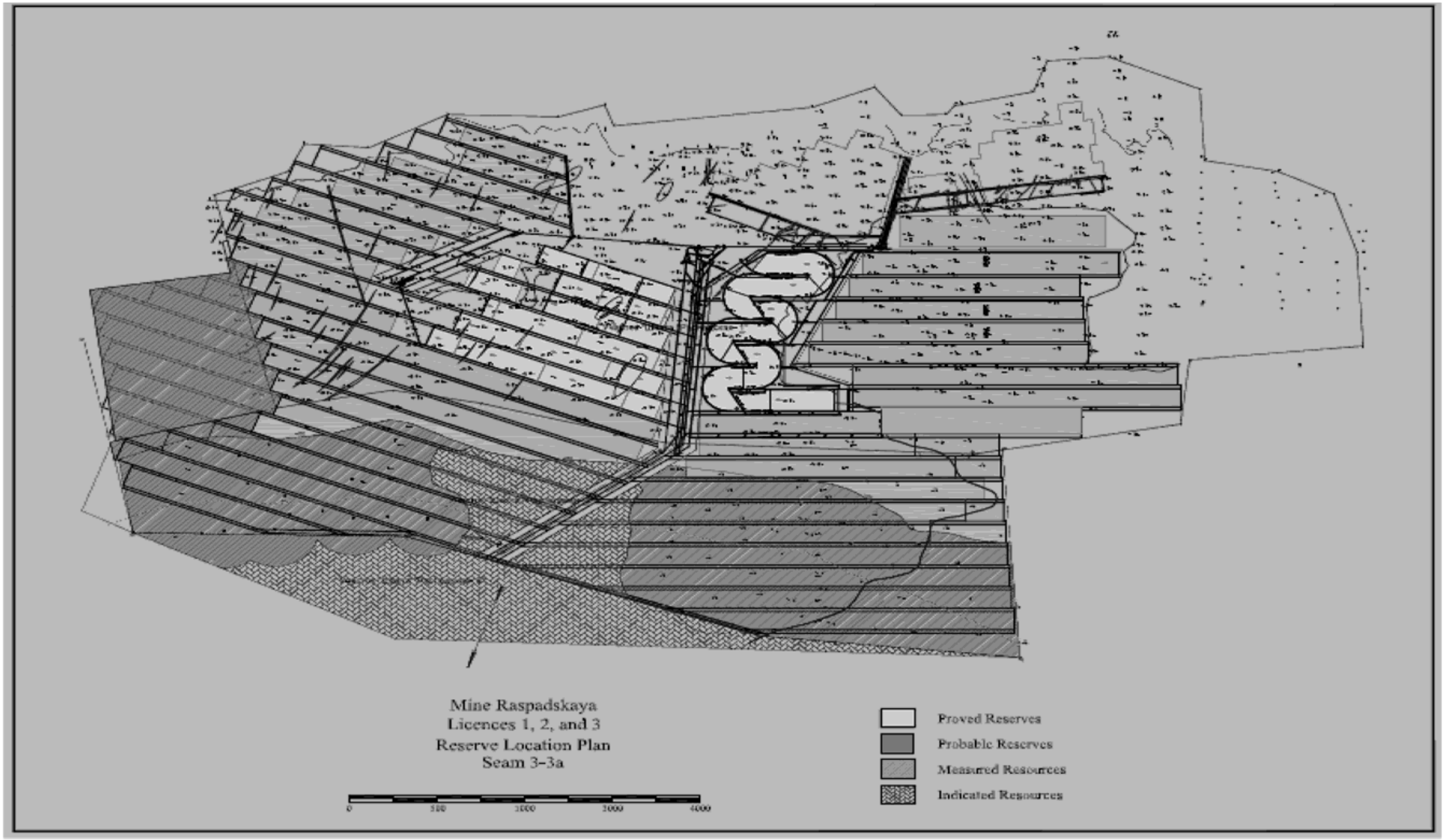
Licences under Consideration
Licences Owned
Licences owned by Other Companies
Licence and Opencast
Location Plan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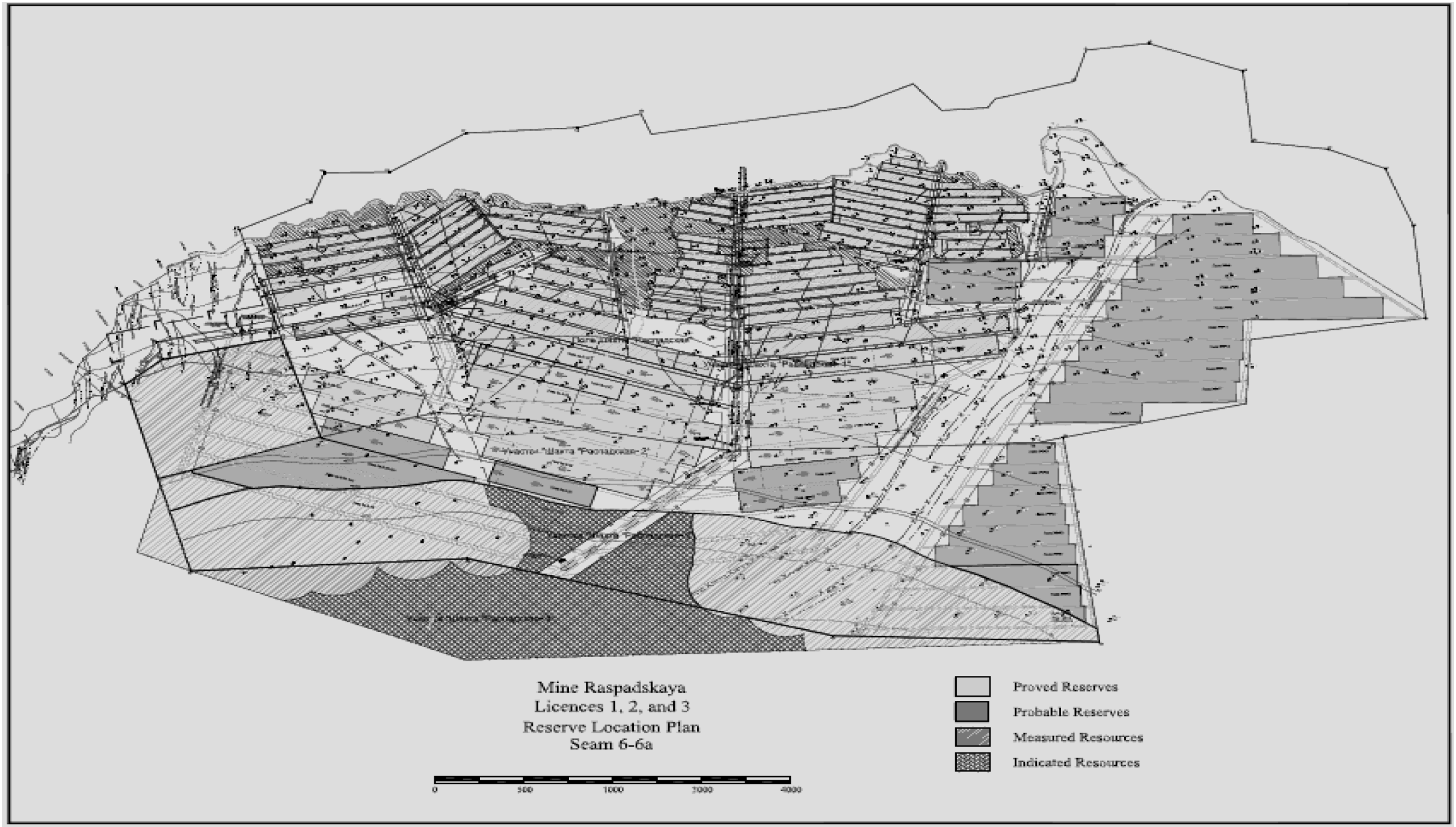
Proved Reserves
Probable Reserves
Measured Resources
Indicated Resources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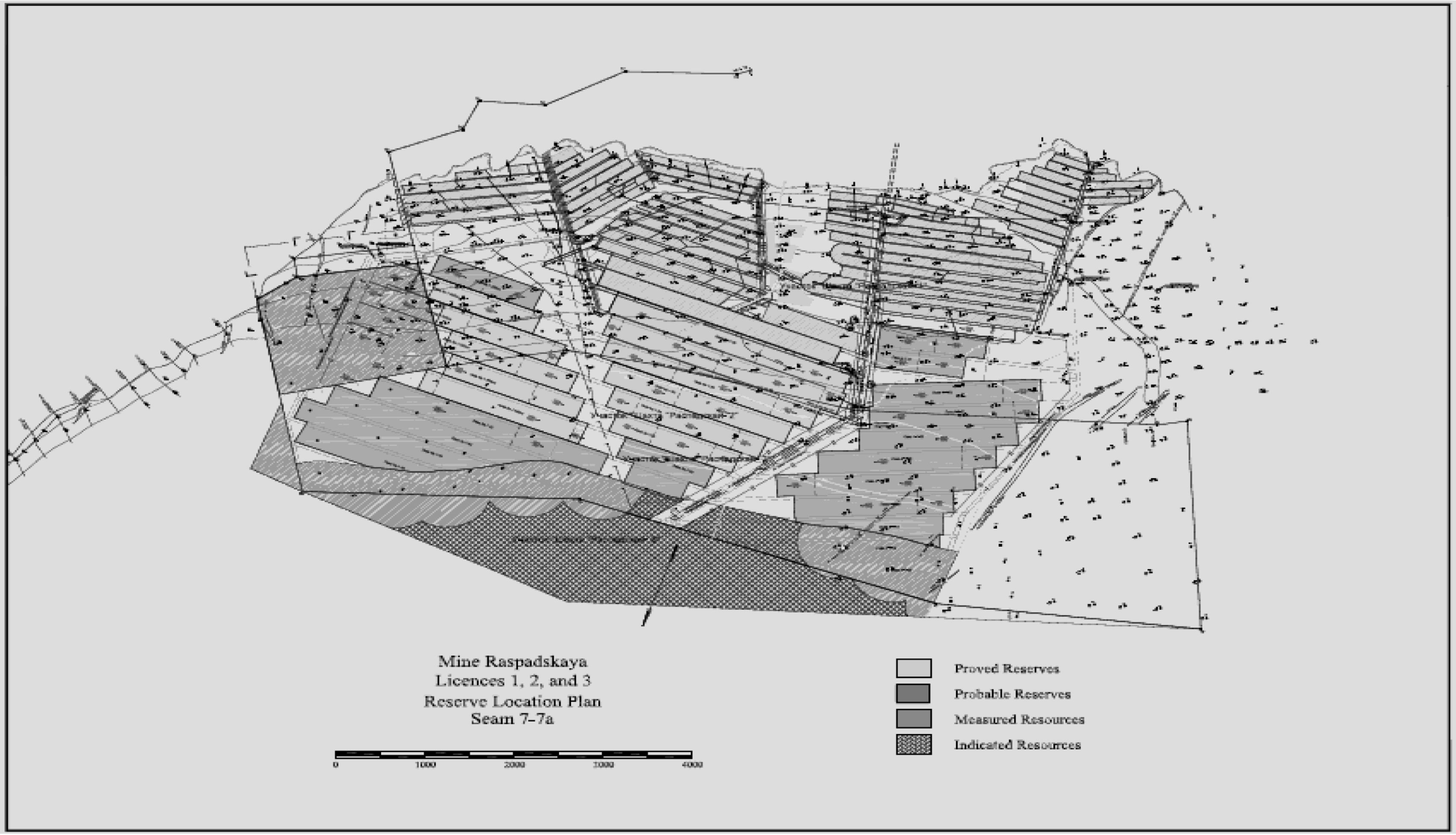

