

OJSC Kuzbass Fuel Company

**Consolidated Financial Statements
for the year ended 31 December 2009**

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Independent Auditors' Report

The Board of Directors

OJSC Kuzbass Fuel Company

We have audited the accompanying consolidated financial statements of OJSC Kuzbass Fuel Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 principles 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 opinion.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 134 million as at 1 January 2007 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended 31 December 2007.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures for 2007 of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.



ZAO KPMG

30 March 2010

OJSC Kuzbass Fuel Company
Consolidated Statement of Financial Position as at 31 December 2009

| | | 31 | 31 | 31 |
|---|-------------|-------------------|-----------------|-----------------|
| | Note | December | December | December |
| | | 2009 | 2008 | 2007 |
| | | (Restated) | | |
| | | Mln RUR | Mln RUR | Mln RUR |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 17 | 7,333 | 6,772 | 5,068 |
| Goodwill and intangible assets | 18 | 14 | 15 | 5 |
| Investments in equity accounted investees | | 3 | 3 | - |
| Other investments | 19 | 67 | - | 200 |
| Long-term receivables | | 7 | 2 | 3 |
| Deferred tax assets | 20 | 6 | 72 | 8 |
| Total non-current assets | | 7,430 | 6,864 | 5,284 |
| Current assets | | | | |
| Inventories | 21 | 405 | 512 | 216 |
| Other investments | 19 | 7 | 71 | 7 |
| Income tax receivable | | 30 | 17 | 7 |
| Trade and other receivables | 22 | 1,227 | 1,074 | 671 |
| Prepayments and deferred expenses | 23 | 230 | 203 | 57 |
| Cash and cash equivalents | 24 | 86 | 315 | 31 |
| Total current assets | | 1,985 | 2,192 | 989 |
| Total assets | | 9,415 | 9,056 | 6,273 |

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 62.

| | Note | 31 December 2009 Mln RUR | 31 December 2008 (Restated) Mln RUR | 31 December 2007 Mln RUR |
|--|------|---------------------------------------|---|---------------------------------------|
| EQUITY AND LIABILITIES | | | | |
| Equity | | | | |
| Share capital | 25 | 17 | 17 | 17 |
| Retained earnings | | 3,409 | 2,767 | 1,783 |
| Total equity attributable to equity holders of the Company | | 3,426 | 2,784 | 1,800 |
| Minority interest | | 41 | 34 | 20 |
| Total equity | | 3,467 | 2,818 | 1,820 |
| Non-current liabilities | | | | |
| Loans and borrowings | 27 | 2,204 | 2,453 | 1,272 |
| Net assets attributable to minority participants in LLC subsidiaries | 28 | 66 | 50 | 7 |
| Provisions | 29 | 237 | 217 | 203 |
| Deferred tax liabilities | 20 | 362 | 364 | 340 |
| Total non-current liabilities | | 2,869 | 3,084 | 1,822 |
| Current liabilities | | | | |
| Bank overdrafts | | - | 60 | - |
| Loans and borrowings | 27 | 1,655 | 1,172 | 1,846 |
| Trade and other payables | 30 | 1,414 | 1,788 | 723 |
| Provisions | 29 | - | 7 | 49 |
| Income tax payable | | 10 | 127 | 13 |
| Total current liabilities | | 3,079 | 3,154 | 2,631 |
| Total liabilities | | 5,948 | 6,238 | 4,453 |
| Total equity and liabilities | | 9,415 | 9,056 | 6,273 |

These consolidated financial statements were approved by management on 30 March 2010 and were signed on its behalf by:

Chairman of the Board of Directors
Vadim V. Danilov



First Deputy General Director
Eduard V. Alekseenko

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 62.

OJSC Kuzbass Fuel Company
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

| | | 2009 | 2008 | 2007 |
|--|----|----------------|-------------------|----------------|
| | | Mln RUR | (Restated) | Mln RUR |
| Revenue | 9 | 10,658 | 8,557 | 3,864 |
| Cost of sales | 10 | (8,171) | (6,090) | (3,168) |
| Gross profit | | 2,487 | 2,467 | 696 |
| Distribution expenses | 11 | (312) | (242) | (174) |
| Administrative expenses | 12 | (687) | (565) | (422) |
| Other operating expenses | 13 | (19) | (22) | (16) |
| Results from operating activities | | 1,469 | 1,638 | 84 |
| Finance income | 15 | 65 | 66 | 27 |
| Finance costs | 15 | (656) | (402) | (209) |
| Profit / (loss) before income tax | | 878 | 1,302 | (98) |
| Income tax expense | 16 | (215) | (200) | (8) |
| Profit / (loss) for the year | | 663 | 1,102 | (106) |
| Profit / (loss) and total comprehensive income attributable to: | | | | |
| Owners of the Company | | 637 | 1,064 | (94) |
| Minority participants in LLC subsidiaries | | 4 | 29 | (11) |
| Equity minority interest | | 22 | 9 | (1) |
| Profit / (loss) and total comprehensive income for the year | | 663 | 1,102 | (106) |
| Earnings per share | 26 | | | |
| Basic and diluted earnings per share (RUR) | | 8 | 13 | (1) |

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 62.

OJSC Kuzbass Fuel Company
Consolidated Statement of Changes in Equity for the year ended 31 December 2009

Mln RUR

| | Attributable to shareholders of the Company | | | Minority interest | Total equity |
|--|--|----------------------|--------------|----------------------|-----------------|
| | Share capital | Retained earnings | Total | | |
| Balance at 1 January 2007 | 17 | 1,912 | 1,929 | 21 | 1,950 |
| Loss for the year and total comprehensive income for the year | - | (94) | (94) | (1) | (95) |
| Dividends to shareholders | - | (122) | (122) | - | (122) |
| Acquisition of minority interest in LLC subsidiaries | - | 113 | 113 | - | 113 |
| Acquisition of shares of subsidiaries under common control (see note 8) | - | (26) | (26) | - | (26) |
| Balance at 31 December 2007 | 17 | 1,783 | 1,800 | 20 | 1,820 |
| Profit for the year and total comprehensive income for the year, as restated | - | 1,064 | 1,064 | 9 | 1,073 |
| Dividends to shareholders | - | (80) | (80) | - | (80) |
| Acquisition of subsidiaries (see note 8) | - | - | - | 5 | 5 |
| Balance at 31 December 2008, as restated | 17 | 2,767 | 2,784 | 34 | 2,818 |
| Profit for the year and total comprehensive income for the year | - | 637 | 637 | 22 | 659 |
| Effect of acquisition of minority interest in LLC subsidiaries (see note 8) | - | 5 | 5 | (15) | (10) |
| Balance at 31 December 2009 | 17 | 3,409 | 3,426 | 41 | 3,467 |

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 62.

