

OJSC Kuzbass Fuel Company
Consolidated Financial Statements
for the year ended 31 December 2007

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Independent Auditors' Report

The Board of Directors of OJSC Kuzbass Fuel Company

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC Kuzbass Fuel Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the 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 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. Except as described in the Basis for Qualified Opinion paragraph, 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 134,276 thousand 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 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 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that the corresponding figures as at and for the year ended 31 December 2006 are unaudited.

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18 November 2008

OJSC Kuzbass Fuel Company
Consolidated Income Statement for the year ended 31 December 2007

		2007	(Unaudited) 2006
	Note	'000 RUR	'000 RUR
Revenue	8	3,864,147	3,448,205
Cost of sales	9	(3,073,353)	(2,879,015)
Gross profit		790,794	569,190
Distribution expenses	10	(267,432)	(237,262)
Administrative expenses	11	(282,030)	(197,502)
Other expenses	12	(166,153)	(122,798)
Results from operating activities		75,179	11,628
Financial income	14	26,582	15,141
Financial expenses	14	(199,762)	(136,849)
Loss from continuing operations before income tax		(98,001)	(110,080)
Income tax (expense) / benefit	15	(7,923)	11,666
Loss for the year from continuing operations		(105,924)	(98,414)
Gain / (loss) from discontinued operations, net of income tax	6	318	(33,531)
Loss for the year		(105,606)	(131,945)
Profit / (loss) attributable to:			
Shareholders of the Company		(94,366)	(161,237)
Minority participants in LLC entities		(10,197)	19,370
Equity minority interest		(1,043)	9,922
		(105,606)	(131,945)

These consolidated financial statements were approved by management on 14 November 2008 and were signed on its behalf by:

General Director
I.Yu. Prokudin

Financial Director
E.V. Alexeenko

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

OJSC Kuzbass Fuel Company
Consolidated Balance Sheet as at 31 December 2007

		2007	(Unaudited) 2006
	Note	'000 RUR	'000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	16	5,068,188	4,183,915
Goodwill and intangible assets	17	4,773	4,416
Investments in equity accounted investees	18	-	17,643
Other investments	19	200,000	2,836
Long-term receivables		3,730	3,532
Deferred tax assets	20	7,834	3,229
Total non-current assets		<u>5,284,525</u>	<u>4,215,571</u>
Current assets			
Inventories	21	216,218	134,276
Other investments	19	6,420	107,499
Income tax receivable		7,087	4,658
Trade and other receivables	22	680,210	469,725
Prepayments	23	47,996	61,486
Cash and cash equivalents	24	30,796	126,241
Total current assets		<u>988,727</u>	<u>903,885</u>
Total assets		<u>6,273,252</u>	<u>5,119,456</u>

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

OJSC Kuzbass Fuel Company
Consolidated Balance Sheet as at 31 December 2007

		2007	(Unaudited) 2006
	Note	'000 RUR	'000 RUR
EQUITY AND LIABILITIES			
Equity	25		
Share capital		16,880	16,880
Retained earnings		1,782,900	1,912,072
Total equity attributable to shareholders of the Company		1,799,780	1,928,952
Minority interest		19,747	20,790
Total equity		1,819,527	1,949,742
Non-current liabilities			
Loans and borrowings	26	1,271,558	553,325
Net assets attributable to minority participants in LLC entities	27	6,952	153,505
Provisions	28	203,162	106,401
Deferred tax liabilities	20	339,591	360,676
Total non-current liabilities		1,821,263	1,173,907
Current liabilities			
Loans and borrowings	26	1,845,290	1,423,661
Trade and other payables	29	725,623	466,385
Provisions	28	48,509	99,643
Income tax payable		13,040	6,118
Total current liabilities		2,632,462	1,995,807
Total liabilities		4,453,725	3,169,714
Total equity and liabilities		6,273,252	5,119,456

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 53.