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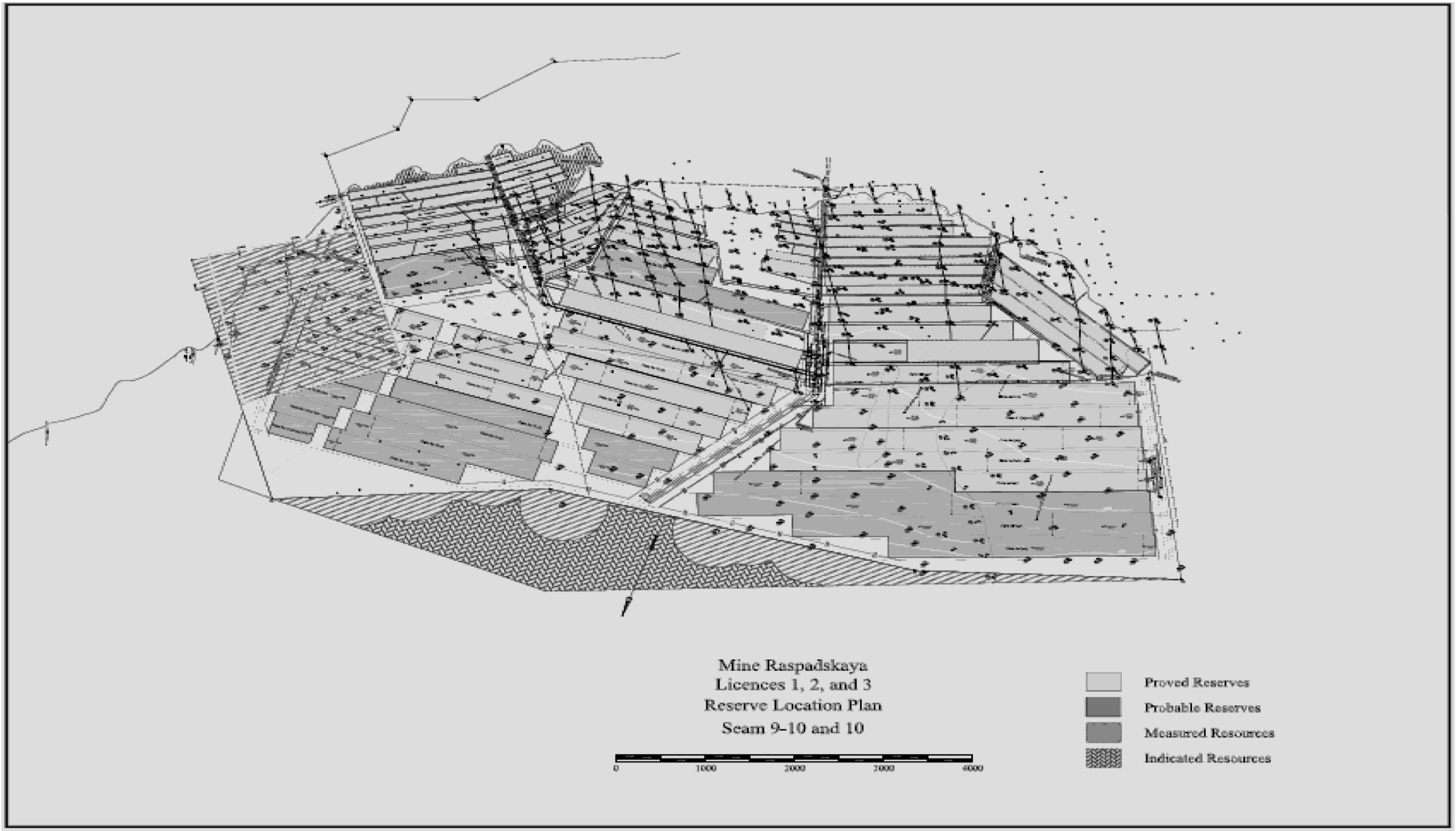
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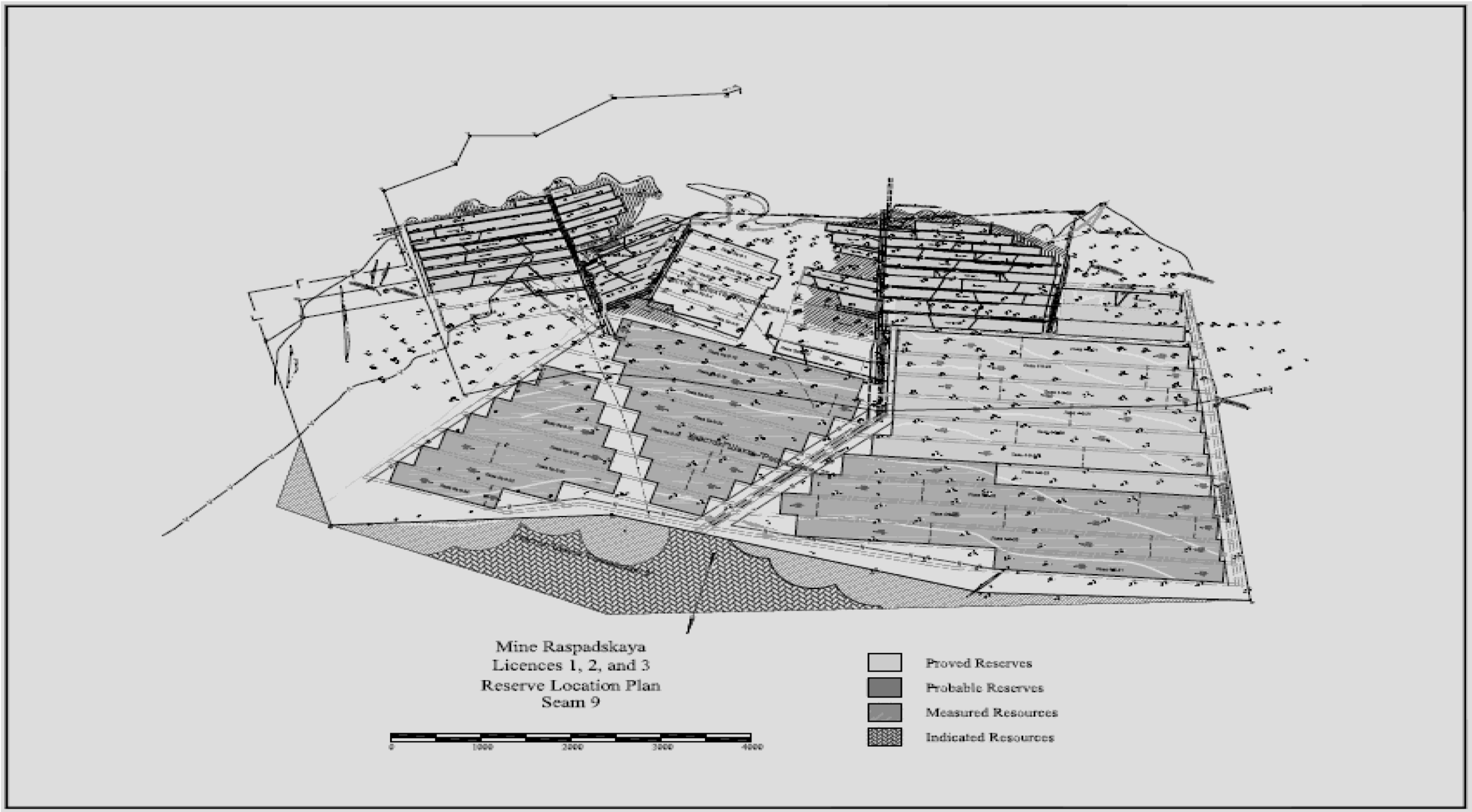
Proved Reserves
Probable Reserves
Measured Resources
Indicated Resources