| | 2009 | 2008 | 2007 |
|---|----------------|-------------------|----------------|
| | Mln RUR | (Restated) | Mln RUR |
| | Mln RUR | Mln RUR | Mln RUR |
| OPERATING ACTIVITIES | | | |
| Profit / (loss) for the year | 663 | 1,102 | (106) |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | 689 | 512 | 375 |
| Change in provision for site restoration | (1) | 13 | 61 |
| Impairment loss | 15 | 17 | - |
| Loss on disposal of property, plant and equipment | 4 | 5 | 16 |
| Net finance expense | 591 | 336 | 182 |
| Income tax expense | 215 | 200 | 8 |
| Operating result before changes in working capital and provisions | 2,176 | 2,185 | 536 |
| Change in inventories | 107 | (265) | (82) |
| Change in trade and other receivables | (126) | (387) | (179) |
| Change in prepayments for current assets | (27) | (146) | 13 |
| Change in trade and other payables | (583) | 966 | 106 |
| Cash flows from operations before income tax and interest paid | 1,547 | 2,353 | 394 |
| Income taxes and penalties paid | (281) | (208) | (78) |
| Interest paid | (640) | (413) | (246) |
| Cash flows from operating activities | 626 | 1,732 | 70 |
| INVESTING ACTIVITIES | | | |
| Proceeds from disposal of property, plant and equipment | 42 | 22 | 22 |
| Proceeds from disposal of discontinued operations | - | - | 25 |
| Loans issued | (217) | (199) | (310) |
| Proceeds from loans issued including interest received | 233 | 352 | 232 |
| Acquisition of property, plant and equipment | (1,084) | (2,007) | (1,105) |
| Acquisition of subsidiaries, net of cash acquired | - | (111) | - |
| Acquisition of equity accounted investees | - | (3) | (7) |
| Acquisition of minority interests | (4) | - | (25) |
| Cash flows used in investing activities | (1,030) | (1,946) | (1,168) |
| FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | 7,119 | 8,010 | 5,455 |
| Repayment of borrowings | (6,904) | (7,494) | (4,314) |
| Contribution from minority participants | 6 | - | - |
| Dividends paid | - | (80) | (138) |
| Cash flows from financing activities | 221 | 436 | 1,003 |
| Net (decrease) / increase in cash and cash equivalents | (183) | 222 | (95) |
| Cash and cash equivalents at the beginning of year | 255 | 31 | 126 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 14 | 2 | - |
| Cash and cash equivalents at the end of year | 86 | 255 | 31 |

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.

The Company is controlled by Mr. Igor Yuryevich Prokudin (the “Controlling shareholder”), who is the Group’s ultimate controlling party. Related party transactions are detailed in note 35.

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

| | | | 2009 | 2008 | 2007 |
|-----------------------------------|-----------------------------|--|----------------------|----------------------|----------------------|
| | 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 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% | - |
| 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, 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 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 contraction 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 ("IFRSs").

(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.

(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 and critical judgments in applying accounting policies, which have the most significant effect on the amounts recognised in the financial statements, is included in the following notes:

- Note 17 – Property, plant and equipment;
- Note 29 – Provision for site restoration;
- Note 31 – Financial risk management;
- Note 34 – Contingencies.

(e) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- determination and presentation of operating segments;
- presentation of financial statements.

(i) *Determination and presentation of operating segments*

With effect from 1 January 2009 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. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. Previously segments were not determined, as the Group did not have to comply with the requirements of IAS 14. The new accounting policy in respect of operating segment disclosures is presented in note 3(p).

Comparative segment information has been presented in conformity with the transitional requirements of IFRS 8. The change in accounting policy only impacts disclosure aspects.

(ii) *Presentation of financial statements*

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share resulting from this change alone.

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) *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.

(iv) *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 or 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, bank overdrafts, 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 operating expenses” 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 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.

(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 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.

(e) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2006. No goodwill has been recognized in respect of any business combinations which occurred before 1 January 2006.

Acquisitions on or after 1 January 2006

For acquisitions on or after 1 January 2006, goodwill 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 the income statement.

Acquisitions of minority interests

The Group does not recognise goodwill (negative goodwill) on the acquisition of minority interests. The excess of the cost of acquiring an additional interest in the subsidiary over the minorities' share of the carrying value of the assets and liabilities is recognised in the statement of changes in equity as a distribution, or as contribution if the cost of acquisition is less than the minorities' share of the carrying value of assets and liabilities.

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 same time.

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.

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.

(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 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.

(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 transportation services. Revenue from transportation services rendered is recognised in the income statement 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 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.

(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 2009, 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:

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The amendment is expected to have no impact on the Group's financial position or performance.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity. The new Standard is likely to affect the Group's accounting for future business combinations; however, the impact has not yet been quantified.
- 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* have been 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 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Restatements and reclassifications

(a) Restatements

(i) *Change in the basis for revenue recognition*

The Group previously determined the point of transfer of risks and rewards for its export sales with contract obligations to deliver goods to the frontier by reference to dates of customs clearance as indicated on final customs declarations, as it was believed that final customs declarations provide conclusive evidence indicating the transfer of risks and rewards. In connection with the preparation of the consolidated financial statements as at and for the year ended 31 December 2009, management analysed documentation underlying export sales, and concluded that information contained in individual railroad waybills provides the appropriate basis for revenue recognition.

(ii) *Bonuses attributed to period of services*

During 2009, management identified that the Group had constructive obligations to pay certain short-term employee benefits as at 31 December 2008. As a result, the Group has restated comparative periods which has resulted in the following changes in the statement of comprehensive income for the year ended 31 December 2008 and in the statement of financial position as at that date.

As a result of the above the Group has restated the comparative information, which has resulted in the changes in the statement of comprehensive income for the year ended 31 December 2008 and in the statement of financial position as at that date as shown in note 4(c) below.

Management determined that the effect as at and for the year ended 31 December 2007 and earlier periods is not material.

(b) Reclassifications

(i) *Classification of operating expenses related to coal handling and storage*

The Group changed the classification of certain operating expenses, related to coal loading and storage. Comparative information for the year ended 31 December 2008 was reclassified, which resulted in a decrease in distribution expenses of RUR 142 million, with the corresponding increase in cost of sales and administrative expenses of RUR 128 million and RUR 14 million respectively. The effect on the comparative information for 2007 was RUR 93 million reclassified from distribution expenses to cost of sales.

(ii) *Presentation of cost of sales*

The Group changed the presentation of cost of sales note. Comparatives were reclassified for consistency. As a result, expenses which were previously allocated to individual cost elements of RUR 22 million for 2008 and RUR 45 million for 2007 have been reallocated to the new line item "Change in coal stock", which is a reconciling item of cost of production to cost of sales. The purpose of the change in presentation is to deliver a more transparent classification of expenses.

(iii) Classes of property, plant and equipment

The Group changed the classification of property, plant and equipment which resulted in combining two previously separate classes “Production equipment” and “Earth-moving machinery and vehicles” into a single class “Machinery, equipment and vehicles”. The reclassification is made to provide assets grouping by nature of performed activities rather than by technical characteristics of assets. Comparatives were reclassified for consistency.

