

**OJSC Kuzbass Fuel Company**

**Condensed Interim Consolidated Financial Statements  
for the six months ended 30 June 2010**

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*OJSC Kuzbass Fuel Company*  
**Consolidated Interim Statement of Financial Position as at 30 June 2010**

	Note	30 June 2010 Mln RUR	31 December 2009 Mln RUR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	8,083	7,333
Goodwill		14	14
Investments in equity accounted investees		3	3
Other investments		37	67
Long-term receivables		7	7
Deferred tax assets		17	6
<b>Total non-current assets</b>		<b>8,161</b>	<b>7,430</b>
<b>Current assets</b>			
Inventories	14	521	405
Other investments		28	7
Income tax receivable		36	30
Trade and other receivables	15	1,152	1,227
Prepayments and deferred expenses		573	230
Cash and cash equivalents		255	86
<b>Total current assets</b>		<b>2,565</b>	<b>1,985</b>
<b>Total assets</b>		<b>10,726</b>	<b>9,415</b>

The consolidated interim statement of financial position shall be read in conjunction with notes to, and making part of these condensed interim consolidated financial statements, set out below

*OJSC Kuzbass Fuel Company*  
**Consolidated Interim Statement of Financial Position as at 30 June 2010**

	Note	30 June 2010 Mln RUR	31 December 2009 Mln RUR
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	16		
Share capital		20	17
Retained earnings		3 189	3 409
Additional paid-in capital		2 830	-
Total equity attributable to equity holders of the Company		6 039	3 426
Minority interest		21	41
<b>Total equity</b>		<b>6 060</b>	<b>3 467</b>
<b>Non-current liabilities</b>			
Loans and borrowings	17	2 331	2 204
Net assets attributable to minority participants in LLC subsidiaries		51	66
Provisions		247	237
Deferred tax liabilities		319	362
<b>Total non-current liabilities</b>		<b>2 948</b>	<b>2 869</b>
<b>Current liabilities</b>			
Loans and borrowings	17	537	1 655
Trade and other payables	18	1 179	1 414
Income tax payable		2	10
<b>Total current liabilities</b>		<b>1 718</b>	<b>3 079</b>
<b>Total liabilities</b>		<b>4 666</b>	<b>5 948</b>
<b>Total equity and liabilities</b>		<b>10 726</b>	<b>9 415</b>

These consolidated financial statements were approved by management on 25 August 2010 and were signed on its behalf by:

First Deputy General Director  
Eduard V. Alekseenko

Financial Director  
Andrew N. Magaev




***OJSC Kuzbass Fuel Company***  
**Consolidated Interim Statement of Comprehensive Income**  
**for the six months ended 30 June 2010**

	Note	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Restated Mln RUR
Revenue	6	5 651	4 596
Cost of sales	7	(4 845)	(3 485)
<b>Gross profit</b>		<b>806</b>	<b>1 111</b>
Distribution expenses	8	(221)	(193)
Administrative expenses	9	(413)	(326)
Other operating income and expenses, net	10	35	(5)
<b>Profit from operating activities</b>		<b>207</b>	<b>587</b>
Finance income	11	6	79
Finance costs	11	(206)	(322)
<b>Profit before income tax</b>		<b>7</b>	<b>344</b>
Income tax expense	12	(3)	(78)
<b>Profit for the period</b>		<b>4</b>	<b>266</b>
<b>Profit / (loss) and total comprehensive income attributable to:</b>			
Owners of the Company		33	263
Minority participants in LLC subsidiaries		(16)	8
Equity minority interest		(13)	(5)
<b>Profit and total comprehensive income for the period</b>		<b>4</b>	<b>266</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (RUR)		-	3

The consolidated interim statement of comprehensive income shall be read in conjunction with notes to, and making part of these condensed interim consolidated financial statements, set out below

***OJSC Kuzbass Fuel Company***  
**Consolidated Interim Statement of Changes in Equity**  
**for the six months ended 30 June 2010**