OJSC Kuzbass Fuel Company
Consolidated Statement of Cash Flows for the year ended 31 December 2007

	2007	(Unaudited)
	'000 RUR	2006
	'000 RUR	'000 RUR
Cash flows from operating activities		
Loss for the year	(105,606)	(131,945)
<i>Adjustments for:</i>		
(Gain) / loss from discontinued operations	(318)	33,531
Depreciation and amortisation	375,409	329,439
Increase of provision for site restoration	61,396	33,617
Loss on disposal of property, plant and equipment	16,386	19,487
Net finance expense	173,180	121,708
Income tax expense / (benefit)	7,923	(11,666)
Operating profit before changes in working capital and provisions	528,370	394,171
Change in inventories	(81,942)	(16,046)
Change in trade and other receivables	(178,021)	278,732
Change in prepayments	13,490	32,104
Change in trade and other payables	106,371	(51,017)
Cash flows from operations before income taxes and interest paid	388,268	637,944
Income taxes and penalties paid	(78,564)	(28,751)
Interest paid	(238,822)	(175,174)
Cash flows from operating activities from continuing operations	70,882	434,019

OJSC Kuzbass Fuel Company
Consolidated Statement of Cash Flows for the year ended 31 December 2007

	2007	(Unaudited)
	'000 RUR	2006
	'000 RUR	'000 RUR
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	20,647	9,023
Proceeds from disposal of discontinued operations, including disposal of equity accounted investees	25,158	70
Loans issued	(310,245)	(37,619)
Proceeds from loans previously issued (including interest received)	231,952	12,320
Dividends received	49	26,795
Acquisition of property, plant and equipment	(1,104,213)	(667,274)
Acquisition of intangible assets	(456)	(153)
Acquisition of subsidiaries, net of cash acquired	-	2,783
Acquisition of equity accounted investees	(7,252)	(17,033)
Acquisition of minority interests and entities under common control	(24,511)	(40,404)
Cash flows used in investing activities from continuing operations	(1,168,871)	(711,492)
FINANCING ACTIVITIES		
Proceeds from borrowings	5,454,154	4,249,644
Repayment of borrowings	(4,313,772)	(3,855,248)
Dividends paid	(137,838)	(2,760)
Cash flows from financing activities from continuing operations	1,002,544	391,636
Net (decrease)/increase in cash and cash equivalents from continuing operations	(95,445)	114,163
Cash and cash equivalents at beginning of year	126,241	44,090
Cash generated by discontinued operations	-	3,934
Cash disposed with discontinued operations	-	(35,946)
Cash and cash equivalents at end of year (note 24)	30,796	126,241

OJSC Kuzbass Fuel Company
Consolidated Statement of Changes in Equity for the year ended 31 December 2007

'000 RUR	Attributable to shareholders of the Company			Minority interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 1 January 2006 (Unaudited)	16,880	2,040,166	2,057,046	121,452	2,178,498
Net loss for the year and total recognized income and expenses for the year	-	(161,237)	(161,237)	9,922	(151,315)
Dividends to minority (Unaudited)	-	-	-	(13,680)	(13,680)
Formation of subsidiary (Unaudited)	-	-	-	49	49
Acquisition of minority interests (Unaudited)	-	33,143	33,143	(73,547)	(40,404)
Disposal of discontinued operations (Unaudited)	-	-	-	(23,406)	(23,406)
Balance at 31 December 2006 (Unaudited)	16,880	1,912,072	1,928,952	20,790	1,949,742
Net loss for the year and total recognized income and expenses for the year	-	(94,366)	(94,366)	(1,043)	(95,409)
Dividends to shareholders	-	(122,148)	(122,148)	-	(122,148)
Acquisition of minority interest in LLC entities	-	112,852	112,852	-	112,852
Acquisition of shares of subsidiaries under common control (transfer of cash to controlling shareholder)	-	(25,510)	(25,510)	-	(25,510)
Balance at 31 December 2007	16,880	1,782,900	1,799,780	19,747	1,819,527

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 53.

1 Background

(a) Organisation and operations

OJSC Kuzbass Fuel Company (“KTK” or the “Company”) is a Russian open joint stock company as defined in the Civil Code of the Russian Federation, which was established on 4 April 2000. The Company’s registered office is located at 4, 50 let Oktyabrya, Kemerovo, Russia.

The Company together with the following significant subsidiaries are referred to as “the Group”:

			2007	2006
	Country of incorporation	Principal activity	Ownership/ voting	Ownership/ voting
LLC TEK Meret (*)	Russia	Railroad transportation services	100%	51%
OJSC Kuzbasstoplivosbit	Russia	Retail sale of coal	75%	75%
OJSC Kaskad Energo	Russia	Electricity generation	100%	100%
CJSC Management Company Kaskad (*)	Russia	Wholesale sale of coal	100%	90%
OJSC ATK	Russia	Retail sale of coal	51%	51%
LLC Transugol	Russia	Retail sale of coal	51%	51%

(*) – As at 31 December 2006 these entities were owned directly by the Controlling shareholder

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, retail sales of coal through a distribution networks located in the Kemerovo, Altai and Omsk regions and generation of electricity. The Group’s products are sold both in the Russian Federation and abroad. The operations of the Group are subject to various regulations and licensing laws related to the extraction of coal in the Russian Federation.