(c) Effect of restatements and reclassifications of comparative information

| Amounts as at and for the year ended 31 December 2008 | As reported previously Mln RUR | Revenue recognition Mln RUR | Accrual of employee benefits Mln RUR | Reclassifications Mln RUR | As restated Mln RUR |
|---|-----------------------------------|--------------------------------|---|------------------------------|------------------------|
| Financial results | | | | | |
| Sales | 8,029 | 528 | - | - | 8,557 |
| Cost of sales | (5,590) | (343) | (29) | (128) | (6,090) |
| Distribution expenses | (381) | - | (3) | 142 | (242) |
| Administrative expenses | (543) | - | (8) | (14) | (565) |
| Income tax expense | (171) | (37) | 8 | - | (200) |
| Profit and total comprehensive income | 986 | 148 | (32) | - | 1,102 |
| Financial position | | | | | |
| Inventories | 855 | (343) | - | - | 512 |
| Trade and other receivables | 991 | 83 | - | - | 1,074 |
| Total assets | 9,316 | (260) | - | - | 9,056 |
| Deferred income tax liabilities | 335 | 37 | (8) | - | 364 |
| Trade and other payables | 2,193 | (445) | 40 | - | 1,788 |
| Total liabilities | 6,614 | (408) | 32 | - | 6,238 |
| Retained earnings | 2,651 | 148 | (32) | - | 2,767 |
| Total equity | 2,702 | 148 | (32) | - | 2,818 |
| Cash flows | | | | | |
| Profit for the year | 986 | 148 | (32) | - | 1,102 |
| Income tax expense | 171 | 37 | (8) | - | 200 |
| Change in inventories | (608) | 343 | - | - | (265) |
| Change in trade and other receivables | (302) | (83) | - | (2) | (387) |
| Change in trade and other payables | 1,371 | (445) | 40 | - | 966 |
| Cash flows from operating activities | 1,734 | - | - | (2) | 1,732 |
| Net increase in cash and cash equivalents | 224 | - | - | (2) | 222 |
| Effect of exchange rate fluctuations | - | - | - | 2 | 2 |

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

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 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 the general director uses various regular reports, including monthly reports on coal sales volumes and average sales prices, monthly coal production reports, as well as the Company's statutory financial information. During 2009, management also prepared IFRS quarterly consolidated financial information which was used by the general director.

Management believes that during 2009 no discrete financial information was available for the Group's business activities and the Group represented a single reportable segment.

Going forward, management plans to implement a new financial reporting system where quarterly IFRS financial results of different activities will be grouped to operating segments and reported to the general director as follows:

- Domestic sales of own-produced coal
- Export sales of own-produced coal
- Sales of purchased coal
- Other business activities.

These financial statements include a note, which presents analysis of the Group's revenue and cost of sales on the abovementioned basis (see Note 7). The note does not represent the Group's operating segments in 2009, 2008 and 2007.

Geographical information

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers, as presented below:

| Mln RUR | 2009 | 2008 | 2007 |
|--------------------|---------------|--------------|--------------|
| Russian Federation | 5,654 | 4,613 | 2,874 |
| Export | 5,004 | 3,944 | 990 |
| | 10,658 | 8,557 | 3,864 |

Major customers

During 2009 sales to Glencore International AG amounted to RUR 2,579 million (2008: RUR 1,488 million, 2007: RUR 526 million) while sales to Kort Enterprises Limited amounted to RUR 1,929 million (2008: RUR 1,503 million, 2007: RUR 464 million). The respective participation of these major customers in the Group's revenues were 24% and 18% (2008: 17% and 18%, 2007: 14% and 12%) respectively.

7 Analysis of sales, cost of sales, trade receivables and advances received by types of activities

| For the year ended and as at 31 December 2009 | Domestic sales of coal produced | Export sales of coal produced | Re-sale of coal purchased | Other operations | Total |
|--|--|--|--|-----------------------------|--------------|
| Revenue | 3,624 | 5,004 | 1,500 | 530 | 10,658 |
| Cost of sales | (2,612) | (3,855) | (1,337) | (367) | (8,171) |
| Gross profit | 1,012 | 1,149 | 163 | 163 | 2,487 |
| Trade receivables | 421 | 51 | 174 | 74 | 720 |
| Advances received | (79) | (103) | (33) | (54) | (269) |

| For the year ended and as at 31 December 2008 | Domestic sales of coal produced | Export sales of coal produced | Re-sale of coal purchased | Other operations | Total |
|--|--|--|--|-----------------------------|--------------|
| Revenue | 2,182 | 3,944 | 2,008 | 423 | 8,557 |
| Cost of sales | (1,466) | (2,453) | (1,852) | (319) | (6,090) |
| Gross profit | 716 | 1,491 | 156 | 104 | 2,467 |
| Trade receivables | 136 | 83 | 125 | 67 | 411 |
| Advances received | (41) | (349) | (38) | (36) | (464) |

| For the year ended and as at 31 December 2007 | Domestic sales of coal produced | Export sales of coal produced | Re-sale of coal purchased | Other operations | Total |
|--|--|--|--|-----------------------------|--------------|
| Revenue | 1,581 | 977 | 953 | 353 | 3,864 |
| Cost of sales | (1,342) | (662) | (881) | (283) | (3,168) |
| Gross profit | 239 | 315 | 72 | 70 | 696 |
| Trade receivables | 156 | - | 93 | 23 | 272 |
| Advances received | (12) | (97) | (9) | (10) | (128) |

8 Acquisitions and disposals of subsidiaries and minority interests

(a) Acquisition of subsidiaries

In June 2008 the Group acquired a coal distribution network of 19 companies, commonly referred to as NTK which operates in the Novosibirsk region of the Russian Federation, for RUR 185 million, of which RUR 134 million was settled in cash and a further consideration was paid by issuing the Group's own long-term interest-free promissory notes with nominal (face) value of RUR 75 million and fair value of RUR 51 million. The Group acquired effective ownership interests of between 26% and 51%. The impact of acquiring NTK was to increase the Group's profit for the year ended 31 December 2008 by RUR 19 million, and the Group's revenue for 2008 by RUR 421 million.

If the acquisition had occurred on 1 January 2008, NTK's part of Group's revenue for the year ended 31 December 2008 would have been RUR 678 million and the Group's profit for that year would not have been significantly different. The acquisition of the NTK had the following effect on the Group's assets and liabilities at the date of acquisition:

| | Recognised fair values on acquisition |
|--|--|
| | Mln RUR |
| Non-current assets | |
| Property, plant and equipment | 247 |
| Current assets | |
| Inventories | 30 |
| Income tax receivable | 5 |
| Trade and other receivables | 85 |
| Cash and cash equivalents | 23 |
| Non-current liabilities | |
| Deferred tax liabilities | (48) |
| Current liabilities | |
| Loans and borrowings | (4) |
| Trade and other payables | (144) |
| Net identifiable assets, liabilities and contingent liabilities | 194 |
| Goodwill on acquisition | 10 |
| Equity minority interest | (5) |
| Minority participants in LLC subsidiaries | (14) |
| Fair value of consideration paid | 185 |
| Fair value of long-term promissory notes issued as consideration | (51) |
| Cash acquired | (23) |
| | 30 |

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

| | Recognised fair values on acquisition |
|------------------|--|
| | Mln RUR |
| Net cash outflow | 111 |

It has not been practicable to determine the carrying amounts of the NTK's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because NTK's financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

Goodwill arose on the acquisition because Group's management perceived additional strategic value in getting access to the regional market where NTK coal distribution chain operates.

(b) Acquisitions under common control and acquisition of minority interests

In 2007 the Group transferred RUR 25.5 million to its controlling shareholder for the 51% share in LLC TEK Meret and RUR 10 thousand for the 10% share in CJSC Management Company Kaskad. According to the Group's accounting policy, the assets, liabilities and results of operations of the acquired entities have been included to these consolidated financial statements retrospectively from the earliest period of their operations or, if later, from the date when common control was established over the acquired entities. Cash consideration paid to the controlling shareholder has been recorded in the statement of changes in equity as distribution to shareholders.

In July 2007 the Group acquired an additional 10% interest in CJSC Management Company Kaskad for RUR 1 thousand, increasing its ownership from 90% to 100%. The carrying amount of CJSC Management Company Kaskad's net liabilities in the consolidated financial statements on the date of acquisition was RUR 18 million. The acquisition did not affect the minority interest balance as minority interest had not been recognized due to accumulated losses.

