OJSC KuzbasskayaToplivnaya Company
(trading as "KTK")

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

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Independent Auditors' Report

The Board of Directors

OJSC Kuzbasskaya Toplivnaya Company

We have audited the accompanying consolidated financial statements of OJSC Kuzbasskaya Toplivnaya Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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4 April 2011

	Note	31 December 2010 Mln RUB	31 December 2009 Mln RUB
ASSETS			
Non-current assets			
Property, plant and equipment	16	8 804	7 333
Goodwill and intangible assets	17	14	14
Investments in equity accounted investees	18	8	3
Other investments	19	6	67
Long-term receivables		1	7
Deferred tax assets	20	19	6
Total non-current assets		**8 852**	**7 430**
Current assets			
Inventories	21	759	405
Other investments	19	39	7
Income tax receivable		6	30
Trade and other receivables	22	1 086	1 227
Prepayments and deferred expenses	23	440	230
Cash and cash equivalents	24	457	86
Total current assets		**2 787**	**1 985**
Total assets		**11 639**	**9 415**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 51.

	Note	31 December 2010 Mln RUB	31 December 2009 Mln RUB
EQUITY AND LIABILITIES			
Equity	25		
Share capital		20	17
Retained earnings		3 975	3 409
Additional paid-in capital		2 829	-
Total equity attributable to equity holders of the Company		6 824	3 426
Non-controlling interest		11	41
Total equity		**6 835**	**3 467**
Non-current liabilities			
Loans and borrowings	27	1 676	2 204
Net assets attributable to minority participants in LLC entities	28	68	66
Provisions	29	265	237
Retirement benefit liability		15	-
Deferred tax liabilities	20	448	362
Total non-current liabilities		**2 472**	**2 869**
Current liabilities			
Loans and borrowings	27	535	1 655
Trade and other payables	30	1 767	1 414
Retirement benefit liability		4	-
Income tax payable		26	10
Total current liabilities		**2 332**	**3 079**
Total liabilities		**4 804**	**5 948**
Total equity and liabilities		**11 639**	**9 415**

These consolidated financial statements were approved by management on 4 April 2011 and were signed on its behalf by:

General Director

Igor Y. Prokudin

Deputy General Director
for Economics and Finance

Andrey N. Magaev

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 51.

	Note	2010 Mln RUB	2009 Mln RUB
Revenue	8	**14 160**	**10 658**
Cost of sales	9	(11 457)	(8 101)
Gross profit		**2 703**	**2 557**
Distribution expenses	10	(540)	(363)
Administrative expenses	11	(849)	(706)
Other income and expenses, net	12	39	(19)
Results from operating activities		**1 353**	**1 469**
Finance income	14	99	65
Finance costs	14	(385)	(656)
Income of associates	18	5	-
Profit before income tax		**1 072**	**878**
Income tax expense	15	(249)	(215)
Profit for the year		**823**	**663**
Profit attributable to:			
Owners of the Company		826	637
Minority participants in LLC subsidiaries		-	4
Non-controlling interest		(3)	22
		823	**663**
Net actuarial losses on retirement benefit liabilities, net of income tax		(7)	-
Total comprehensive income for the year		**816**	**663**
Total comprehensive income attributable to:			
Owners of the Company		819	637
Minority participants in LLC subsidiaries		-	4
Non-controlling interest		(3)	22
		816	**663**
Earnings per share			
Basic and diluted earnings per share (RUB)	26	9	8

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 51.

Mln RUB	**Attributable to shareholders of the Company**				**Non-controlling interest**	**Total equity**
	Share capital	**Retained earnings**	**Additional paid-in capital**	**Total**		
Balance at 1 January 2009	**17**	**2 767**	**-**	**2 784**	**34**	**2 818**
Profit and total comprehensive income for the year	-	637	-	637	22	659
Effect of acquisition of minority interest in LLC entities	-	5	-	5	(15)	(10)
Balance at 31 December 2009	**17**	**3 409**	**-**	**3 426**	**41**	**3 467**
Profit for the year	-	826	-	826	(3)	823
Net actuarial losses on retirement benefit liabilities, net of income tax	-	(7)	-	(7)	-	(7)
Total comprehensive income	-	819	-	819	(3)	816
Issue of ordinary shares	3	-	2 829	2 832	-	2 832
Dividends paid	-	(253)	-	(253)	-	(253)
Effect of acquisition of non-controlling interest	-	-	-	-	(27)	(27)
Balance at 31 December 2010	**20**	**3 975**	**2 829**	**6 824**	**11**	**6 835**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 51.