The Company is owned by two individuals (the “Shareholders Group”), Mr. I.Yu. Prokudin (the “Controlling shareholder”) and Mr. V.V. Danilov. The Group’s Shareholders have a number of other business interests outside of the Group, with which the Group transacts. Related party transactions are detailed in note 34.

(b) 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. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

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

These consolidated financial statements are the first financial statements of the Group prepared in conformity with IFRS. The Group has transitioned to IFRS as of 1 January 2006, which is the beginning of the earliest of the periods, presented in these financial statements, using the provisions of IFRS 1 “First-time Adoption of International Reporting Standards”.

The Group did not prepare consolidated financial statements under its previous GAAP, Russian Accounting Principles. Accordingly, these consolidated financial statements do not include a reconciliation to amounts reported under previous GAAP.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. 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 that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 16 – property, plant and equipment;
- Note 28(a) – provision for site restoration; and
- Note 33 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(p). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. 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 restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the respective entities' IFRS 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 additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(iii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses 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 associate, 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 translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the income statement.

(c) Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Accounting for finance income and expenses is discussed in note 3(n).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that: the Group upon initial recognition designates as at fair value through profit or loss; the Group designates as available-for-sale; or meets the definition of loans and receivables. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the income statement. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

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 and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(ii) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

(d) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

(e) 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.

Cost includes expenditures that are directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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 its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

The cost of property, plant and equipment at 1 January 2006, was determined by reference to its fair value at that date as part of the Group's transition to IFRS.

When an item of property, plant and equipment comprise major components, having different useful lives, they are accounted for as separate items of property, plant and equipment.

(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 it forms part of mine development expenditure.

(iii) Mine development expenditure

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(e)(iv). Other development expenditures are recognised in the income statement as an expense as incurred.

Once the relevant mineral resource is ready for production, the capitalised 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) 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 costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(vi) 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(e)(iii));
- Capitalized development stripping costs (note 3(e)(iv));
- Capitalized assets retirement obligations (note 28(a));
- Cost of production mining licenses.

(vii) Depreciation

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using 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 | 20-45 years |
| • Earth-moving machinery and vehicles | 3-24 years |
| • Production equipment | 2-20 years |
| • Fixtures and fittings | 5-10 years |
| • Mining assets and mining structures | pro rata to extraction
volumes in relevant mines |

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

(f) 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. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

(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 income statement when incurred.

(iv) Amortisation

Amortisation of intangible assets other than production licences is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets. Amortisation commences from the date that the assets are available for use.

(g) 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 balance sheet.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and 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.

(i) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(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 at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. 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.

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.

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.

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

According to Article 26 of Federal Law of Russian Federation on Limited Liability Companies (the Federal Law), a participant in a limited liability company may unilaterally withdraw from the company. In such cases the company will be obliged to pay the withdrawing participant's share of net assets of the company for the year of withdrawal, in cash or, subject to consent of the participants, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of withdrawal.

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

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans comprise payments to Russia's State pension fund and are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) 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.

(l) 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.

(m) Revenue

(i) Sale of coal

Revenue from the sale of coal is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when 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 of coal can be estimated reliably.

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.

(ii) Compensation from government

Compensation from government relates to retail sales of coal to citizens 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.

(iii) 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.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets other than trade and other receivables. All borrowing costs, which are not directly attributable to the acquisition, construction or production of qualifying assets, are recognised in the income statement using the effective interest method.

Dividends declared to owners of limited liability entities of the Group where net assets are attributable to those owners are recognized as a finance expense.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income 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 using the balance sheet method, providing for 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 goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in consolidated entities to the extent it is probable they will not reverse in the foreseeable future. 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 balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) 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 2007, and have not been applied in preparing these consolidated financial statements. However, none of these pronouncements are expected to have any impact on the Group's operations, its financial position or performance.

4 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 / or 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, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(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 is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Financial 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.

(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 transacts with its customers on a prepayment basis, except for sales to related parties and to government bodies which are made on credit terms.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management includes maintaining sufficient cash and deposits and ensuring the availability of funding from an adequate amount of committed credit facilities.