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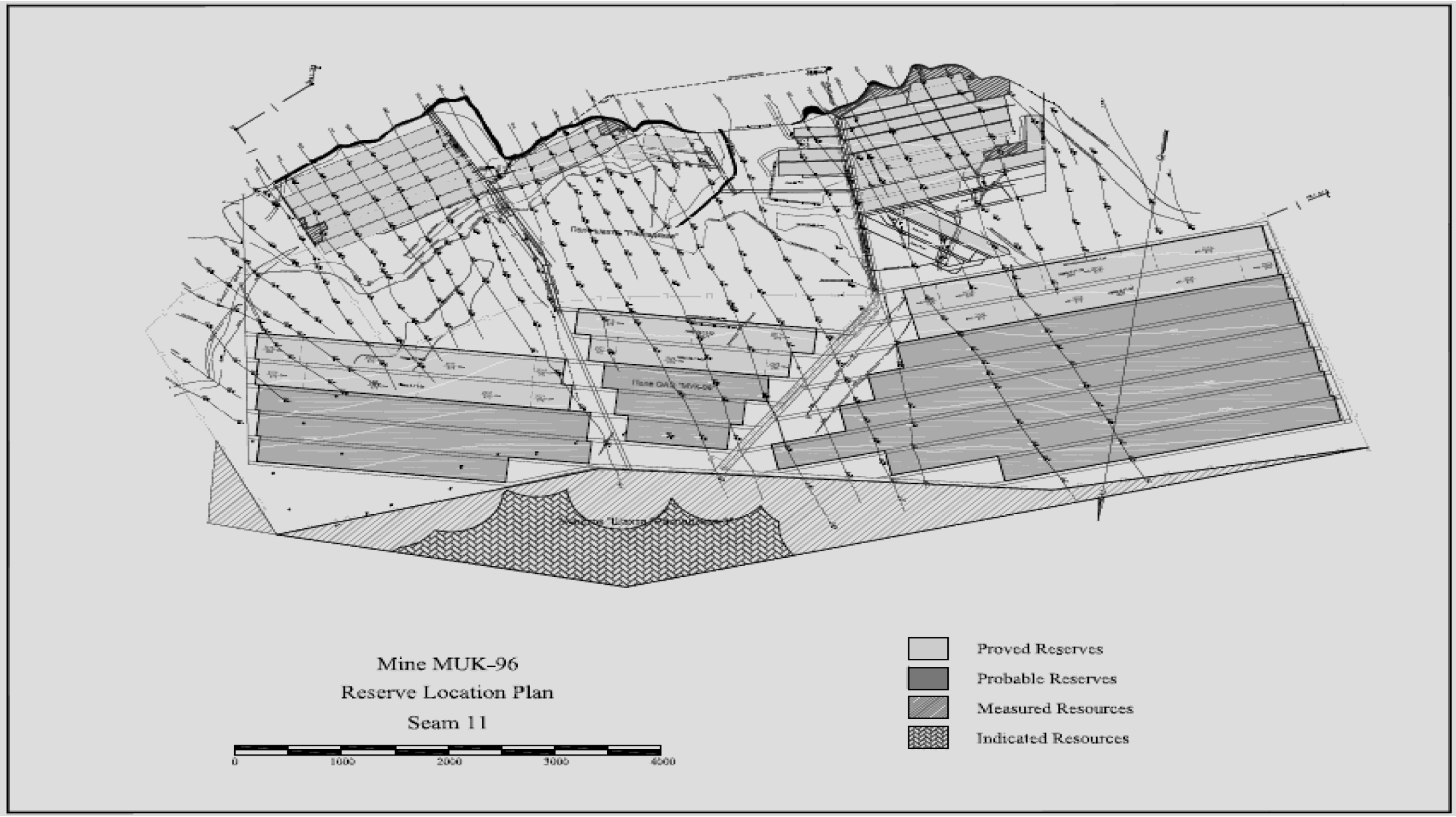
4000
Proved Reserves
Probable Reserves
Measured Resources