	2010 Mln RUB	2009 Mln RUB
OPERATING ACTIVITIES		
Profit for the year	823	663
Adjustments for:		
Depreciation and amortisation	820	689
Change in provision for site restoration	3	(1)
Change in retirement benefit liability	10	-
Impairment loss of property, plant and equipment	7	15
(Profit) / loss from disposal of property, plant and equipment	(46)	4
Income of associates	(5)	-
Net finance costs	286	591
Income tax expense	249	215
Operating result before changes in working capital and provisions	**2 147**	**2 176**
Change in inventories	(354)	107
Change in trade and other receivables	126	(126)
Change in prepayments for current assets	(215)	(27)
Change in trade and other payables	617	(583)
Cash flows from operations before income tax and interest paid	**2 321**	**1 547**
Income taxes paid	(101)	(281)
Interest paid	(275)	(640)
Compensation of interest received from the State	86	-
Cash flows from operating activities	**2 031**	**626**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	21	42
Loans issued	(87)	(217)
Proceeds from loans issued including interest received	130	233
Acquisition of property, plant and equipment	(2 499)	(1 084)
Acquisition of non-controlling interests	(25)	(4)
Cash flows used in investing activities	**(2 460)**	**(1 030)**
FINANCING ACTIVITIES		
Proceeds from borrowings	5 273	7 119
Repayment of borrowings	(6 960)	(6 904)
Proceeds from share issue, net of issue costs	2 805	-
Contribution from minority participants of LLC companies	-	6
Dividends paid	(253)	-
Cash flows from financing activities	**865**	**221**
Net increase / (decrease) in cash and cash equivalents	**436**	**(183)**
Cash and cash equivalents at the beginning of year	86	255
Effect of exchange rate fluctuations on cash and cash equivalents	(65)	14
Cash and cash equivalents at the end of year	**457**	**86**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 51.

1 Background

(a) Corporate information

OJSC Kuzbasskaya Toplivnaya Company, also known as “Kuzbass Fuel Company” and trading as “KTK” (‘the Company’) is an open joint-stock company (OAO) registered under the Russian law on April 4th, 2000. The Company’s shares are quoted on the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX) since May 2010. The registered office of the Company is: 4, 50-Letiya Oktyabrya street, Kemerovo, Russia, 650099.

The Company’s ultimate controlling party is Mr. Igor Yuryevich Prokudin.

The Company together with its subsidiaries, the most significant of which are listed below, are referred to as ‘the Group’:

			2010	**2009**
	Country of incorporation	**Principal activity**	**Ownership/ voting share**	**Ownership/ voting share**
LLC TEK Meret	Russia	Railroad transportation services	100%	100%
OJSC Kuzbasstoplivosbyt	Russia	Retail sale of coal	100%	75%
OJSC Kaskad Energo	Russia	Electricity generation	100%	100%
CJSC Management Company Kaskad	Russia	Wholesale supply of coal	100%	100%
OJSC ATK	Russia	Retail sale of coal	51%	51%
LLC Transugol	Russia	Retail sale of coal	51%	51%
LLC NTK	Russia	Retail sale of coal	51%	51%
LLC Karakan Farm	Russia	Land lease	100%	98.5%
LLC Kaskad Geo	Russia	Land lease	100%	100%

The Group’s principal activities are the extraction of thermal coal from open-pit mines located in the territory of the Kemerovo region in the Russian Federation, wholesale supply of coal to customers in the Russian Federation as well as abroad, and retail sales of coal through its distribution networks located in the Kemerovo, Altai, Omsk and Novosibirsk regions.

Additionally, the Group is engaged in re-sale of coal purchased from other coal producers, electricity generation, storage and transport services.

The operations of the Group are subject to various regulations and licensing laws related to the extraction of coal in the Russian Federation.

(b) Business environment

Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis. Property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Company and all of its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty, which have the most significant effect on the amounts recognised in the financial statements, is included in the following notes:

- Note16 – Property, plant and equipment;
- Note 29 – Provision for site restoration;
- Note 31 – Financial risk management;
- Note 34 – Contingencies.

Management believes that the Group's accounting policies do not require application of any critical judgements.

(e) Changes in accounting policies and presentation

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

(i) Determination and presentation of operating segments

With effect from 1 January 2010, the Group has identified four distinct operating segments as stated in note 6. Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. The change in accounting policy only impacts disclosure aspects.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the General Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(ii) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For the measurement of goodwill prior to 1 January 2010, refer to note 3(e)(i).

(iii) Accounting for acquisitions of non-controlling interests

From 1 January 2010 the Group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(iv) Accounting for leases of land

The amendment to IAS 17 Leases regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed. Operating land leases are disclosed in note 32.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group’s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group’s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Exploration and evaluation expenditure

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as “Exploration and evaluation assets” within property, plant and equipment. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, which is evidenced by a formalized development plan, the exploration and evaluation assets are reclassified within property, plant and equipment to “Construction in progress”, where they form part of mine development costs.

(iii) Mine development costs

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on development of mineral resources is capitalised and classified within the “Construction in progress” category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to works on mine development which are inseparable from the mine’s landscape, as well as costs of development stripping as described in 3(d)(iv). Other development costs are recognised in profit or loss as an expense as incurred.

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to “Mining assets and mining structures” category, which is classified within property, plant and equipment.

(iv) Stripping costs

Overburden and other mine waste materials are removed during the initial development of a mine site in order to access the mineral resource. This activity is referred to as development stripping for open-pit mines. The directly attributable costs of development stripping (inclusive of an allocation of relevant overhead expenditure) are capitalised as mine development costs within property, plant and equipment.

Removal of waste material continues throughout the life of open-pit mines and is referred to as production stripping. Production stripping commences from the date when saleable materials begin to be extracted from the mine.

Costs of production stripping are variable production costs which are included in the cost of inventory extracted during the period in which the stripping costs have been incurred.

(v) Mining assets and mining structures

This category of property, plant and equipment comprises the following categories of capitalized costs, related to mines put into production use:

- Capitalized mine development expenditure – note 3(d)(iii);
- Capitalized development stripping costs – note 3(d)(iv);
- Capitalized site restoration obligations – note 29(a);
- Cost of production mining licences.