As of 31 December 2007, the Group's current liabilities exceeded its current assets by RUR 1,643,735 thousand (31 December 2006 – RUR 1,091,922 thousand).

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 2008, the Group anticipates funding from cash generated from operations and cash from additional bank loans. Management believes that based on the expected levels of operating profit and cash flows, and taking into account a plan to replace short-term debt with long-term borrowings during 2008 and beyond, 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.

(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 foreign currency risk on sales and purchases that are denominated in a currency other than the Russian rouble. The currency giving rise to this risk is primarily the United States dollar (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.

(ii) Interest rate risk

The Group's interest rate risk arises from its loans and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. 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.

(e) 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.

The Group does not have a formal policy in respect of the level of its capital.

6 Discontinued operation

(a) OJSC Kuzbass Electro-Network Company

In June 2006 the Group sold its 70% share in OJSC Kuzbass Electro-Network Company. The Group recognised a decrease in minority interests of RUR 23,406 thousand.

Results of discontinued operation		2006
	Note	'000 RUR
Revenue		763,983
Expenses		(710,667)
Results from operating activities		53,316
Income tax expense	15	(15,712)
Profit from operating activities, net of income tax		37,604
Provision for income tax on sale of discontinued operations	28(b)	(17,280)
Loss on sale of discontinued operations		(54,546)
Loss for the year		(34,222)

Cash flows from discontinued operation		2006
		'000 RUR
Net cash from operating activities		74,248
Net cash used in investing activities		(33,737)
Net cash used in financing activities		(36,577)
Net cash from discontinued operation		3,934
Cash as at 1 January 2006		32,012
Cash disposed of		35,946

Effect of disposal on the financial position of the Group	2006
	'000 RUR
Property, plant and equipment	(92,791)
Deferred tax assets	(329)
Inventories	(43,100)
Trade and other receivable	(75,760)
Other investments	(303)
Cash and cash equivalents	(35,946)
Loans and borrowings	5,830
Deferred tax liabilities	177
Trade and other payables	164,200
Net assets and liabilities disposed of	(78,022)
Consideration received in cash	(70)
Cash disposed of	35,946
Net cash outflow	35,876

(b) Network of retail distribution companies

At the beginning of 2007 the Group sold its stakes in equity accounted investees (note 18), which together with share of profit of investees resulted in gain of RUR 318 thousand (2006: RUR 691 thousand).

7 Acquisition of subsidiaries and minority interests

(a) Acquisition of subsidiary

On 11 October 2006 the Group acquired 51% share in LLC Transugol for RUR 4,119 thousand, which was transferred to the acquiree in exchange for the acquired treasury shares. The impact of acquiring the subsidiary was to increase the Group's profit for the year by RUR 1,931 thousand, and to include Transugol's revenue from the date of acquisition to 31 December 2006 of RUR 58,026 thousand.

If the acquisition had occurred on 1 January 2006, Transugol's part of Group's revenue for the year would have been RUR 109,817 thousand. It is impracticable to determine Transugol's profit for the year 2006 as Transugol did not maintain its records in accordance with IFRS.

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair values on acquisition
	'000 RUR
Non-current assets	
Property, plant and equipment	2,575
Current assets	
Investments	451
Inventories	5,032
Income tax receivable	221
Trade and other receivables	7,685
Cash and cash equivalents	2,742
Non-current liabilities	
Loans and borrowings	(31)
Current liabilities	
Trade and other payables	(18,758)
Net identifiable assets, liabilities and contingent liabilities	(83)
Goodwill on acquisition	4,202
Cost of acquisition	4,119
Cash acquired with the subsidiary and net cash inflow	(2,742)

It has not been practicable to determine the carrying amounts of the subsidiary's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because the subsidiary'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 value in getting access to the regional market where Transugol operates.

(i) Acquisition under common control and acquisition of minority interests

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 18,311 thousand. The acquisition did not affect minority interest balance as no minority interest was initially recognized.

In October 2007 the Group acquired an additional 49% interest in LLC TEK Meret for RUR 24,500 thousand, 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 280,311 thousand. The Group recognised a decrease in minority interests in LLC entities of RUR 137,353 thousand and gain from acquisition of minority interest of RUR 112,852 thousand in the statement of changes in equity.