Mln RUR	Attributable to shareholders of the Company				Minority interest	Total equity
	Share capital	Retained earnings	Additional paid-in capital	Total		
<b>Balance at 31 December 2008, as earlier reported</b>						
Restatement of prior periods	17	2 651	-	2 668	34	2 702
<b>Balance at 1 January 2009, as restated</b>	-	116	-	116	-	116
	17	2 767	-	2 784	34	2 818
Profit and total comprehensive income for the period, as restated	-	263	-	263	(5)	258
Effect of acquisition of minority interest in LLC subsidiaries	-	(2)	-	(2)	20	18
<b>Balance at 30 June 2009, as restated</b>	17	3 029	-	3 046	49	3 095
<b>Balance at 31 December 2009</b>	17	3 409	-	3 426	41	3 467
Profit and total comprehensive income for the period	-	33	-	33	(13)	20
Share issue	3	-	2 830	2 833	-	2 833
Dividends paid	-	(253)	-	(253)	-	(253)
Effect of acquisition of minority interest in LLC subsidiaries	-	-	-	-	(7)	(7)
<b>Balance at 30 June 2010</b>	20	3 189	2 830	6 039	21	6 060

The consolidated interim statement of changes in equity shall be read in conjunction with notes to, and making part of these condensed interim consolidated financial statements, set out below



**OJSC Kuzbass Fuel Company**  
**Consolidated Interim Statement of Cash Flows**  
**for the six months ended 30 June 2010**

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
<b>OPERATING ACTIVITIES</b>		
Profit for the period	4	266
<i>Adjustments for:</i>		
Depreciation and amortisation	368	369
(Gain)/loss on disposal of property, plant and equipment	(34)	11
Net finance expense	200	243
Income tax expense	3	78
Operating result before changes in working capital and provisions	<u>541</u>	<u>967</u>
Change in inventories	(116)	85
Change in trade and other receivables	46	(90)
Change in prepayments for current assets	(343)	68
Change in trade and other payables	6	(583)
Cash flows from operations before income tax and interest paid	<u>134</u>	<u>447</u>
Income taxes and penalties paid	(39)	(196)
Interest paid	(92)	(292)
<b>Cash flows from operating activities</b>	<u><b>3</b></u>	<u><b>(41)</b></u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	3	-
Loans issued	(79)	(115)
Proceeds from loans issued including interest received	92	32
Acquisition of property, plant and equipment	(1 347)	(522)
Acquisition of minority interests	(7)	(3)
<b>Cash flows used in investing activities</b>	<u><b>(1 338)</b></u>	<u><b>(608)</b></u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	4 090	3 112
Repayment of borrowings	(5 155)	(2 635)
Proceeds from cash issue, net of issue costs	2 822	-
Dividends paid	(253)	-
<b>Cash flows from financing activities</b>	<u><b>1 504</b></u>	<u><b>477</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u><b>169</b></u>	<u><b>(171)</b></u>
Cash and cash equivalents at the beginning of period	86	255
Effect of exchange rate fluctuations	-	3
<b>Cash and cash equivalents at the end of period</b>	<u><b>255</b></u>	<u><b>87</b></u>

The consolidated interim statement of cash flows shall be read in conjunction with notes to, and making part of these condensed interim consolidated financial statements, set out below

## 1 Background

### (a) Corporate information

The Company is an open joint-stock company (OAO) registered under Russian law on 4 April 2000. The registered office of the Company is 4, 50-Letiya Oktyabrya street, Kemerovo, Russia.

Before May 2010, the Company had been controlled by Mr. Igor Yuryevich Prokudin, earlier disclosed as the “Controlling shareholder”. In May 2010, the Company carried out initial public offering – see note 16 Equity for details. As a result, there is no single individual or entity, who might exercise ultimate control over more than 50% of Company’s shares.

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

			6m2010	2009	2008
	Country of incorporation	Principal activity	Ownership/ voting	Ownership/ voting	Ownership/ voting
LLC TEK Meret	Russia	Railroad transportation services	100%	100%	100%
OJSC Kuzbasstoplivosbyt	Russia	Retail sale of coal	75%	75%	75%
OJSC Kaskad Energo	Russia	Electricity and heat energy generation	100%	100%	100%
CJSC Management Company Kaskad	Russia	Wholesale supply of coal	100%	100%	100%
OJSC ATK	Russia	Retail sale of coal	51%	51%	51%
LLC Transugol	Russia	Retail sale of coal	51%	51%	51%
LLC NTK	Russia	Retail sale of coal	51%	51%	51%
LLC Karakan Farm	Russia	Land lease	98.5%	98.5%	98.5%
LLC Kaskad Geo	Russia	Land lease	100%	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 and 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, generation and sales of electricity and heat energy, 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

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contractions in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These 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, taking in consideration the provisions of IAS 34 "Interim Financial Reporting".

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis.