(vi) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(vii) Depreciation

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves under the Russian classification. Depletion of mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in the profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

• Buildings and other production structures	9-46 years
• Machinery, equipment and vehicles	15-35 years
• Fixtures and fittings	3-5 years
• Mining assets and mining structures	Pro rata to extraction volumes in relevant mines

Based on current extraction volumes, average expected remaining useful life of mining assets and mining structures is approximately 50 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill arising from acquisitions on or after 1 January 2010, refer to note 2(e)(ii).

Goodwill arising on acquisitions before 1 January 2010 represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables, if found not to be specifically impaired, are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(i) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Long-term benefits

The Group is subject to certain defined benefit plans. Defined benefit plans are post-employment benefits plans under which the Group has a legal or constructive obligation to pay amounts in respect of those benefits, and thus makes direct payments to its employees. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method.

In accordance with this method, the Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related service cost. This involves the use of demographic assumptions about the future characteristics of the 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, etc.

Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on high quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. Any net actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized as 'other comprehensive income'.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed in course of land plot preparation, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred. Increases in provision due to subsequent disturbance of land plots in course of coal extraction are charged to cost of production of inventories.

(k) Net assets attributable to minority participants in LLC entities

If, according to charter documents of a limited liability company, a participant may unilaterally withdraw from such company, the company will be obliged to pay the withdrawing participant's share of net assets of the company for the year of withdrawal, in cash or, subject to consent of the participants, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of withdrawal.

Accordingly, the share capital and retained earnings of limited liability companies forming part of the Group which are attributable to minority participants and where the participants may unilaterally withdraw, are shown as net assets attributable to minority participants, and are presented as liabilities of the Group.

(l) Revenue

(i) Sale of coal

Revenue from the sale of coal in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The transfer of risks and rewards varies depending on the individual terms of the contract of sale and usually occurs when the coal is received at the customer’s warehouse or is collected from the Group’s warehouse in case of retail sales. However, for some international shipments the transfer of risks and rewards occurs upon passing the products to the relevant carrier or at the frontier.

(ii) Revenue from rendering of services

Revenue from rendering of services comprises sales of power and heat energy and sales of storage and transportation services. Revenue from transportation services rendered is recognised in profit or loss in proportion to the stage of completion of a respective voyage at the reporting date. Revenue from sales of power and heat energy is recognized on the delivery of electricity and heat and is based on the quantities actually measured or estimated on the basis of the output less expected grid losses, and authorized tariffs for electricity and heat as approved by the Regional Energy Commission.

(iii) Compensation from government

Compensation from government relates to retail sales of coal to the general public at fixed prices regulated by the government. The Group receives reimbursement from the state budget for the difference between the regulated price and an average market price, which is agreed with the government. Compensation from government is accrued when respective sales are made to end customer.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Company's General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available – refer to note 2(e)(i).

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective:

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- Various *Improvements to IFRSs* are to be dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Reclassifications

With effect from 1 January 2010, the Group changed the functional classification of certain personnel expenses and cost of services provided by third parties. Comparative information for the year ended 31 December 2009 was reclassified for consistency, which resulted in decrease of cost of sales by RUB 70 million, with a respective increase of distribution expenses by RUB 51 million and an increase of administrative expenses by RUB 19 million. The purpose of the change in presentation is to provide a more transparent classification of expenses.

5 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6 Reportable segments

The Group determines and presents operating segments based on the information that internally is provided to the General director, who is the Group's chief operating decision maker. The Company's General director reviews operating results for purposes of assessing performance and making resource allocation decisions.

The segmented financial information is prepared and reported to general director at least quarterly. Management selected gross profit as the measure of the segment's result.

For the year ended and as at 31 December 2010 Mln RUB	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	Total
Revenue	3 144	8 178	2 273	565	14 160
Cost of sales	(2 373)	(6 907)	(1 786)	(391)	(11 457)
Gross profit and segment result	**771**	**1 271**	**487**	**174**	**2 703**
Unallocated expenses					
Other operating expenses					(1 350)
Finance income and expenses					(281)
Profit before income tax					**1 072**
Trade receivables	260	95	187	62	604
Advances received	(50)	(641)	(36)	(9)	(736)

For the year ended and as at 31 December 2009 Mln RUB	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	Total
Revenue	3 624	5 004	1 501	529	10 658
Cost of sales	(2 685)	(3 897)	(1 152)	(367)	(8 101)
Gross profit and segment result	**939**	**1 107**	**349**	**162**	**2 557**
Unallocated expenses					
Other operating expenses					(1 088)
Finance income and expenses					(591)
Profit before income tax					**878**
Trade receivables	421	51	174	74	720
Advances received	(79)	(103)	(33)	(54)	(269)

(i) Geographical information

The Group operates in three principal geographical areas: Russia, European Union and Asia (by location of customers).

	Revenues		Trade receivables		Advances received	
Mln RUB	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Russia	5 982	5 654	509	669	95	166
European Union	5 338	2 476	28	2	641	103
Asia	2 940	2 528	67	49	-	
Total	**14 160**	**10 658**	**604**	**720**	**736**	**269**

All non-current assets of the Group are located in Russia.

(ii) Major customers

During 2010 sales to three most significant clients comprising more than 10% of revenue each, amounted to RUB 2 940 million (2009: RUB 2 579 million), RUB 1 712 million (2009: RUB 1 929 million) and RUB 1 731 million (sales to the same customer in 2009 amounted to RUB 296 million) respectively.