9 Cost of sales

	2007	2006
	'000 RUR	'000 RUR
Materials, including:		
- cost of purchased coal	(697,054)	(832,151)
- fuel	(308,789)	(272,170)
- spare parts	(149,893)	(138,616)
- other materials	(84,214)	(18,677)
Services, including:		
- railway tariff and transportation services	(558,999)	(501,035)
- extraction, processing and sorting of coal	(72,232)	(66,766)
- repair and maintenance	(53,720)	(47,116)
- operating lease	(34,311)	(38,498)
- electricity	(27,008)	(27,413)
- security	(13,231)	(12,334)
- other services	(14,654)	(17,485)
Wages, salaries and social charges	(465,729)	(395,168)
Depreciation and amortisation	(321,406)	(294,362)
Land rent	(102,832)	(94,927)
Mining and other environmental taxes	(89,566)	(61,036)
Increase of provision for site restoration	(61,396)	(33,617)
Other costs	(18,319)	(27,644)
	(3,073,353)	(2,879,015)

Amounts as at and for the year ended 31 December 2006 have not been audited

10 Distribution expenses

	2007	2006
	'000 RUR	'000 RUR
Services, including:		
- agent fees	(29,205)	(16,436)
- security	(17,577)	(15,015)
- operating lease	(9,108)	(4,767)
- storage services	(8,390)	(6,610)
- processing and sorting of coal	(8,068)	(3,091)
- other services	(14,615)	(12,495)
Wages, salaries and social charges	(110,165)	(119,337)
Depreciation and amortisation	(37,913)	(26,252)
Materials	(30,438)	(30,480)
Other distribution expenses	(1,953)	(2,779)
	<u>(267,432)</u>	<u>(237,262)</u>

11 Administrative expenses

	2007	2006
	'000 RUR	'000 RUR
Wages, salaries and social charges	(205,581)	(153,884)
Services	(41,360)	(24,694)
Depreciation	(16,090)	(8,825)
Materials	(11,548)	(6,608)
Other administrative expenses	(7,451)	(3,491)
	<u>(282,030)</u>	<u>(197,502)</u>

12 Other expenses

	2007	2006
	'000 RUR	'000 RUR
Charity and welfare	(56,061)	(27,926)
Taxes other than income tax	(43,280)	(31,453)
Loss on disposal of property, plant and equipment	(16,386)	(19,487)
Bank services	(7,659)	(4,504)
Sundry payments to personnel	(6,452)	(6,893)
Fees and penalties	(4,150)	(4,833)
Allowance for doubtful debts	(1,246)	(3,568)
Allowance for obsolete inventory	(836)	-
Other	(30,083)	(24,134)
	<u>(166,153)</u>	<u>(122,798)</u>

13 Personnel costs

	2007	2006
	'000 RUR	'000 RUR
Wages, salaries and sundry payments to personnel	(644,459)	(566,853)
Social charges	(143,468)	(108,429)
	<u>(787,927)</u>	<u>(675,282)</u>

14 Financial income and expenses

	2007	2006
	'000 RUR	'000 RUR
Interest income on loans granted	19,219	7,334
Foreign exchange gain	7,055	6,286
Unwind of discount on long-term trade receivable	308	292
Dividend income on available-for-sale financial assets	-	1,229
Finance income	<u>26,582</u>	<u>15,141</u>
Interest expense	(177,089)	(131,687)
Dividends paid to minority participants in LLC subsidiaries	(15,690)	-
Unwind of discount on provision for site restoration	(6,977)	(4,481)
Loss from disposal of financial assets	(6)	(681)
Finance expense	<u>(199,762)</u>	<u>(136,849)</u>
Net finance expense recognised in profit or loss	<u>(173,180)</u>	<u>(121,708)</u>

15 Income tax (expense)/benefit

	2007 '000 RUR	2006 '000 RUR
<i>Current tax (expense) / credit</i>		
Current year	(33,654)	(43,265)
(Under) / over provided in prior years	41	(2,487)
	(33,613)	(45,752)
<i>Deferred tax (expense)/credit</i>		
Origination and reversal of temporary differences	25,122	41,707
Change in unrecognised temporary differences	568	-
	25,690	41,707
	(7,923)	(4,045)
Income tax (expense)/benefit from continuing operations	(7,923)	11,666
Income tax from discontinued operation	-	(15,711)
	(7,923)	(4,045)

The Group's applicable tax rate is the income tax rate of 24% for Russian companies (2006: 24%).