Indicated Resources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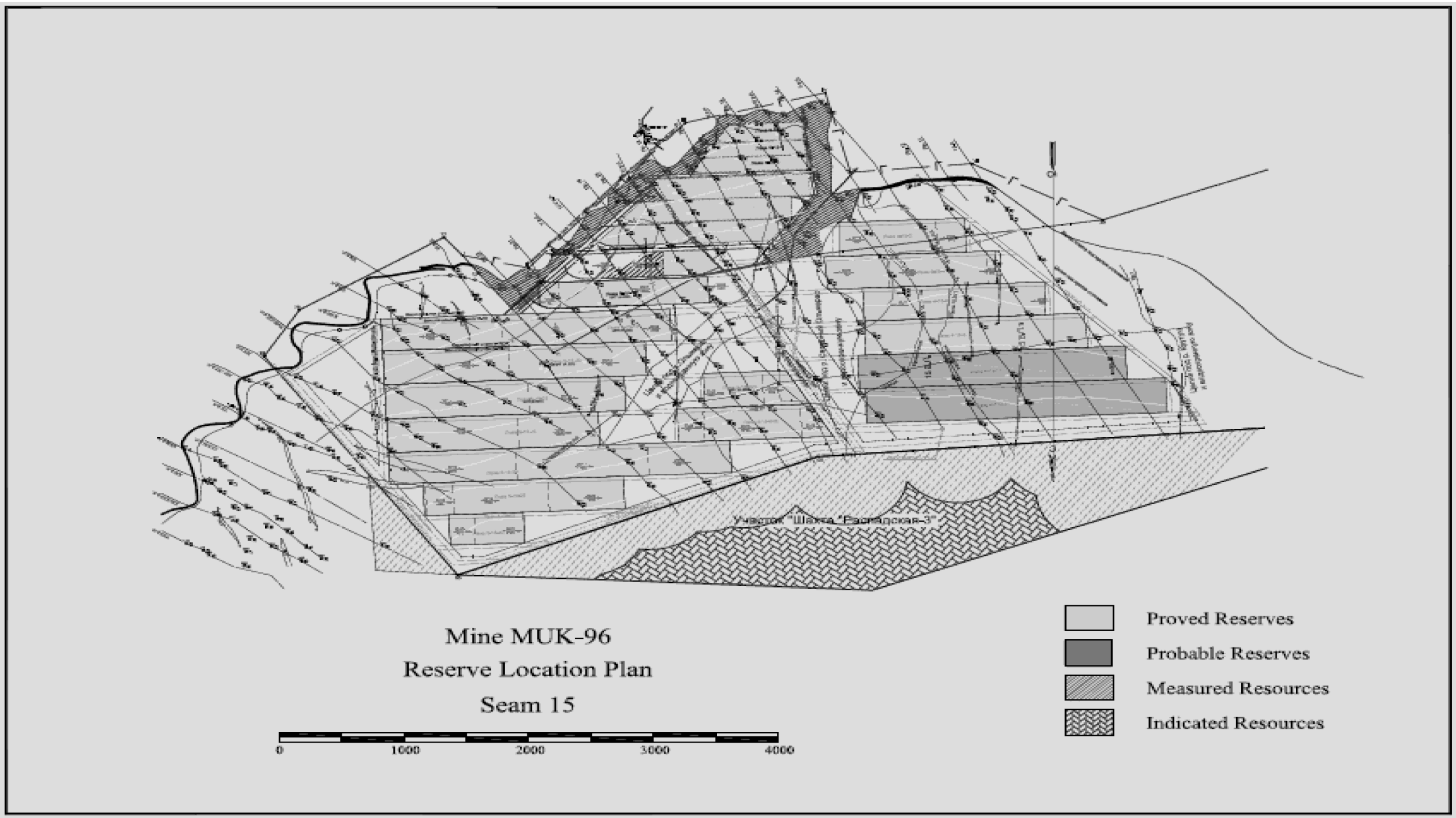
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