7 Acquisition of non-controlling interests

In July 2010, the Group acquired a 25% interest in OJSC KuzbassToplivoSbyt Company for a consideration of RUB 20 million. Also, during 2009 and 2010, the Group acquired additional interests in certain coal retail entities for a consideration of RUB 5 million in 2010 (2009: RUB 4 million).

The above acquisitions resulted in reduction of non-controlling interest by RUB 27 million (2009: RUB 15 million) and in increase of net assets attributable to minority participants of LLC entities by RUB 2 million (2009: RUB 6 million).

8 Revenue

Mln RUB	**2010**	**2009**
Sales of coal	13 000	9 225
Compensation from government	596	904
Sales of electrical and heat power	236	202
Provision of transportation services	170	137
Provision of storage services	50	67
Other revenue	108	123
	14 160	**10 658**

Compensation from government refers to amounts received from the local authorities as part of the consideration for coal sold to local municipalities. Such compensation is due to the company in accordance with Russian legislation.

9 Cost of sales

Mln RUB	2010	2009
Railway tariff and transportation services	5 437	3 542
Coal purchased	1 595	942
Wages, salaries and social charges	924	747
Extraction, processing and sorting of coal	723	659
Fuel	804	546
Depreciation	755	615
Spare parts	499	323
Mining and environmental taxes	248	204
Repair and maintenance	228	111
Operating leases	75	57
Electricity	57	33
Security services	38	32
Change in provision for site restoration	3	(1)
Land rent	4	31
Storage services	1	4
Other materials	142	106
Other services	79	123
Other costs	10	25
Change in coal stock	(165)	2
	11 457	**8 101**

10 Distribution expenses

Mln RUB	2010	2009
Services	257	132
Wages, salaries and social charges	193	158
Materials	45	31
Depreciation	45	42
	540	**363**

11 Administrative expenses

Mln RUB	2010	2009
Wages, salaries and social charges	421	287
Services	160	129
Taxes other than income tax	123	92
Charity and welfare	40	33
Fees and penalties	9	57
Materials	25	18
Depreciation	20	31
Sundry payments to personnel	12	36
Other administrative expenses	39	23
	849	**706**

12 Other income and expenses, net

Mln RUB	2010	2009
Impairment loss	(7)	(15)
Profit / (loss) on disposal of property, plant and equipment	46	(4)
	39	**(19)**

13 Personnel costs

Mln RUB	2010	2009
Wages, salaries and other payments to personnel	1 282	1 006
Social charges	268	222
	1 550	**1 228**

14 Finance income and finance costs

Mln RUB	2010	2009
Foreign exchange gain	-	41
Interest income on loans granted	13	19
Compensation of interest paid in prior periods received from the State	86	-
Discount at initial recognition of interest-free loan received	-	5
Finance income	99	65
Foreign exchange loss	(83)	-
Interest expense	(250)	(615)
Allowance for doubtful debts and write-offs	(21)	(9)
Unwinding of discount on provision for site restoration	(21)	(22)
Unwinding of discount on retirement benefit liability	(1)	-
Unwinding of discount on long-term promissory notes	(9)	(10)
Finance costs	(385)	(656)
	(286)	**(591)**

In addition to interest expense shown above, the Group has capitalised RUB 30 million (2009: 49 million) to property, plant and equipment under construction using a capitalisation rate of 7.7% (2009: 11.1 %).

15 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2009: 20%).

Mln RUB	2010	2009
Current tax expense		
Current year	(170)	(144)
Underprovided in prior years	(4)	(7)
	(174)	**(151)**
Deferred tax expense		
Origination and reversal of temporary differences	(75)	(73)
Change in unrecognised temporary differences	-	9
	(75)	**(64)**
	(249)	**(215)**

Reconciliation of effective tax rate:

	2010		2009	
	Mln RUB	**%**	**Mln RUB**	**%**
Profit before income tax	1 072		878	
Income tax at applicable tax rate	(214)	(20)	(176)	(20)
Non-deductible expenses	(31)	(3)	(41)	(5)
Change in unrecognised temporary differences	-	-	9	1
Underprovided in prior years	(4)	(0)	(7)	(1)
	(249)	**(23)**	**(215)**	**(25)**

(a) Income tax recognised in other comprehensive income

	2010			2009		
Mln RUB	**Before tax**	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Actuarial losses on retirement benefit liability	(9)	2	(7)	-	-	-
	(9)	**2**	**(7)**	**-**	**-**	**-**

(b) Income tax recognised directly in equity

	2010			2009		
Mln RUB	**Before tax**	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Share issue costs	(165)	33	(132)	-	-	-
	(165)	**33**	**(132)**	**-**	**-**	**-**

16 Property, plant and equipment

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Cost / deemed cost								
Balance at 1 January 2009	850	918	2 592	2 640	6	596	364	7 966
Additions	302	-	16	106	1	570	317	1 312
Transfers	2	11	89	1 378	14	(847)	(647)	-
Disposals	(4)	(9)	(2)	(87)	-	(5)	(2)	(109)
Balance at 31 December 2009	**1 150**	**920**	**2 695**	**4 037**	**21**	**314**	**32**	**9 169**
Additions	117	5	5	340	8	332	1 524	2 331
Transfers	896	-	178	824	23	(559)	(1 362)	-
Disposals	(9)	-	-	(120)	(1)	-	-	(130)
Balance at 31 December 2010	**2 154**	**925**	**2 878**	**5 081**	**51**	**87**	**194**	**11 370**