In October 2007 the Group acquired an additional 49% interest in LLC TEK Meret for RUR 24.5 million, increasing its ownership from 51% to 100%. The carrying amount of LLC TEK Meret's net assets in the consolidated financial statements on the date of acquisition was RUR 280 million. The Group recognised a decrease in minority interests in LLC subsidiaries of RUR 137 million and gain from acquisition of minority interest of RUR 113 million in the statement of changes in equity.

During 2009, the Group acquired additional interests in certain coal retail entities for RUR 4 million. The acquisition resulted in reduction of equity minority interest by RUR 15 million and in increase of net assets attributable to minority participants of LLC subsidiaries by RUR 6 million. The effect of acquisition was recognised in equity.

9 Revenue

| | 2009 | 2008 | 2007 |
|--------------------------------------|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Sales of coal | 9,225 | 7,528 | 3,162 |
| Compensation from government | 904 | 606 | 349 |
| Sales of electrical and heat power | 202 | 168 | 160 |
| Provision of transportation services | 137 | 143 | 137 |
| Provision of storage services | 67 | 75 | 36 |
| Other revenue | 123 | 37 | 20 |
| | 10,658 | 8,557 | 3,864 |

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

10 Cost of sales

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Railway tariff and transportation services | (3,543) | (1,853) | (559) |
| Coal purchased | (942) | (1,440) | (738) |
| Wages, salaries and social charges | (750) | (663) | (515) |
| Extraction, processing and sorting of coal | (659) | (257) | (73) |
| Fuel | (546) | (594) | (310) |
| Depreciation | (615) | (451) | (321) |
| Spare parts | (323) | (198) | (150) |
| Mining and environmental taxes | (204) | (192) | (90) |
| Repair and maintenance | (144) | (55) | (54) |
| Operating lease | (57) | (82) | (34) |
| Electricity | (33) | (36) | (27) |
| Security services | (32) | (21) | (13) |
| Land rent | (31) | (25) | (103) |
| Storage services | (4) | (23) | (2) |
| Change in provision for site restoration | 1 | (13) | (61) |
| Other materials | (106) | (99) | (108) |
| Other services | (153) | (55) | (35) |
| Other costs | (28) | (11) | (20) |
| Change in coal stock | (2) | (22) | 45 |
| | (8,171) | (6,090) | (3,168) |

11 Distribution expenses

| | 2009 | 2008 | 2007 |
|------------------------------------|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Services | (110) | (107) | (65) |
| Wages, salaries and social charges | (124) | (82) | (62) |
| Materials | (28) | (14) | (7) |
| Depreciation | (42) | (32) | (38) |
| Other distribution expenses | (8) | (7) | (2) |
| | (312) | (242) | (174) |

12 Administrative expenses

| | 2009 | 2008 | 2007 |
|------------------------------------|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Wages, salaries and social charges | (332) | (266) | (206) |
| Services | (111) | (92) | (57) |
| Taxes other than income tax | (92) | (61) | (44) |
| Charity and welfare | (33) | (36) | (56) |
| Fees and penalties | (25) | (22) | (4) |
| Materials | (21) | (18) | (12) |
| Depreciation | (31) | (29) | (16) |
| Sundry payments to personnel | (18) | (13) | (5) |
| Other administrative expenses | (24) | (28) | (22) |
| | (687) | (565) | (422) |

13 Other operating expenses

| | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Impairment loss | (15) | (17) | - |
| Loss on disposal of property, plant and equipment | (4) | (5) | (16) |
| | (19) | (22) | (16) |

14 Personnel costs

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Wages, salaries and sundry payments to personnel | (1,002) | (844) | (644) |
| Social charges | (223) | (180) | (143) |
| | (1,225) | (1,024) | (787) |

15 Finance income and finance costs

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Discount at initial recognition of interest-free loan received | 5 | 48 | - |
| Interest income on loans granted | 19 | 18 | 19 |
| Foreign exchange gain | 41 | - | 8 |
| Finance income | 65 | 66 | 27 |
| Interest expense | (615) | (319) | (185) |
| Allowance for doubtful debts and write-offs | (9) | (34) | (1) |
| Foreign exchange loss | - | (32) | - |
| Unwinding of discount on provision for site restoration | (22) | (13) | (7) |
| Unwinding of discount on long-term promissory notes | (10) | (4) | - |
| Dividends paid to minority participants in LLC subsidiaries | - | - | (16) |
| Finance expense | (656) | (402) | (209) |
| Net finance expense recognised in profit or loss | (591) | (336) | (182) |

In addition to interest expense shown above, the Group has capitalised RUR 49 million (2008: RUR 89 million, 2007: RUR 32 million) to property, plant and equipment under construction using a capitalisation rate of 11.1 % (2008: 11.2%, 2007: 9.9%).

16 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%, 2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%.

| | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Current tax expense | | | |
| Current year | (144) | (352) | (34) |
| (Under) / Overprovided in prior years | (7) | 64 | - |
| | (151) | (288) | (34) |
| Deferred tax expense | | | |
| Origination and reversal of temporary differences | (73) | 31 | 33 |
| Change in tax rate | - | 58 | - |
| Current year losses not giving rise to a deferred tax asset | - | (1) | (8) |
| Change in unrecognised temporary differences | 9 | - | 1 |
| | (64) | 88 | 26 |
| | (215) | (200) | (8) |

| Reconciliation of effective tax rate: | 2009 | | 2008 | | 2007 | |
|---|--------------|-------------|--------------|-------------|-------------|----------|
| | Mln | % | Mln | % | Mln | % |
| | RUR | | RUR | | RUR | |
| Profit / (loss) from continuing operations before tax | 878 | 100 | 1,302 | 100 | (98) | 100 |
| Income tax at applicable tax rate | (176) | (20) | (312) | (24) | 24 | (24) |
| Change in tax rate | - | - | 58 | 5 | - | - |
| Non-deductible expenses | (41) | (4) | (9) | (1) | (25) | 26 |
| Current year losses not giving rise to a deferred tax asset | - | - | (1) | - | (8) | 8 |
| Change in unrecognised temporary differences | 9 | 1 | - | - | 1 | (1) |
| (Under) / Overprovided in prior years | (7) | (1) | 64 | 5 | - | - |
| | (215) | (24) | (200) | (15) | (8) | 9 |

17 Property, plant and equipment

Mln RUR

| | 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 2007 | 371 | 330 | 2,014 | 1,205 | 3 | 478 | 119 | 4,520 |
| Additions | 5 | 7 | 8 | 192 | 2 | 980 | 106 | 1,300 |
| Transfers | 145 | - | 41 | 302 | - | (486) | (2) | - |
| Disposals | - | - | - | (59) | - | - | - | (59) |
| Balance at 31 December 2007 | 521 | 337 | 2,063 | 1,640 | 5 | 972 | 223 | 5,761 |
| Acquisitions through business combinations | 82 | - | 67 | 94 | - | 4 | - | 247 |
| Additions | 222 | - | 1 | 198 | - | 709 | 898 | 2,028 |
| Transfers | 25 | 595 | 473 | 752 | 1 | (1,089) | (757) | - |
| Disposals | - | (14) | (12) | (44) | - | - | - | (70) |
| Balance at 31 December 2008 | 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 |

| Mln RUR | 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 |
|--|-------------------------------|--|--|--|----------------------------------|---|-----------------|----------------|
| <i>Depreciation and impairment losses</i> | | | | | | | | |
| Balance at 1 January 2007 | (15) | (13) | (97) | (209) | (1) | - | - | (335) |
| Depreciation charge | (20) | (7) | (120) | (231) | (1) | - | - | (379) |
| Disposals | - | - | - | 21 | - | - | - | 21 |
| Balance at 31 December 2007 | (35) | (20) | (217) | (419) | (2) | - | - | (693) |
| Depreciation charge | (17) | (13) | (147) | (349) | (1) | - | - | (527) |
| Impairment loss | - | - | (17) | - | - | - | - | (17) |
| Disposals | - | - | 12 | 31 | - | - | - | 43 |
| Balance at 31 December 2008 | (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) |
| <i>Net book value</i> | | | | | | | | |
| At 1 January 2007 | 356 | 317 | 1,917 | 996 | 2 | 478 | 119 | 4,185 |
| At 31 December 2007 | 486 | 317 | 1,846 | 1,221 | 3 | 972 | 223 | 5,068 |
| At 31 December 2008 | 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 |