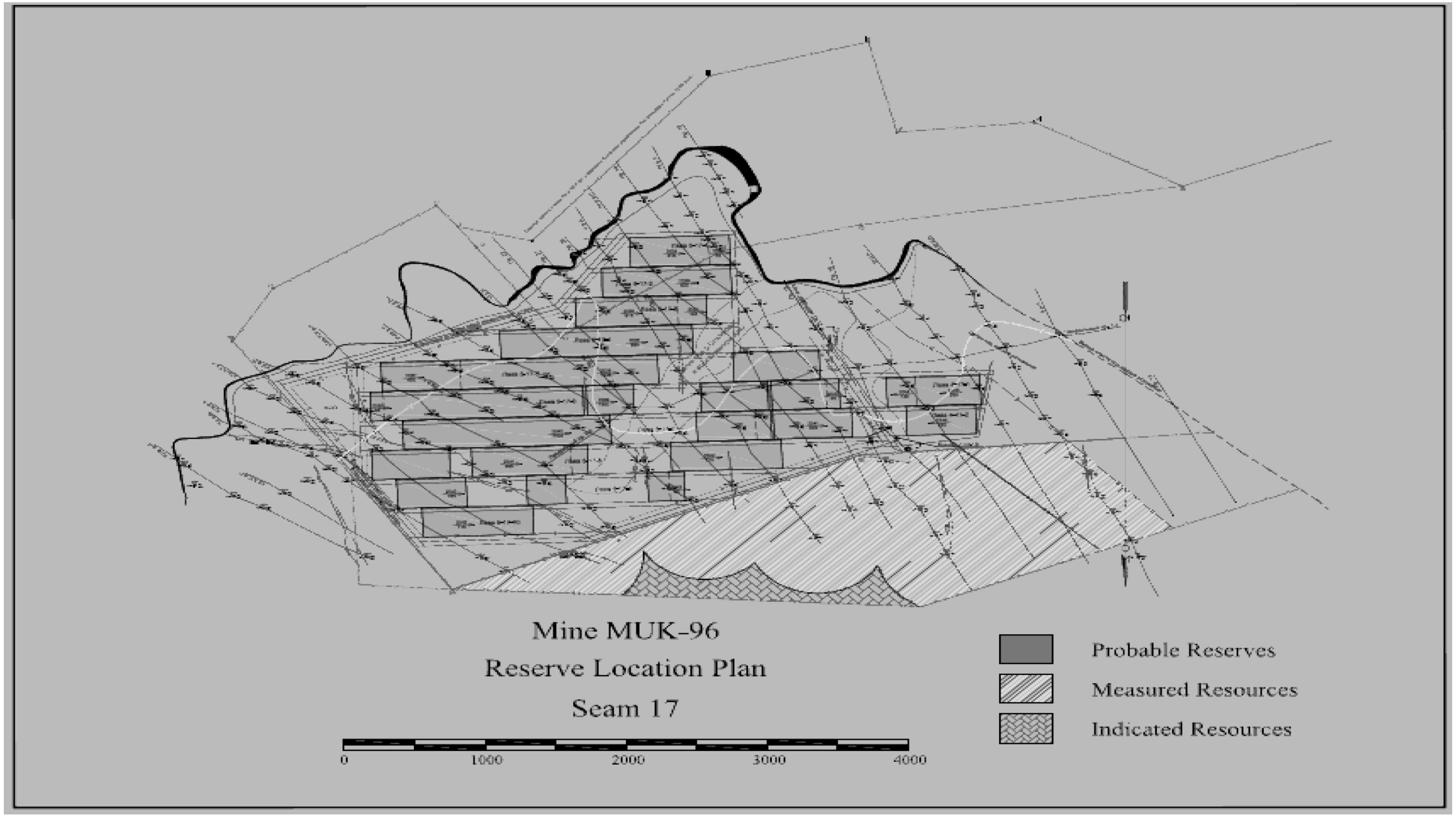
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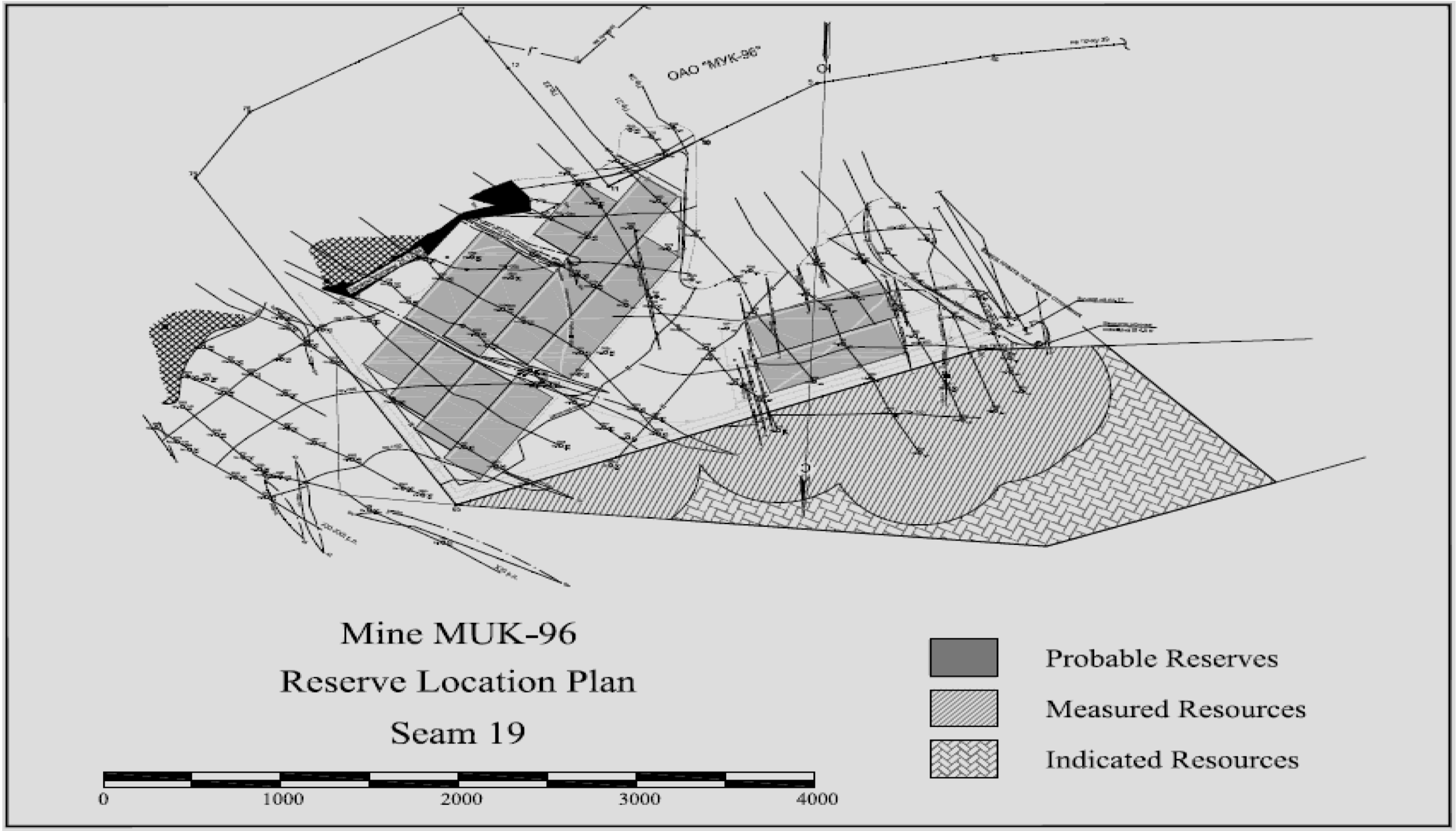
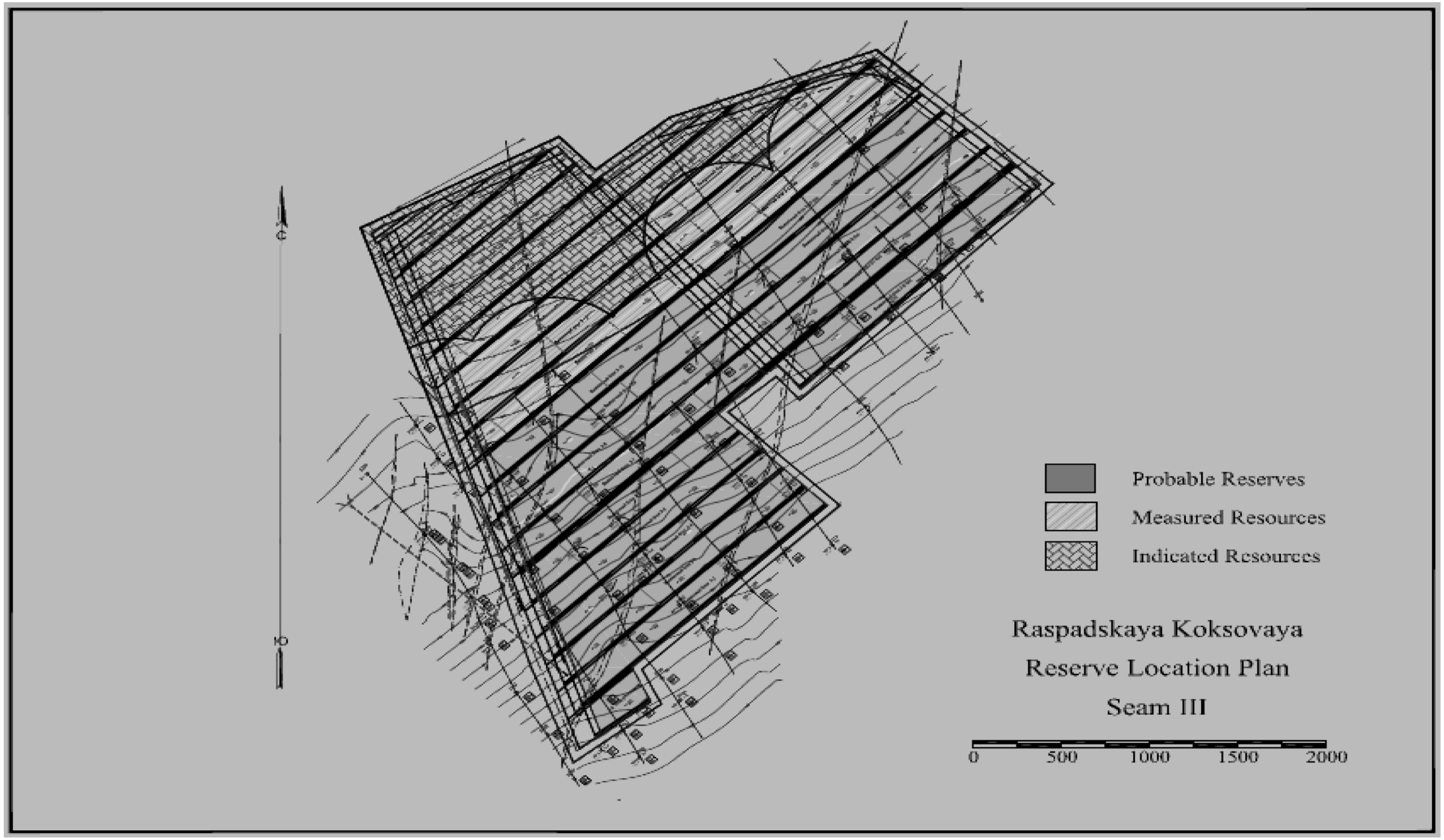