	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Depreciation and impairment losses								
Balance at 1 January 2009	(52)	(33)	(369)	(737)	(3)	-	-	(1 194)
Depreciation charge	(22)	(18)	(162)	(486)	(2)	-	-	(690)
Impairment loss	-	-	2	(17)	-	-	-	(15)
Disposals	-	-	2	60	1	-	-	63
Balance at 31 December 2009	**(74)**	**(51)**	**(527)**	**(1 180)**	**(4)**	**-**	**-**	**(1 836)**
Depreciation charge	(43)	(19)	(133)	(607)	(18)	-	-	(820)
Impairment loss	-	-	-	(7)	-	-	-	(7)
Disposals	-	-	-	96	1	-	-	97
Balance at 31 December 2010	**(117)**	**(70)**	**(660)**	**(1 698)**	**(21)**	**-**	**-**	**(2 566)**
Net book value								
At 1 January 2009	**798**	**885**	**2 223**	**1 903**	**3**	**596**	**364**	**6 772**
At 31 December 2009	**1 076**	**869**	**2 168**	**2 857**	**17**	**314**	**32**	**7 333**
At 31 December 2010	**2 037**	**855**	**2 218**	**3 384**	**30**	**87**	**194**	**8 804**

The allocation of depreciation charge is presented in the table below:

Mln RUB	**2010**	**2009**
Cost of sales	755	615
Distribution expenses	45	42
Administrative expenses	20	31
Capitalised in property, plant and equipment under construction	-	2
	820	**690**

Additions to property, plant and equipment include RUB 30 million (2009: RUB 49 million) of capitalised interest.

At 31 December 2010 items of property, plant and equipment with a carrying amount of RUB 2 555 million (2009: RUB 3 421 million) have been pledged to secure bank loans (refer to note 27).

17 Goodwill and intangible assets

Mln RUB	**Goodwill**	**Other**	**Total**
Cost			
Balance at 1 January 2009	**14**	**1**	**15**
Additions	-	-	-
Balance at 31 December 2009	14	1	15
Additions	-	-	-
Balance at 31 December 2010	**14**	**1**	**15**
Amortisation			
Balance at 1 January 2009	**-**	**-**	**-**
Amortisation charge	**-**	**(1)**	**(1)**
Balance at 31 December 2009	**-**	**(1)**	**(1)**
Amortisation charge	**-**	**-**	**-**
Balance at 31 December 2010	**-**	**(1)**	**(1)**
Net book value			
At 1 January 2009	**14**	**1**	**15**
At 31 December 2009	**14**	**-**	**14**
At 31 December 2010	**14**	**-**	**14**

Impairment testing of goodwill

Goodwill arising from previous business combinations has been entirely allocated to the operating segment "domestic sales of coal produced", which is the lowest level at which the goodwill is monitored for internal management purposes.

The Group tested the goodwill for impairment as at 31 December 2010. The results of the test did not identify any impairment of the goodwill as at 31 December 2010.

18 Investments in equity accounted investees

Mln RUB	31 December 2010	31 December 2009
Suzunsky raitop OJSC, 49% ownership share	3	3
Kuzbass Transport Company LLC, 45% ownership share	5	-
	8	**3**

Movements in carrying value of investments in equity accounted investees were as follows:

Mln RUB	2010	2009
Carrying value as at the beginning of year	3	3
Share of income of associates	5	-
Carrying value as at the end of year	**8**	**3**

The following aggregate financial information relates to the Group's associates:

Mln RUB	31 December 2010	31 December 2009
Assets	943	-
Liabilities	(932)	-
Equity	(11)	-

Mln RUB	2010	2009
Revenue	458	-
Net profit and total comprehensive income	10	-

19 Other investments

Mln RUB	31 December 2010	31 December 2009
Non-current		
Loan granted to shareholder	-	67
Loan granted to other companies	6	-
	6	**67**
Current		
Loan granted to other companies	39	7
	39	**7**

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 31.

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Mln RUB	Assets		Liabilities		Net balance	
	2009	2010	2009	2010	2009	2010
Property, plant and equipment	-	-	(422)	(490)	(422)	(490)
Inventories	15	8	(14)	(48)	1	(40)
Trade and other receivables	7	44	(7)	(8)	-	36
Trade and other payables	16	23	-	(6)	16	17
Loans and borrowings	5	5	(12)	(10)	(7)	(5)
Provisions and retirement benefit liability	47	53	-	-	47	53
Tax loss carry-forwards	9	-	-	-	9	-
Deferred tax assets / liabilities	**99**	**133**	**(455)**	**(562)**	**(356)**	**(429)**
Set-off of tax	(93)	(114)	93	114	-	-
Net tax assets / liabilities	**6**	**19**	**(362)**	**(448)**	**(356)**	**(429)**

As at 31 December 2010, tax losses carried forward were utilised against taxable profits.

(b) Unrecognised deferred tax liabilities

As at 31 December 2010, the Group has not recognised a deferred tax liability with respect to taxable temporary differences relating to investments in subsidiaries, because management believes all such differences will not be reversed in the foreseeable future. The amount of these differences is RUB 852 million (2009: RUB 757 million).