### **(c) Functional and presentation currency**

The national currency of the Russian Federation is the Russian Rouble ("RUR"), 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 RUR has been rounded to the nearest million.

## **3 Significant accounting policies**

### **(a) Recognition and measurement of property, plant and equipment**

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 operating expenses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

### **(b) 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.



**(c) 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). Other development costs are recognised in the income statement 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.

**(d) 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.

**(e) 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.

**(f) 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 income statement 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 projected extraction volumes, the remaining useful life of the existing mining assets and mining structures is estimated to exceed 20 years.

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

**(g) *Site restoration provision***

Liability for site restoration 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.

**(h) *Net assets attributable to minority participants in LLC subsidiaries***

According to Article 26 of Federal Law of Russian Federation on Limited Liability Companies, a participant in a limited liability company may unilaterally withdraw from the company if the right to withdraw is provided for in a company's charter.

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

**(i) *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 agreed with the government. Compensation from government is accrued when respective sales are made to end customer.

**4 *Restatement and reclassifications***

In course of preparation of annual consolidated financial statements for the year ended 31 December 2009, management decided to change the accounting for export revenue recognition and for short-term employee benefits accrual. Additionally, certain changes were made in presentation of operating expenses. The aforementioned changes resulted in restatement of data for the year ended and as at 31 December 2008 and, consequently, in restatement of financial performance for the six months ended 30 June 2009 and financial position as at that date.

***OJSC Kuzbass Fuel Company***  
**Notes to Condensed Consolidated Interim Financial Statements**  
**for the six months ended 30 June 2010**

## 5 Reportable segments

The Group is engaged in different business activities from which it earns revenues and incurs expenses. Individual operations are reviewed by the Company's general director for purposes of assessing performance and making resource allocation decisions. For this review, sales of in-house produced coal are analyzed based on customer's location (domestic or export); re-sale of coal purchased is a separate segment; all other activities are not analysed individually. Management pays attention to gross profit generated from each activity, as well as respective amounts of trade receivables and advances from customers.

<b>Six months ended 30 June 2010:</b>	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	<b>Total</b>
Revenue	1 212	3 273	866	300	5 651
Cost of sales	(969)	(2 877)	(809)	(190)	(4 845)
<b>Gross profit</b>	<b>243</b>	<b>396</b>	<b>57</b>	<b>110</b>	<b>806</b>
<b>Six months ended 30 June 2009</b>					
Revenue	1 402	2 344	584	266	4 596
Cost of sales	(997)	(1 757)	(541)	(190)	(3 485)
<b>Gross profit</b>	<b>405</b>	<b>587</b>	<b>43</b>	<b>76</b>	<b>1 111</b>
<b>Trade receivables as at 30 June 2010</b>	<b>300</b>	<b>49</b>	<b>215</b>	<b>98</b>	<b>662</b>
<b>Advances received as at 30 June 2010</b>	<b>(27)</b>	<b>(332)</b>	<b>(19)</b>	<b>(3)</b>	<b>(381)</b>
<b>Trade receivables as at 31 December 2009</b>	<b>421</b>	<b>51</b>	<b>174</b>	<b>74</b>	<b>720</b>
<b>Advances received as at 31 December 2009</b>	<b>(79)</b>	<b>(103)</b>	<b>(33)</b>	<b>(54)</b>	<b>(269)</b>

***OJSC Kuzbass Fuel Company***  
**Notes to Condensed Consolidated Interim Financial Statements**  
**for the six months ended 30 June 2010**

## 6 Revenue

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
Sales of coal	5,083	4,112
Compensation from government	268	220
Sales of electrical and heat power	136	122
Provision of transportation services	93	89
Provision of storage services	25	25
Other revenue	46	28
	<b>5,651</b>	<b>4,596</b>

## 7 Cost of sales

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
Railway tariff and transportation services	2 161	1 379
Coal purchased	647	421
Wages, salaries and social charges	435	357
Fuel	371	267
Depreciation	332	340
Extraction, processing and sorting of coal	332	286
Spare parts	233	168
Mining and environmental taxes	92	102
Repair and maintenance	95	67
Operating lease	38	26
Electricity	23	21
Security services	15	17
Land rent	6	15
Storage services	-	2
Change in provision for site restoration	-	-
Other materials	41	26
Other services	53	14
Other costs	37	33
Change in coal stock	(66)	(56)
	<b>4 845</b>	<b>3 485</b>