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

| Mln RUR | 2009 | 2008 | 2007 |
|---|--------------|--------------|--------------|
| Cost of sales | (615) | (451) | (321) |
| Distribution expenses | (42) | (32) | (38) |
| Administrative expenses | (31) | (29) | (16) |
| Capitalized in property, plant and equipment - construction in progress | (2) | (15) | (4) |
| | (690) | (527) | (379) |

Additions to property, plant and equipment include RUR 49 million (2008: RUR 89 million; 2007: RUR 32 million) of capitalised interest.

At 31 December 2009 items of property, plant and equipment with a carrying amount of RUR 3,421 million (31 December 2008: RUR 3,931 million; 31 December 2007: RUR 2,525 million) were pledged to secure bank loans (see note 27).

18 Intangible assets

| Mln RUR | Goodwill | Other | Total |
|--|-----------------|--------------|--------------|
| <i>Cost</i> | | | |
| Balance at 1 January 2007 | 4 | - | 4 |
| Additions | - | 1 | 1 |
| Balance at 31 December 2007 | 4 | 1 | 5 |
| Acquisitions through business combinations | 10 | - | 10 |
| Balance at 31 December 2008 | 14 | 1 | 15 |
| Additions | - | - | - |
| Balance at 31 December 2009 | 14 | 1 | 15 |
| <i>Amortisation and impairment losses</i> | | | |
| Balance at 1 January 2007 | - | - | - |
| Balance at 31 December 2007 | - | - | - |
| Balance at 31 December 2008 | - | - | - |
| Amortisation charge | - | (1) | (1) |
| Balance at 31 December 2009 | - | (1) | (1) |
| <i>Net book value</i> | | | |
| At 1 January 2007 | 4 | - | 4 |
| At 31 December 2007 | 4 | 1 | 5 |
| At 31 December 2008 | 14 | 1 | 15 |
| At 31 December 2009 | 14 | - | 14 |

Impairment testing of goodwill

Goodwill arising from previous business combinations has been entirely allocated to the coal distribution unit of the business, 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 2009. The results of the test did not identify any impairment of the goodwill as at 31 December 2009.

19 Other investments

| | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Mln RUR | Mln RUR | Mln RUR |
| <i>Non-current</i> | | | |
| Loan granted to shareholder | 67 | - | 200 |
| | 67 | - | 200 |
| <i>Current</i> | | | |
| Loan granted to shareholder | - | 69 | 4 |
| Loan granted to other companies | 7 | 2 | 3 |
| | 7 | 71 | 7 |

The loan granted to shareholder as at 31 December 2009 is secured by 16,880 shares of the Company. The loan is provided at 18% p. a. and matures in January 2011.

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 RUR | Assets | | | Liabilities | | | Net balance | | |
|-----------------------------------|-----------|------------|-----------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Property, plant and equipment | - | - | - | (422) | (363) | (396) | (422) | (363) | (396) |
| Inventories | 15 | 59 | 6 | (14) | 69 | - | 1 | 128 | 6 |
| Trade and other receivables | 7 | 11 | 2 | (7) | (17) | - | - | (6) | 2 |
| Trade and other payables | 16 | 7 | 6 | - | (81) | - | 16 | (74) | 6 |
| Loans and borrowings | 5 | - | - | (12) | (9) | - | (7) | (9) | - |
| Provisions | 47 | 32 | 50 | - | - | - | 47 | 32 | 50 |
| Tax loss carry-forwards | 9 | - | - | - | - | - | 9 | - | - |
| Deferred tax assets / liabilities | 99 | 109 | 64 | (455) | (401) | (396) | (356) | (292) | (332) |
| Set-off of tax | (93) | (37) | (56) | 93 | 37 | 56 | - | - | - |
| Net tax assets / liabilities | 6 | 72 | 8 | (362) | (364) | (340) | (356) | (292) | (332) |

The tax losses expire in 2017-2018.

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (tax-effected amounts shown below):

| | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|-------------------------|---------------------|---------------------|---------------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Tax loss carry-forwards | - | 9 | 8 |

(c) Movement in temporary differences during the year

| Mln RUR | 1 January 2007 | Recognised in income statement | 31 December 2007 | Acquired in business combination | Recognised in income statement | 31 December 2008 | Recognised in income statement | 31 December 2009 |
|-------------------------------|---------------------------|---|-----------------------------|---|---|-----------------------------|---|-----------------------------|
| Property, plant and equipment | (394) | (2) | (396) | (48) | 81 | (363) | (59) | (422) |
| Inventories | 2 | 4 | 6 | - | 122 | 128 | (127) | 1 |
| Trade and other receivables | 1 | 1 | 2 | - | (8) | (6) | 6 | - |
| Trade and other payables | 7 | (1) | 6 | - | (80) | (74) | 90 | 16 |
| Loans and borrowings | - | - | - | - | (9) | (9) | 2 | (7) |
| Provisions | 26 | 24 | 50 | - | (18) | 32 | 15 | 47 |
| Tax loss carry-forwards | - | - | - | - | - | - | 9 | 9 |
| | (358) | 26 | (332) | (48) | 88 | (292) | (64) | (356) |

21 Inventories

| | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|-------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Raw materials and consumables | 132 | 106 | 91 |
| Coal in stock | 150 | 167 | 65 |
| Coal in transit | 114 | 231 | 60 |
| Other | 9 | 8 | - |
| | 405 | 512 | 216 |

Inventories with a carrying amount of RUR 45 million (31 December 2008: 32 million; 31 December 2007: 80 million) have been pledged as security for borrowings.

22 Trade and other receivables

| | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|-------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Trade receivables | 720 | 411 | 272 |
| Overpayment of VAT to budget | 145 | 221 | 86 |
| Input VAT receivable | 134 | 210 | 112 |
| Compensation receivable from budget | 96 | 46 | 37 |
| Receivables for railway tariff | 72 | 56 | 115 |
| Receivable from personnel | 14 | 21 | 13 |
| Other receivables | 91 | 145 | 43 |
| Provision for doubtful debts | (45) | (36) | (7) |
| | 1,227 | 1,074 | 671 |

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

| | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Prepaid customs duties | - | 70 | - |
| Advances given | 209 | 117 | 45 |
| Deferred expenses | 21 | 16 | 12 |
| | 230 | 203 | 57 |

24 Cash and cash equivalents

| | 2009 | 2008 | 2007 |
|--|----------------|----------------|----------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Petty cash | 1 | 1 | 1 |
| Bank balances | 85 | 314 | 30 |
| Cash and cash equivalents in the statement of financial position | 86 | 315 | 31 |
| Bank overdrafts used for cash management purposes | - | (60) | - |
| Cash and cash equivalents in the statement of cash flows | 86 | 255 | 31 |

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 2009 | 31 December 2008 | 31 December 2007 |
|---|---------------------------------|---------------------------------|---------------------------------|
| Authorised shares | 93,777,100 | 1,875,542 | 1,875,542 |
| Shares on issue, fully paid | 84,399,400 | 1,687,988 | 1,687,988 |
| Par value, Roubles | RUR 0.2 | RUR 10 | RUR 10 |
| On issue and fully paid at end of year, RUR million | 17 | 17 | 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 shareholders approved a share split in the ratio of 1:50, which has resulted in an increase in the number of shares on issue 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 through an issue of additional 14,900,000 shares. As of the date

when these financial statements were authorised, the additional shares have not been subscribed to and paid for.