(c) Movement in temporary differences during the year

	1 January 2009	**Recognised within profit for the period**	**31 December 2009**	**Recognised within profit for the period**	**Recognised in other comprehen-sive income**	**31 December 2010**
Property, plant and equipment	(363)	(59)	(422)	(68)	-	(490)
Inventories	128	(127)	1	(41)	-	(40)
Trade and other receivables	(6)	6	-	36	-	36
Trade and other payables	(74)	90	16	1	-	17
Loans and borrowings	(9)	2	(7)	2	-	(5)
Provisions and retirement benefit liabilities	32	15	47	4	2	53
Tax loss carry-forwards	-	9	9	(9)	-	-
	(292)	**(64)**	**(356)**	**(75)**	**2**	**(429)**

21 Inventories

Mln RUB	31 December 2010	31 December 2009
Raw materials and consumables	334	132
Coal in stock	347	150
Coal in transit	75	114
Other	3	9
	759	**405**

Inventories with a carrying amount of RUB nil million (2009: 45 million) have been pledged as security for borrowings (note 27).

22 Trade and other receivables

Mln RUB	31 December 2010	31 December 2009
Trade receivables	604	720
VAT receivable	288	279
Compensation receivable from budget	91	96
Receivables for railway tariff	55	72
Receivable from personnel	16	14
Other receivables	94	91
Provision for doubtful debts	(62)	(45)
	1 086	**1 227**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 31.

23 Prepayments and deferred expenses

Mln RUB	31 December 2010	31 December 2009
Advances given	419	209
Deferred expenses	21	21
	440	**230**

24 Cash and cash equivalents

Mln RUB	31 December 2010	31 December 2009
Petty cash	2	1
Bank accounts and term deposits	455	85
	457	**86**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

25 Capital and reserves

Number of shares unless otherwise stated	31 December 2010	31 December 2009
On issue at 1 January	84 399 400	1 687 988
Share split	-	82 711 412
Issued for cash	14 858 955	-
On issue at 31 December - fully paid	99 258 355	84 399 400
Authorized shares	99 299 400	93 777 100
Par value, Russian roubles	0.2	0.2
Share capital, RUB million	**20**	**17**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In December 2009, the Company performed a share split in the ratio of 1:50, which resulted in an increase in the number of shares to 84 399 400. The split was registered with the regulating authorities on 28 December 2009. On 17 February 2010, the shareholders resolved to increase the number of the Company's authorised shares to 99 299 400 and to issue an additional 14 900 000 shares.

In April 2010, the Company made an initial public offering of its shares at RTS and MICEX stock exchanges, raising RUB 2 964 million for 15% of its shares. As a result of public offering, 14 858 955 shares were issued and paid in cash. Transaction costs of the issue amounted to RUB 132 million net of income tax effect and have been offset against the share issue proceeds in the statement of changes in equity.

(a) Dividends

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the Russian Accounting Principles, which differs from the balance of retained earnings reported in these consolidated financial statements.

The following dividends were declared and paid by the Company:

Mln RUB	2010	2009
3 RUB per qualifying ordinary share (2009: nil)	253	-

26 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders of RUB 826 million (2009: RUB 637 million), and a weighted average number of ordinary shares outstanding of 90 058 016 (2009: 84 399 400). The Company has neither preference shares nor dilutive potential ordinary shares. Per share calculations for comparative periods are based on the number of shares after the share split.

27 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 31.

Mln RUB	31 December 2010	31 December 2009
Non-current liabilities		
Secured bank loans	1 618	2 130
Loans from other companies	37	41
Promissory notes issued	21	33
	1 676	**2 204**
Current liabilities		
Secured bank loans	511	1 622
Promissory notes issued	15	11
Loans from other companies	5	18
Interest accrued	4	4
	535	**1 655**

(a) Terms and debt repayment schedule:

Mln RUB	Currency	Nominal interest rate	Year of maturity	2010 Carrying amount	2010 Face value	2009 Carrying amount	2009 Face value
Secured bank loan	USD	7.5%	2011 - 2014	1 981	1 981	-	-
Secured bank loan	USD	8% - 9.1%	2011 - 2014	-	-	1 966	1 966
Secured bank loan	RUB	11.5%	2011 - 2012	103	103	-	-
Secured bank loan	RUB	12% - 17.8%	2010	-	-	800	800
Secured bank loan	RUB	3m Mosprime+4.55%	2011	45	45	-	-
Secured bank loan	RUB	1m Mosprime+3.5%	2010	-	-	350	350
Secured bank loan	RUB	20% - 22%	2010	-	-	246	246
Secured bank loan	RUB	12% - 22%	2011 - 2014	-	-	184	184
Secured bank loan	USD	8% - 9.1%	2010	-	-	136	136
Secured bank loan	RUB	16.5%	2010	-	-	60	60
Secured bank loan	RUB	10.5% - 14.0%	2010 - 2012	-	-	10	10
Promissory notes issued	RUB	0%	2011 - 2013	36	45	44	57
Loans from other companies	RUB	0%	2011 - 2028	42	85	44	92
Loans from other companies	RUB	20%	2010	-	-	15	15
				2 207	**2 259**	**3 855**	**3 916**

The borrowings above are stated net of interest payable.

Bank loans are secured by the following:

- Property plant and equipment with a carrying amount of RUB 2 555 million (2009: RUB 3 421 million) (refer to note16).
- Inventory with a carrying amount of nil (2009: RUB 45 million) (refer to note 21).
- 100% shares of LLC TEK Meret, a subsidiary of the Group (2009: 100%) with a carrying amount of RUB 547 million (2009: RUB 478 million).