Mine MUK-96
Reserve Location Plan
Seam 19


Probable Reserves
Measured Resources
Indicated Resources
Raspadskaya Koksovaya
Reserve Location Plan
Seam III
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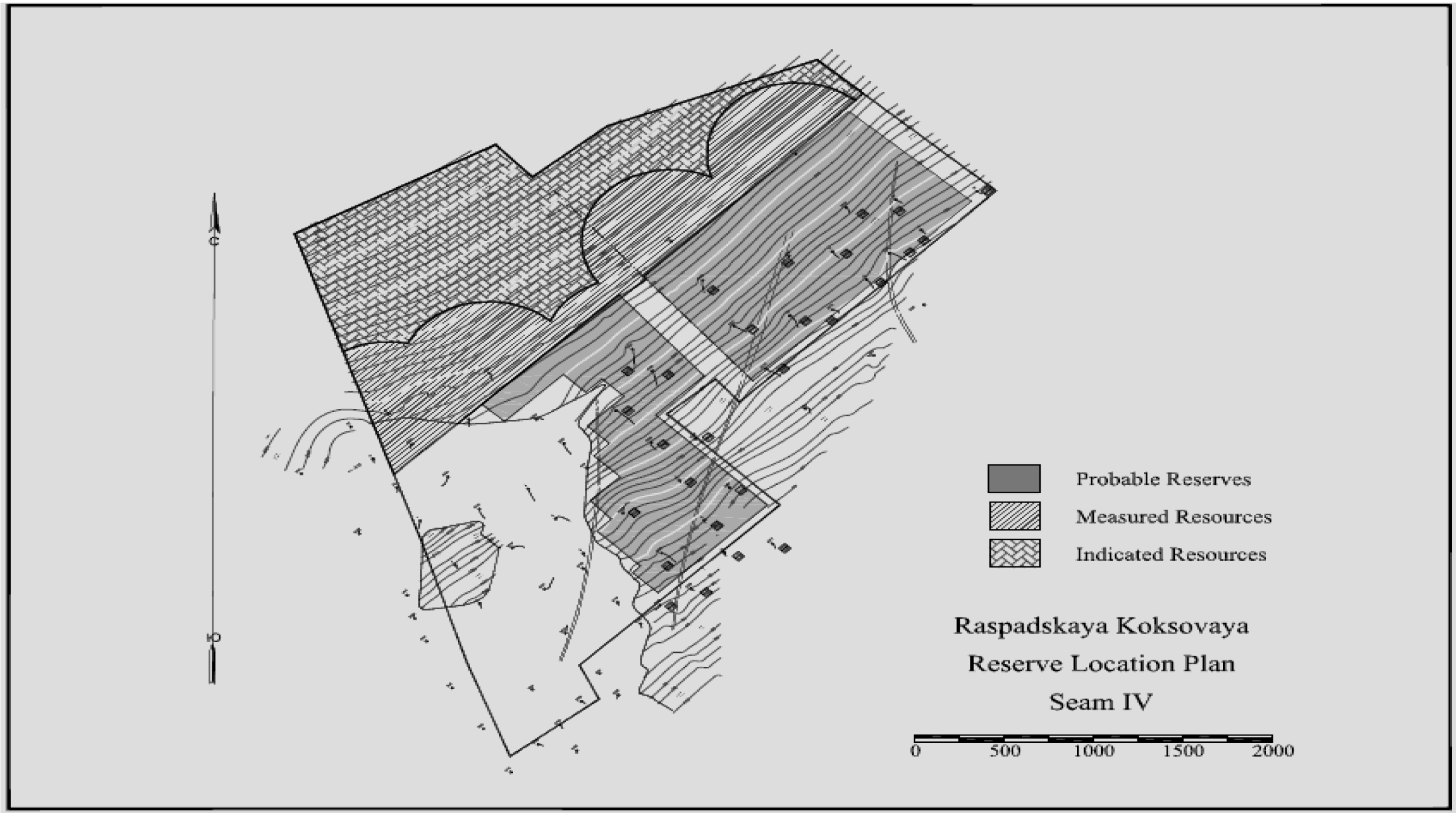
Probable Reserves
Measured Resources
Indicated Resources
Raspadskaya Koksovaya
Reserve Location Plan
Seam IV
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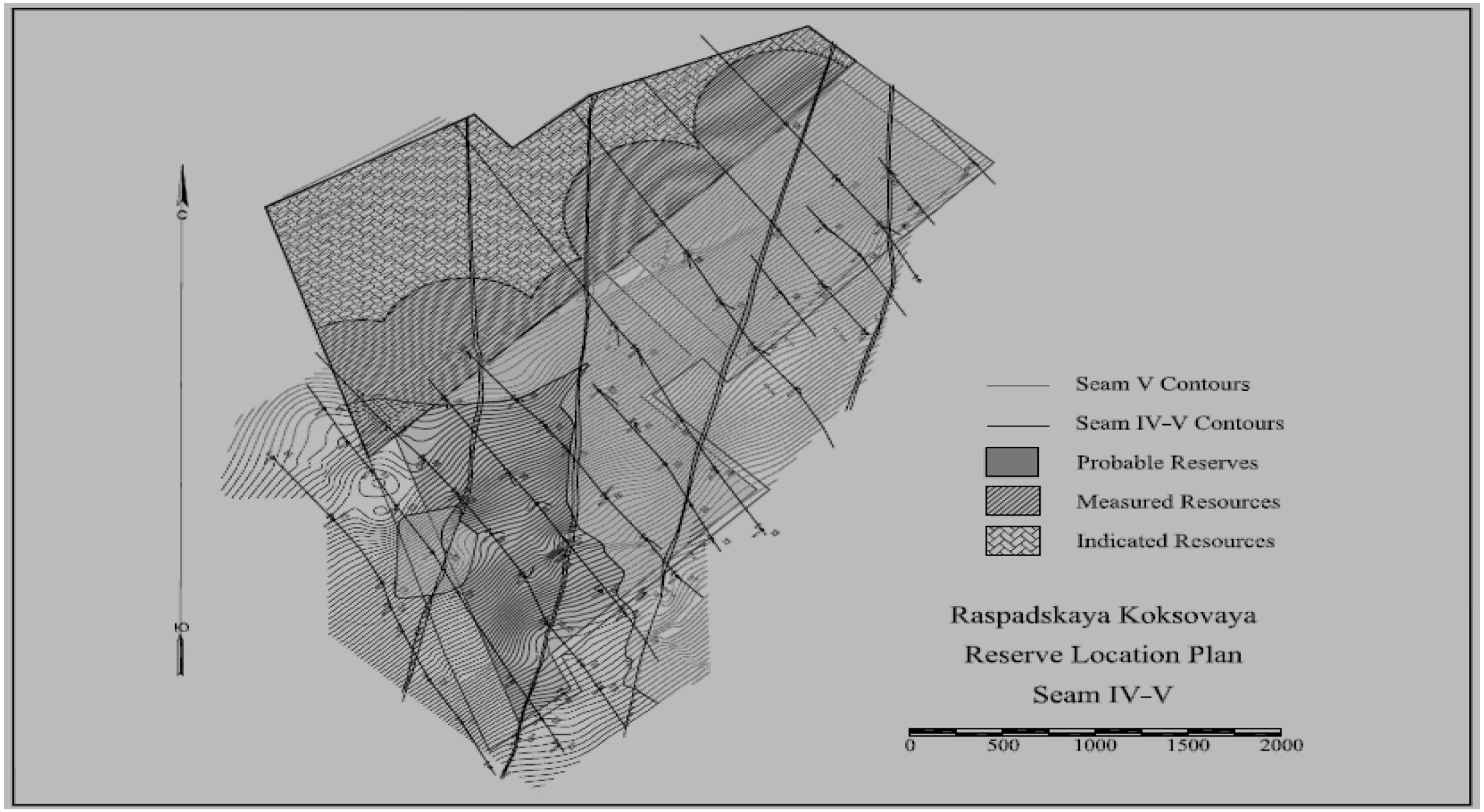