(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 Russian Accounting Principles. As at 31 December 2009 the Company had retained earnings, including the profit for the current year, of RUR 2,468 million (31 December 2008: RUR 1,926 million; 31 December 2007: RUR 923 million).

26 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders of the Company of RUR 637 million (2008: RUR 1,064 million; 2007: loss of RUR 94 million), and a weighted average number of ordinary shares outstanding of 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, see note 31.

| | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|--------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Mln RUR | Mln RUR | Mln RUR |
| <i>Non-current liabilities</i> | | | |
| Secured bank loans | 2,130 | 2,371 | 1,271 |
| Loans from other companies | 41 | 41 | 1 |
| Promissory notes issued | 33 | 41 | - |
| | 2,204 | 2,453 | 1,272 |
| <i>Current liabilities</i> | | | |
| Secured bank loans | 1,622 | 780 | 1,739 |
| Promissory notes issued | 11 | 14 | - |
| Unsecured bank loans | - | 366 | - |
| Loan from shareholder | - | - | 63 |
| Loans from other companies | 18 | 2 | 35 |
| Interest accrued | 4 | 10 | 9 |
| | 1,655 | 1,172 | 1,846 |

(a) Terms and debt repayment schedule:

| Mln RUR | Currency | Nominal interest rate | Year of maturity | 2009 | | 2008 | | 2007 | |
|----------------------------|----------|-----------------------|------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| | | | | Carrying amount | Face value | Carrying amount | Face value | Carrying amount | Face value |
| Secured bank loan | USD | 8% - 9.1% | 2011 - 2014 | 1,966 | 1,966 | - | - | - | - |
| Secured bank loan | RUR | 12% - 17.8% | 2010 | 800 | 800 | - | - | - | - |
| | | 1m | | | | | | | |
| Secured bank loan | RUR | Mosprime+3.5% | 2010 | 350 | 350 | - | - | - | - |
| Secured bank loan | RUR | 20% - 22% | 2010 | 246 | 246 | - | - | - | - |
| Secured bank loan | RUR | 12% - 22% | 2011 - 2014 | 184 | 184 | - | - | - | - |
| Secured bank loan | USD | 8% - 9.1% | 2010 | 136 | 136 | - | - | 12 | 12 |
| Secured bank loan | RUR | 16.5% | 2010 | 60 | 60 | - | - | - | - |
| Promissory notes issued | RUR | 0% | 2010 - 2014 | 44 | 57 | 55 | 75 | - | - |
| Loans from other companies | RUR | 0% | 2010 - 2028 | 44 | 92 | 43 | 91 | - | - |
| Loans from other companies | RUR | 20% | 2010 | 15 | 15 | - | - | - | - |
| Secured bank loan | RUR | 10.5% - 14.0% | 2010 - 2012 | 10 | 10 | 2,371 | 2,371 | 878 | 878 |
| Secured bank loan | RUR | 16.5% - 24.0% | 2009 | - | - | 67 | 67 | - | - |
| Secured bank loan | RUR | 8.6% - 14.5% | 2008 - 2009 | - | - | 713 | 713 | 2,120 | 2,120 |
| Unsecured bank loan | RUR | 11.8% - 14.5% | 2009 | - | - | 278 | 278 | - | - |
| Unsecured bank loan | USD | 12.8% | 2009 | - | - | 88 | 88 | - | - |
| Loans from other companies | RUR | 0% | 2008 | - | - | - | - | 30 | 30 |
| Loans from other companies | RUR | 10.5% - 11% | 2008 | - | - | - | - | 6 | 6 |
| Loans from shareholder | RUR | 12.0% | 2008 | - | - | - | - | 63 | 63 |
| | | | | 3,855 | 3,916 | 3,615 | 3,683 | 3,109 | 3,109 |

Bank loans are secured by the following:

- Property plant and equipment with a carrying amount of RUR 3,421 million (31 December 2008: RUR 3,931 million; 31 December 2007: RUR 2,525 million) (see note 17).
- Inventory with a carrying amount of RUR 45 million (31 December 2008: RUR 32 million; 31 December 2007: RUR 80 million) (see note 21).
- 100% shares of LLC TEK Meret, a subsidiary of the Group (2008: none; 2007: none).

28 Net assets attributable to minority participants in LLC subsidiaries

| | Mln RUR |
|---|----------------|
| Balance at 1 January 2007 | 154 |
| Acquired through business combination | 1 |
| Profit attributable to minority participants | 5 |
| Dividends paid to minority participants | (16) |
| Acquisition of share of minority participants by the Group | (137) |
| Balance at 31 December 2007 | 7 |
| Acquired through business combination | 14 |
| Profit attributable to minority participants | 29 |
| Balance at 31 December 2008 | 50 |
| Profit attributable to minority participants | 4 |
| Effect of share issue by LLC subsidiary | 6 |
| Effect of change in equity minority interests (refer note 8(b)) | 6 |
| Balance at 31 December 2009 | 66 |

In accordance with Federal Law of the Russian Federation on limited liability companies, a participant in such a company may unilaterally withdraw from the entity if the right to withdraw is provided for in the company's charter. Under such circumstances, the company is obliged to pay a withdrawing participant their share of the net assets in cash or, given consent of the participant, by in-kind transfer of assets.

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

| Mln RUR | Site restoration | Tax claims | Total |
|---------------------------------|-----------------------------|-----------------------|--------------|
| Balance at 1 January 2007 | 106 | 100 | 206 |
| Provisions made during the year | 90 | - | 90 |
| Unwinding of discount | 7 | - | 7 |
| Provisions used during the year | - | (51) | (51) |
| Balance at 31 December 2007 | 203 | 49 | 252 |
| <i>Non-current</i> | 203 | - | 203 |
| <i>Current</i> | - | 49 | 49 |
| Balance at 1 January 2008 | 203 | 49 | 252 |
| Provisions made during the year | 45 | - | 45 |
| Unwinding of discount | 13 | - | 13 |
| Change of accounting estimates | (37) | - | (37) |
| Reversal | - | (17) | (17) |
| Provisions used during the year | - | (32) | (32) |
| Balance at 31 December 2008 | 224 | - | 224 |
| <i>Non-current</i> | 217 | - | 217 |
| <i>Current</i> | 7 | - | 7 |
| Balance at 1 January 2009 | 224 | - | 224 |
| Provisions made during the year | 28 | - | 28 |
| Unwinding of discount | 22 | - | 22 |
| Change of accounting estimates | (37) | - | (37) |
| Balance at 31 December 2009 | 237 | - | 237 |
| <i>Non-current</i> | 237 | - | 237 |
| <i>Current</i> | - | - | - |

(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 2009, nil (2008: RUR 9 million; 2007: RUR 29 million) was charged to mining assets in the course of land plot development, and RUR 28 million (2008: RUR 36 million; 2007: RUR 61 million) was charged to cost of sales in the course of coal extraction.