28 Net assets attributable to minority participants in LLC entities

	Mln RUB
Balance at 1 January 2009	50
Comprehensive income attributable to minority participants	4
Effect of share issue by LLC subsidiary	6
Effect of change in non-controlling interests	6
Balance at 31 December 2009	**66**
Comprehensive income attributable to minority participants	-
Effect of change in non-controlling interests	2
Balance at 31 December 2010	**68**

As minority participants in limited liability companies of the Group have a unilateral right to withdraw their share of net assets from the entity, their interests in the net assets of these entities have been recognised as a liability.

29 Provisions

All of the Group’s provisions are represented by non-current site restoration liabilities.

Mln RUB	**Site restoration liability**
Balance at 1 January 2009	224
Provisions made during the year	28
Unwinding of discount	22
Change of accounting estimates	(37)
Balance at 31 December 2009	**237**
Provisions made during the year	29
Unwinding of discount	21
Change of accounting estimates	(22)
Balance at 31 December 2010	**265**

(a) Site restoration

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

During 2010, RUB 29 million (2009: RUB 28 million) was charged to cost of sales in the course of coal extraction.

Additionally, as a result of change in accounting estimates, increase of RUB 5 million was recognised (2009: RUB 8 million was derecognised) in mining assets and decrease of RUB 26 million (2009: RUB 29 million) was credited to cost of sales.

Because of the nature of the liability, the most significant uncertainty in estimating the provision is the costs which will be incurred. Environmental legislation in the Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as those operating by the Group. Generally the standard of restoration is determined based on discussions with federal and local government officials at the time when restoration is about to commence.

In making the assumptions for the calculation of the expected costs management has consulted with its in-house engineers who have considered statutory requirements in respect of similar sites that require similar site restoration activities.

Future costs were discounted using an average yield on Russian government bonds with similar maturities. As at 31 December 2010 the average yield amounted to 7.4% p. a. (2009: 8.8 % p.a.).

30 Trade and other payables

Mln RUB	**31 December 2010**	**31 December 2009**
Trade payables	645	576
Advances received	736	269
Taxes (other than income tax) payable	139	205
Payables for property, plant and equipment	29	238
Payables to personnel	149	113
Other payables	69	13
	1 767	**1 414**

Advances received as at 31 December 2009 include RUB 52 million of prepayments received for land plots, which were disposed in 2010.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

31 Financial instruments and risk management

(a) Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hedge its exposure to such risks.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group does not have formalized risk management policies, however procedures are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management procedures are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The actual execution of financial instruments risk analysis and management is the responsibility of First Deputy General Director of the Group, who reviews on a regular basis risk exposure and risk profiles and recommends management actions aimed at mitigating risks beyond levels of tolerance.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, deposits with banks and financial institutions, loans given and outstanding trade and other receivables. Credit risk is managed on a group basis.

The Group does not require collateral in respect of its financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The Group primarily transacts with its customers on a prepayment basis, however sales to related parties, government bodies and established customers, who have been trading with the Group for several years are made on credit terms.

As at 31 December 2010 the Group had one significant customer with an accounts receivable balance which individually exceeded 10 % of total trade accounts receivable amounting to RUB 67 million (2009: RUB 48 million due from the same customer).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance is made for individually significant exposures where objective evidence of impairment loss exists.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Mln RUB	31 December 2010	31 December 2009
Loans granted	45	74
Trade and other receivables	1 087	1 234
Cash and cash equivalents	457	86
	1 589	**1 394**

The Group's exposure to credit risk in respect of trade and other receivables at the end of the reporting period is primarily represented by receivables from wholesale customers and other counterparties in Russia.

Impairment losses

The ageing of trade receivables together with allowances as at the reporting dates was:

Mln RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	383	-	505	1
Past due 0-30 days	94	3	114	-
Past due 31-60 days	30	-	33	-
Past due 61-90 days	16	-	19	-
Past due 91-180 days	18	-	18	3
Past due more than 180 days	63	27	31	17
	604	**30**	**720**	**21**

The impairment losses as at 31 December 2010 mostly relate to customers that experienced difficulties in obtaining finance from municipal budgets.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Mln RUB	2010	2009
Balance, as at beginning of the year	45	36
Recognised within profit for the year	21	9
Utilised	(4)	-
Balance, as at end of the year	**62**	**45**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 60 days. Impairment allowance for receivables which are overdue by more than 60 days is determined on a case-by-case basis. Overdue but not impaired trade receivables primarily comprise amounts due from government bodies and customers who have a good track record with the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To date, the Group has significantly relied upon short-term and long-term financing to fund the development of its production facilities. This financing has historically been provided through bank loans, and through proceeds from the initial public offering in 2010.

In 2011 and beyond, the Group anticipates funding for further capital investments from cash generated from operations and additional bank loans. Management believes that based on the expected levels of operating profit and cash flows, the Group will be able to meet its short-term liabilities as they fall due.

As at 31 December 2010, the Group had some open credit facilities with a number of major Russian banks. In accordance with the agreement the Group may borrow from these banks at 8% p.a (2009: 15% p.a.). The unused amount of these facilities was RUB 1 603 million (31 December 2009: RUB 248 million) as at the reporting date.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	2 129	234	423	770	706	287	-	-	2 419
Promissory notes issued	36	-	15	15	15	-	-	-	45
Loans from other companies	42	3	3	5	5	5	5	58	85
Trade and other payables	892	892	-	-	-	-	-	-	892
	3 099	**1 129**	**441**	**790**	**726**	**292**	**5**	**58**	**3 441**

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	3 752	1 358	754	491	746	673	330	-	4 352
Promissory notes issued	44	-	12	15	15	15	-	-	57
Loans from other companies	59	3	19	5	5	5	5	64	106
Trade and other payables	940	940	-	-	-	-	-	-	940
	4 795	**2 301**	**785**	**511**	**766**	**693**	**335**	**64**	**5 455**

Amounts of trade and other payables exclude advances received and other taxes payable.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of Group entities, the Russian Rouble (RUB).