Seam V Contours
Seam IV-V Contours
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Measured Resources
Indicated Resources
Raspadskaya Koksovaya
Reserve Location Plan
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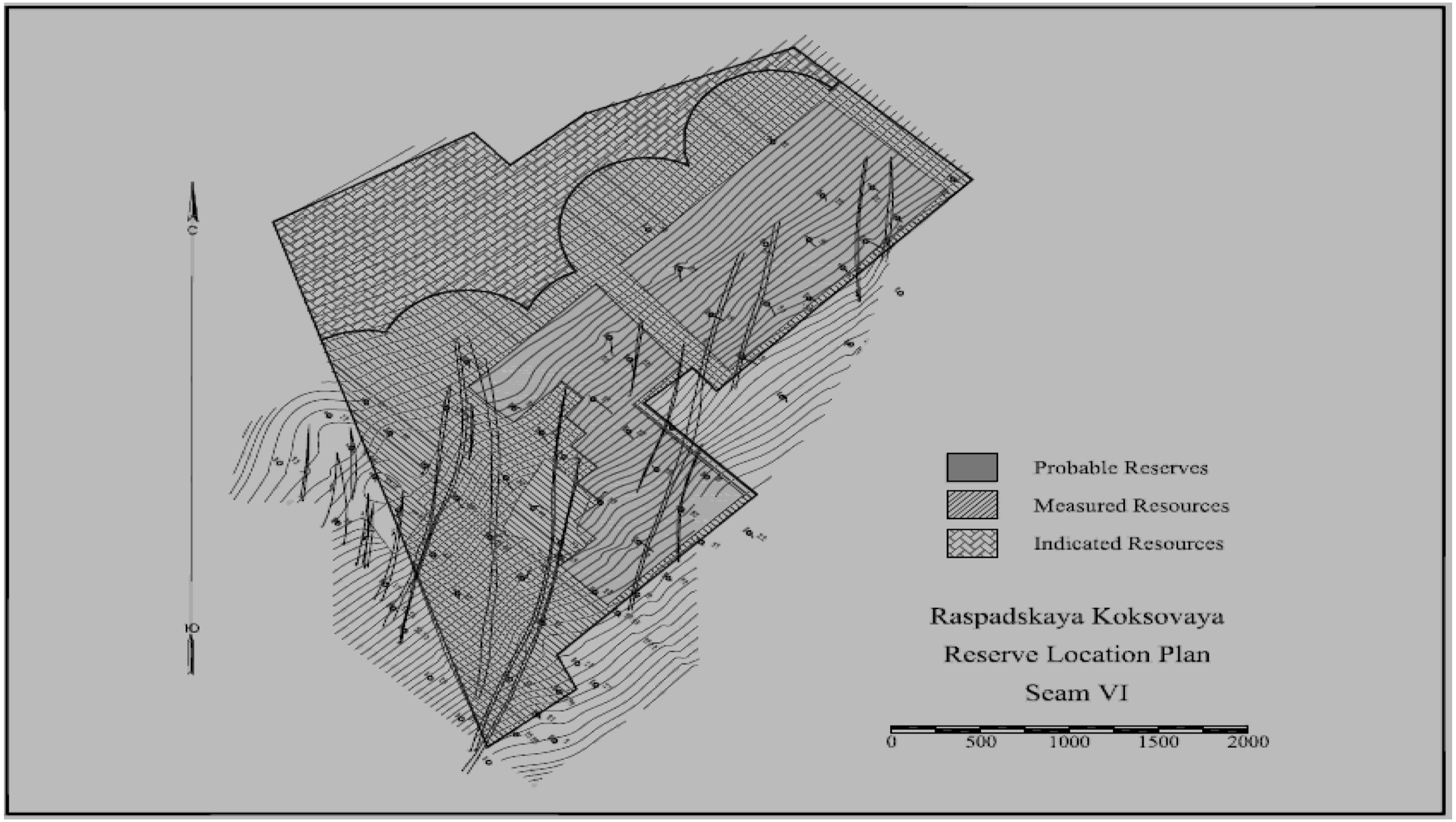
Probable Reserves
Measured Resources
Indicated Resources
Raspadskaya Koksovaya
Reserve Location Plan
Seam VI
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REGISTERED OFFICE OF THE COMPANY