Additionally, as a result of change in accounting estimates, RUR 8 million (2008: RUR 14 million, 2007: nil) was derecognised from mining assets and RUR 29 million (2008: RUR 23 million, 2007: nil) 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 2009 the Group applied an average yield of 8.8% p.a. (2008: 9.8 % p.a.; 2007: 6.6% p.a.).

(b) Tax liabilities

As at 1 January 2007 the tax provision included RUR 83 million of provisions for corporate profit tax, VAT and other taxes that were created based on the results of a tax audit related to earlier periods. Due to the fact that the Group paid the tax claims in 2007 and 2008 in cash, RUR 51 million of the tax provision was utilized in 2007, RUR 32 million of the tax provision was utilized in 2008.

In 2008, the Group filed an appeal against the previous court rulings, and was successful in reversing the tax penalties paid. The tax authorities filed counter-appeals to the courts of higher jurisdiction, however in February 2009 the Federal Arbitration Court of the West Siberian district confirmed the ruling made by the court of lower instance in favour of the Group.

As at 1 January 2007 the tax provision also included an amount of RUR 17 million for a potential tax exposure related to the disposal of a subsidiary by the Company. However, in early 2009 the Company was subject to a tax audit covering 2006 and 2007 tax years and the tax authorities did not challenge the economic substance of the disposal.

As a result of the circumstances described above, in 2008 management recognised income from the reversal of income tax provisions and accruals in the amount of RUR 64 million, see note 16.

30 Trade and other payables

| | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|--|---------------------------------|---------------------------------|---------------------------------|
| | Mln RUR | Mln RUR | Mln RUR |
| Trade payables | 576 | 864 | 293 |
| Advances received | 269 | 464 | 128 |
| Taxes (other than income tax) payable | 205 | 267 | 53 |
| Payables for property, plant and equipment | 238 | 53 | 131 |
| Payables to personnel | 81 | 76 | 53 |
| Accrual for unused vacation | 32 | 31 | 26 |
| Payables to shareholder | - | - | 26 |
| Other payables | 13 | 33 | 13 |
| | 1,414 | 1,788 | 723 |

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 balance sheet.

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. The Group's two most significant customers, Glencore International AG and Kort Enterprises Limited, account together for 42% (2008: 35%) of total Group revenue (see note 6).

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 RUR | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|-----------------------------|---------------------------------|---------------------------------|---------------------------------|
| Loans granted | 74 | 71 | 207 |
| Trade and other receivables | 1,234 | 1,076 | 674 |
| Cash and cash equivalents | 86 | 315 | 31 |
| | 1,394 | 1,462 | 912 |

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.

The Group's most significant customer, Glencore International AG, accounted for RUR 48 million of the trade receivables carrying amount at 31 December 2009 (2008: RUR 89 million, 2007: nil).

Impairment losses

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

| | Gross 2009 Mln RUR | Impairment 2009 Mln RUR | Gross 2008 Mln RUR | Impairment 2008 Mln RUR | Gross 2007 Mln RUR | Impairment 2007 Mln RUR |
|--------------------------------|---------------------------------------|--|---------------------------------------|--|---------------------------------------|--|
| Not past due | 505 | 1 | 285 | - | 151 | - |
| Past due 0-30 days | 114 | - | 103 | 2 | 65 | - |
| Past due 31-60 days | 33 | - | 4 | 1 | 47 | - |
| Past due 61-90 days | 19 | - | 4 | - | 1 | - |
| Past due 91-180 days | 18 | 3 | 7 | - | 1 | - |
| Past due more than 180 days | 31 | 17 | 8 | 4 | 7 | 7 |
| | 720 | 21 | 411 | 7 | 272 | 7 |

The impairment losses as at 31 December 2009 mostly relate to customers that experienced difficulties in obtaining finance from municipal budgets.

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

| Mln RUR | 2009 | 2008 | 2007 |
|---|-------------|-------------|-------------|
| Balance, as at beginning of the year | 36 | 7 | 6 |
| Recognised in income statement for the year | 9 | 34 | 1 |
| Amounts written off against trade receivables | - | (5) | - |
| Balance, as at end of the year | 45 | 36 | 7 |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due. Impairment allowance for receivables which are overdue 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.

As of 31 December 2009, the Group's current liabilities exceeded its current assets by RUR 1,094 million (31 December 2008: RUR 962 million; 31 December 2007: RUR 1,642 million).

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.

In 2010 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, and taking into account actions to replace short-term debt with long-term borrowings, the Group will be able to meet its short-term liabilities as they fall due. Additionally, management believes that if required, certain capital expansion projects may be deferred or curtailed in order to fund the current operating needs. Management also expects to be able to delay payment for certain operating costs to manage its working capital requirements, if necessary.

As at 31 December 2009, the Group had several open credit facilities with a number of major Russian banks. In accordance with existing agreements the Group may borrow from these banks at 15% p.a. As at 31 December 2009 the unused amount of these facilities was RUR 248 million. The majority of the facilities expire in 2013.

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.

As at 31 December 2009

| Mln RUR | 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 |

As at 31 December 2008

| Mln RUR | 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 | 3,151 | 515 | 626 | 2,082 | 568 | 68 | - | - | 3,859 |
| Unsecured bank loans | 366 | 378 | 33 | - | - | - | - | - | 411 |
| Bank overdrafts | 60 | 66 | - | - | - | - | - | - | 66 |
| Promissory notes issued | 55 | - | 15 | 15 | 15 | 15 | 15 | - | 75 |
| Loans from other companies | 43 | 4 | 3 | 5 | 6 | 5 | 5 | 62 | 90 |
| Trade and other payables* | 1,057 | 1,057 | - | - | - | - | - | - | 1,057 |
| | 4,732 | 2,020 | 677 | 2,102 | 589 | 88 | 20 | 62 | 5,558 |

As at 31 December 2007

| Mln RUR | 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 | 3,010 | 503 | 1,409 | 432 | 900 | 66 | - | - | 3,310 |
| Loan from shareholder | 63 | 70 | - | - | - | - | - | - | 70 |
| Loans from other companies | 36 | 36 | - | 1 | - | - | - | - | 37 |
| Trade and other payables* | 542 | 542 | - | - | - | - | - | - | 542 |
| | 3,651 | 1,151 | 1,409 | 433 | 900 | 66 | - | - | 3,959 |

* 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 the Group entities, the Russian Rouble (RUR).

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUR, but also USD.