## **8 Distribution expenses**

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
Services	52	75
Wages, salaries and social charges	100	76
Materials	18	12
Depreciation	22	21
Other distribution expenses	29	9
	<b>221</b>	<b>193</b>

## **9 Administrative expenses**

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
Wages, salaries and social charges	178	133
Services	87	84
Taxes other than income tax	55	40
Charity and welfare	22	12
Fees and penalties	16	14
Materials	13	8
Depreciation	13	8
Sundry payments to personnel	11	10
Other administrative expenses	18	17
	<b>413</b>	<b>326</b>

## **10 Other operating income and expenses, net**

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
Proceeds from disposal of property, plant and equipment	56	-
Net book value of disposed property, plant and equipment	(21)	(5)
	<b>35</b>	<b>(5)</b>

## 11 Finance income and finance costs

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
Interest income on loans granted	6	6
Foreign exchange gain	-	73
Finance income	<u>6</u>	<u>79</u>
Interest expense	(94)	(294)
Foreign exchange loss	(96)	-
Reversal of bad debt allowance	-	(13)
Unwinding of discount on provision for site restoration	(11)	(11)
Unwinding of discount on long-term promissory notes	(5)	(4)
Finance costs	<u>(206)</u>	<u>(322)</u>
	<u>(200)</u>	<u>(243)</u>

## 12 Income tax expense

	Six months ended 30 June 2010 Mln RUR	Six months ended 30 June 2009 Mln RUR
Current income tax charge	25	62
Deferred income tax expense	(22)	16
	<u>3</u>	<u>78</u>

## 13 Property, plant and equipment

Depreciation charge for the period amounted to RUR 368 million (six months ended 30 June 2009: RUR 369 million).

Additions to property, plant and equipment amounted to to RUR 1,140 million (six months ended 30 June 2009: RUR 510 million) and related mostly to construction of coal enrichment facilities.

During the reporting period, the entity disposed of a land plot, making a pre-tax profit of RUR 47 million. Most of the related consideration had been received during the prior reporting period as a prepayment.

## 14 Inventories

	30 June 2010 Mln RUR	31 December 2009 Mln RUR
Raw materials and consumables	202	132
Coal in stock	220	150
Coal in transit	99	114
Other	-	9
	<u>521</u>	<u>405</u>

## 15 Trade and other receivables

	30 June 2010 Mln RUR	31 December 2009 Mln RUR
Trade receivables	662	720
Input VAT receivable	234	134
Overpayment of VAT to budget	84	145
Compensation receivable from budget	75	96
Receivables for railway tariff	36	72
Receivable from personnel	15	14
Other receivables	87	91
Provision for doubtful debts	(41)	(45)
	<u>1,152</u>	<u>1,227</u>

## 16 Equity

On April 16<sup>th</sup>, 2010, the Company declared dividends to its shareholders in amount of RUR 253 million. The dividends were all paid during the reporting period.

In May 2010, the Company issued 14,858,955 shares, which have a par value of RUR 0.2 per share, and sold them at MICEX stock exchange for RUR 2,964 million; the existing shareholders of the Group also sold some of their shares. The Group incurred issuance costs in amount of RUR 166 million, most of which are deductible as expenses for income tax computation.

As a result, the Group recognized a RUR 3 million increase in share capital and a RUR 2,830 million increase in additional paid-in capital.

## 17 Loans and borrowings

	30 June 2010 Mln RUR	31 December 2009 Mln RUR
<i>Non-current liabilities</i>		
Bank loans	2,248	2,130
Loans from other companies	48	41
Promissory notes issued	35	33
	<b>2,331</b>	<b>2,204</b>
<i>Current liabilities</i>		
Bank loans	514	1,622
Promissory notes issued	12	11
Loans from other companies	8	18
Interest accrued	3	4
	<b>537</b>	<b>1,655</b>

## 18 Trade and other payables

	30 June 2010 Mln RUR	31 December 2009 Mln RUR
Trade payables	539	576
Advances received	381	269
Taxes (other than income tax) payable	50	205
Payables for property, plant and equipment	31	238
Payables to personnel	55	81
Accrual for unused vacation	88	32
Other payables	35	13
	<b>1 179</b>	<b>1 414</b>

## 19 Events subsequent to balance sheet date

The Company acquired a 25% stake in its subsidiary KTS (OJSC Kuzbasstoplivosbyt) in July 2010, thus raising its effective ownership in this entity to 100%.