Part of the Group's borrowings is denominated in foreign currencies so that they partially offset foreign currency cash inflows generated by the underlying operations of the Group.

Companies in the Group do not use foreign exchange hedges to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

Mln RUB	**USD-denominated 31 December 2010**	**USD-denominated 31 December 2009**
Trade and other receivables	106	62
Cash and cash equivalents	-	1
Trade and other payables	(3)	-
Loans and borrowings	(1 981)	(2 102)
Net exposure	**(1 878)**	**(2 039)**

The following significant exchange rates applied during the year:

in RUB	**Average rate**		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
USD 1	30.3765	31.7205	30.4769	30.2442

Sensitivity analysis

A 10 % strengthening (weakening) of the RUB against the US dollar based on the Group exposure as at the reporting date would have increased (decreased) profit or loss by RUB 188 mln (2009: RUB 204 mln). The analysis assumes that all other variables, in particular interest rates, remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Mln RUB	31 December 2010	31 December 2009
Fixed rate interest-bearing instruments:		
Financial assets	45	74
Financial liabilities	(2 166)	(3 509)
	(2 121)	(3 435)
Variable rate interest-bearing instruments:		
Financial liabilities	(45)	(350)
Net amount	**(2 166)**	**(3 785)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 1% p.a. in Mosprime rates based on the Group's exposure as at the reporting date would increase (decrease) future annual cash flow related to interest payments of the Group by less than RUB 1 million (2009: RUB 4 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(e) Fair values versus carrying amounts

Except for items stated below, management believes that the carrying amounts of financial assets and liabilities as at 31 December 2010 approximate their fair values:

Mln RUB	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Loans received measured at amortised cost	2 211	2 432	3 859	3 840

The interest rates used to discount estimated cash flows, where applicable, are based on the incremental borrowing interest rate at the reporting date:

	2010	**2009**
Loans received measured at amortised cost	5%-6% (USD) 10%-11% (RUB)	9%-11% (USD) 14%-16% (RUB)

(f) Capital management

The Group's objectives when managing capital is to provide an adequate return to shareholders by investing in financial assets which provide a return proportionate to the associated level of risk, and to safeguard the Group's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Group may adjust the return capital to shareholders, issue new shares, or sell assets to reduce debt.

With effect from 2010, the Board of Directors adopted a policy, under which the Company shall pay dividends annually in the amount of 25% of the Company's net profit for the preceding year, as determined under Russian statutory accounting principles.

Loans amounting to RUB 2 088 million as at 31 December 2010 (2009: RUB 1 966 million) are subject to imposed capital requirement on the Group to maintain a prescribed debt to EBITDA ratio of 4:1, determined on the basis of the Russian statutory financial statements.

32 Operating leases

The Group leases a number of machinery and equipment items under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. During the year RUB 84 million (2009: RUB 57 million) was recognised as an expense in the income statement in respect of leased machinery and equipment.

Additionally, the Group leases land plots from various municipal bodies. The leases of land plots are non-cancellable by nature as most of the Group's production assets are located on the leased land. The leases typically run for a period of one year and are prolonged on an annual basis, except for one lease agreement with the lease term until 2024. As at year end the Group leased in excess of 100 hectares of land and made payments during the year of RUB 9 million (2009: RUB 31 million) including RUB 1 million relating to the long-term lease agreement indicated above. Payments of land rent in subsequent years will depend on the size of land plots under lease and changes in the rent rate per hectare.

33 Capital commitments

As at 31 December 2010, the Group has entered into a number of contracts to purchase plant and equipment for RUB 430 million (2009: RUB 970 million).

34 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

35 Related party transactions

(a) Control relationships

The Company’s shares are owned by several entities, neither of which owns more than 50% of the Company’s share capital. Mr Igor Yurievich Prokudin is the Company’s ultimate controlling party as at 31 December 2010.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (refer to note 13):

Mln RUB	**2010**	**2009**
Salaries and bonuses	165	127
Contributions to State pension fund	7	8
Total management remuneration	**172**	**135**

(ii) Other transactions

As at 31 December 2009, a loan to a shareholder amounting to RUB 60 million was classified as “other investments” within non-current assets (refer to note 19). The loan was repaid during 2010.

(b) Transactions with other related parties

The Group's other related party transactions are disclosed below:

(i) Revenue

Mln RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Sale of coal	28	21	1	-
Other revenue	2	2	2	-
	30	**23**	**3**	**-**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

Mln RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Purchase of goods	-	4	1	-
Services received	9	44	-	3
	9	**48**	**1**	**3**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

Mln RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Loans given:				
Shareholders of the Group	-	(60)	-	60
	-	**(60)**	**-**	**60**

Loan granted to one of the shareholders as at 31 December 2009 bears interest rate of 18% (2009: 10.5%) and was repaid in 2010.

Mln RUB	**Transaction value 2010**	**Transaction value 2009**	**Outstanding balance 2010**	**Outstanding balance 2009**
Interest income on loans given:				
Shareholders of the Group	3	13	-	6
	3	**13**	**-**	**6**

36 Events subsequent to the reporting date

There were no significant events subsequent to the reporting date.