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 RUR | USD- denominated 31 December 2009 | USD- denominated 31 December 2008 | USD- denominated 31 December 2007 |
|---|--|--|--|
| Trade receivables and other receivables | 62 | 91 | 1 |
| Cash and cash equivalents | 1 | 93 | - |
| Loans and borrowings | (2,102) | (88) | (12) |
| Net exposure | (2,039) | 96 | (11) |

The following significant exchange rates applied during the year:

| in RUR | Average rate | | | Reporting date spot rate | | |
|---------------|---------------------|-------------|-------------|---------------------------------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| USD 1 | 31.7205 | 24.8553 | 25.5759 | 30.2442 | 29.3804 | 24.5462 |

(e) Sensitivity analysis

A strengthening of the RUR, as indicated below, against the US dollar at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008 and 2007.

| Mln RUR | <u>Equity</u> | <u>Profit or loss</u> |
|-------------------------|---------------|-----------------------|
| 2009 | | |
| USD (10% strengthening) | 204 | 204 |
| 2008 | | |
| USD (10% strengthening) | (10) | (10) |
| 2007 | (1) | (1) |
| USD (10% strengthening) | | |

A weakening of the RUR against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(i) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either 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 RUR | <u>31 December 2009</u> | <u>31 December 2008 Restated</u> | <u>31 December 2007</u> |
|---|---------------------------------|--|---------------------------------|
| <i>Fixed rate interest-bearing instruments:</i> | | | |
| Financial assets | 74 | 71 | 207 |
| Financial liabilities | (3,509) | (3,685) | (3,118) |
| | (3,435) | (3,614) | (2,911) |
| <i>Variable rate interest-bearing instruments:</i> | | | |
| Financial liabilities | (350) | - | - |
| Net amount | <u>(3,785)</u> | <u>(3,614)</u> | <u>(2,911)</u> |

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 (interest rate swaps) 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 at the reporting date would increase (decrease) future cash flow related to interest payments of the Group by RUR 4 million (2008: nil; 2007: nil). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(f) Fair values versus carrying amounts

Except for the items stated below, management believes that the carrying amounts of financial assets and liabilities as at 31 December 2009 approximate their fair values:

| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
|--|----------------------------|-------------------|----------------------------|-------------------|----------------------------|-------------------|
| | 2009 | 2009 | 2008 | 2008 | 2007 | 2007 |
| | <u>Mln RUR</u> | <u>Mln RUR</u> | <u>Mln RUR</u> | <u>Mln RUR</u> | <u>Mln RUR</u> | <u>Mln RUR</u> |
| Loans received measured at amortised cost | 3,859 | 3,840 | 3,625 | 3,218 | 3,118 | 3,118 |

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

| | 2009 | 2008 | 2007 |
|--|-------------------------------|---------------|---------------|
| Loans received measured at amortised cost | 9%-11% (USD) 14%-16% (RUR) | 18%-20% (RUR) | 10%-12% (RUR) |

(g) Fair value hierarchy

The basis for determining fair values is disclosed in note 5.

The Group's fair value measurements are classified into a fair value hierarchy with the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair values, which are disclosed above, were determined on the basis of level 2 inputs.

(h) 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 intends to pay dividends annually in amount of 25% of the Company's net profit for the preceding year, as determined under Russian statutory accounting principles.

With effect from 2010, the Company is also subject to new capital requirements imposed by additional loan agreements with one of the banks which contain debt covenants stating that:

- at the end of each quarter the Company's debt (defined as the Company's non-current liabilities and short-term loans and borrowings less cash) cannot exceed 4 times the Company's EBITDA for the last four quarters;
- the Company's net assets at the end of each quarter should not be negative.

All amounts above are to be determined on the basis of the Company's statutory financial statements for a relevant period. As at 31 December 2009, the outstanding amount of the loans which will be subject to these covenants was RUR 1,966 million.

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 RUR 57 million (2008: RUR 108 million, 2007: RUR 34 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 a 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 RUR 31 million (2008: RUR 25 million, 2007: RUR 103 million) including RUR 2 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 per hectare rent rate.

33 Capital commitments

As at 31 December 2009, the Group has entered into a number of contracts to purchase plant and equipment for RUR 970 million (31 December 2008: RUR 153 million; 31 December 2007: RUR 394 million). The increase is due to commencement of construction works of coal enrichment facilities.

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 ultimate controlling party is Mr Igor Yurievich Prokudin, who was one of the Company's immediate shareholders as at 31 December 2009.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 14):

| | 31 December 2009 | 31 December 2008 Restated | 31 December 2007 Restated |
|-------------------------------------|---------------------------------|--|--|
| Mln RUR | | | |
| Salaries and bonuses | 127 | 112 | 115 |
| Contributions to State pension fund | 8 | 8 | 8 |
| Total management remuneration | 135 | 120 | 123 |

In preparation of the 2009 consolidated financial statements, a more narrow definition of key management has been adopted, resulting in restatement of comparative information for consistency purposes.

(ii) Other transactions

Loan to a shareholder amounting to RUR 67 million is classified as “other investments” within non-current assets (see note 19). The loan is repayable in January 2011.

(b) Transactions with other related parties

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

(i) Revenue

| | Transaction value 2009 Mln RUR | Transaction value 2008 Mln RUR | Transaction value 2007 Mln RUR | Outstanding balance 2009 Mln RUR | Outstanding balance 2008 Mln RUR | Outstanding balance 2007 Mln RUR |
|---------------|---|---|---|---|---|---|
| Sale of coal | 21 | 314 | 427 | - | - | 190 |
| Other revenue | 2 | 4 | 1 | - | 4 | 5 |
| | 23 | 318 | 428 | - | 4 | 195 |

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

| | Transaction value 2009 Mln RUR | Transaction value 2008 Mln RUR | Transaction value 2007 Mln RUR | Outstanding balance 2009 Mln RUR | Outstanding balance 2008 Mln RUR | Outstanding balance 2007 Mln RUR |
|--------------------------------------|---|---|---|---|---|---|
| Purchase of goods | 4 | 182 | 88 | - | - | 41 |
| Acquisitions under common control | - | - | 50 | - | - | 26 |
| Services received | 44 | 103 | 37 | 3 | 3 | 3 |
| | 48 | 285 | 175 | 3 | 3 | 70 |

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

| | Transaction value 2009 Mln RUR | Transaction value 2008 Mln RUR | Transaction value 2007 Mln RUR | Outstanding balance 2009 Mln RUR | Outstanding balance 2008 Mln RUR | Outstanding balance 2007 Mln RUR |
|---|---|---|---|---|---|---|
| Loans received: | | | | | | |
| Shareholders of the Group | - | 202 | - | - | - | (63) |
| Fellow subsidiaries | - | 144 | 17 | - | - | (6) |
| Loans given: | | | | | | |
| Shareholders of the Group | (60) | - | (200) | 60 | 69 | 200 |
| Entities with significant influence | - | - | - | - | - | 1 |
| | (60) | 346 | (183) | 60 | 69 | 132 |

Loan granted to one of the shareholders bears interest rate of 18% (2008: 10.5%) and falls due in 2011.

Loans received from shareholders bear interest rate of 13% - 15% and were repaid during the year.

| | Transaction value 2009 Mln RUR | Transaction value 2008 Mln RUR | Transaction value 2007 Mln RUR | Outstandin g balance 2009 Mln RUR | Outstandin g balance 2008 Mln RUR | Outstandin g balance 2007 Mln RUR |
|---|---|---|---|--|--|--|
| Interest expense on loans received: | | | | | | |
| Shareholders of the Group | - | (7) | (7) | - | - | (2) |
| Fellow subsidiaries | - | (13) | - | - | - | - |
| Interest income on loans given: | | | | | | |
| Shareholders of the Group | 13 | 16 | 14 | 6 | - | 4 |
| Entities with significant influence | - | - | 1 | - | - | - |
| | 13 | (4) | 8 | 6 | - | 2 |

36 Events subsequent to the reporting date

Subsequent to 31 December 2009, the Board of Directors recommended a dividend of RUR 3 per share or RUR 253 million in respect to the 2009 year. The payment of dividends is subject to shareholders' approval at the annual general meeting, which is expected to take place on 16 April 2010.