Mira Street, 106
652870 Mezhdurechensk
Russian Federation

REGISTERED OFFICE OF THE SELLING SHAREHOLDER

Stadyl Building, Themistikili Dervi—Florinis
Street, 3rd floor, P.C. 1066
Nicosia, Cyprus

LEGAL ADVISERS

To the Company as to English law:

Skadden, Arps, Slate, Meagher & Flom (UK) LLP
40 Bank Street
Canary Wharf
London E14 5DS,
England

To the Company as to Russian law:

Skadden, Arps, Slate, Meagher & Flom LLP
Degtyarniy Pereulok 4, Building 1
103009 Moscow
Russian Federation

To the Managers as to English law:

Clifford Chance CIS Limited
Ul. Sadovaya-Samotechnaya, 24/27
127051 Moscow
Russian Federation

To the Managers as to Russian law:

Clifford Chance CIS Limited
Ul. Sadovaya-Samotechnaya, 24/27
127051 Moscow
Russian Federation

AUDITOR OF THE COMPANY

Ernst & Young LLC
Sadovnicheskaya nab., 77/1
115035 Moscow
Russian Federation

COAL RESERVE EVALUATOR

IMC Group Consulting Ltd
Innovative Office Building
Lake View Drive
Sherwood Park
Nottingham NG15 0DT
United Kingdom

RASPADSKAYA

RASPADSKAYA OJSC