Reconciliation of effective tax rate:

	2007 '000 RUR	%	2006 '000 RUR	%
Loss from continuing operations before income tax	(98,001)	100	(110,080)	100
Income tax credit at applicable tax rate	23,520	(24)	26,419	(24)
Non-deductible items, including:				
- charity and social payments	(12,808)	13	(7,347)	7
- dividends (paid) / received	(3,644)	4	233	-
- bonuses	(1,570)	2	(1,237)	1
- interest expense	1,777	(2)	852	(1)
- other non-deductible income and expenses	(7,767)	8	(4,767)	4
Current year losses for which no deferred tax asset was recognised	(8,040)	8	-	-
Change in unrecognised temporary differences	568	(1)	-	-
(Under)/over provided in prior years	41	-	(2,487)	2
	(7,923)	8	11,666	(11)

16 Property, plant and equipment

'000 RUR	Land and buildings	Mining assets and mining structures	Other production structures	Production equipment	Earth-moving machinery and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
<i>Cost / deemed cost</i>									
Balance at 1 January 2006	315,682	329,606	1,572,262	157,980	871,236	5,238	592,670	128	3,844,802
Acquisitions through business combinations	241	-	1,280	-	1,033	21	-	-	2,575
Additions	-	66	-	-	-	-	678,060	118,723	796,849
Transfers	251,837	-	299,462	133,447	84,697	5,722	(775,165)	-	-
Disposals	(228)	-	(2,202)	(14,037)	(6,226)	(3,140)	(5,969)	-	(31,802)
Discontinued operations	(1,302)	-	(52,378)	-	(22,823)	(4,208)	(12,080)	-	(92,791)
Balance at 31 December 2006	566,230	329,672	1,818,424	277,390	927,917	3,633	477,516	118,851	4,519,633
Additions	-	7,318	-	-	-	-	1,187,136	106,320	1,300,774
Transfers	150,420	-	48,838	26,845	467,121	1,598	(692,604)	(2,218)	-
Disposals	-	-	(96)	(771)	(57,753)	(6)	(12)	-	(58,638)
Balance at 31 December 2007	716,650	336,990	1,867,166	303,464	1,337,285	5,225	972,036	222,953	5,761,769
<i>Depreciation and impairment losses</i>									
Balance at 1 January 2006	-	(5,171)	-	-	-	-	-	-	(5,171)
Depreciation charge	(15,107)	(8,648)	(98,261)	(24,364)	(186,154)	(647)	-	-	(333,181)
Disposals	64	-	607	694	1,267	2	-	-	2,634
Balance at 31 December 2006	(15,043)	(13,819)	(97,654)	(23,670)	(184,887)	(645)	-	-	(335,718)
Depreciation charge	(19,987)	(6,645)	(120,201)	(32,046)	(199,456)	(1,133)	-	-	(379,468)
Disposals	-	-	31	342	21,232	-	-	-	21,605
Balance at 31 December 2007	(35,030)	(20,464)	(217,824)	(55,374)	(363,111)	(1,778)	-	-	(693,581)
<i>Net book value</i>									
At 1 January 2006	315,682	324,435	1,572,262	157,980	871,236	5,238	592,670	128	3,839,631
At 31 December 2006	551,187	315,853	1,720,770	253,720	743,030	2,988	477,516	118,851	4,183,915
At 31 December 2007	681,620	316,526	1,649,342	248,090	974,174	3,447	972,036	222,953	5,068,188

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Amounts as at and for the year ended 31 December 2006 have not been audited

Depreciation expense of RUR 321,307 thousand (2006: RUR 294,292 thousand) has been charged to cost of goods sold, RUR 37,913 thousand (2006: RUR 26,249 thousand) to distribution expenses, RUR 16,090 thousand (2006: RUR 8,825 thousand) to administrative expense and RUR 4,158 thousand (2006: RUR 3,815 thousand) has been capitalized as part of construction in progress additions.

(a) Revaluation/ Determination of deemed cost

Management commissioned NEO Center to independently appraise property, plant and equipment as at 1 January 2006 in order to determine its deemed cost on the date of the Group's adoption of IFRSs. Deemed cost based on fair values was determined for all categories of property, plant and equipment, except for production licenses and certain other assets within mining assets category, for which historical cost and accumulated depreciation was used.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. While land and buildings were appraised on the basis of recent market transactions, the market for similar plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable items for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was 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.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values. The results of the testing for separate cash-generating units are shown below:

'000 RUR, at 1 Jan 2006	Depreciated replacement cost	Discounted cash flow	Determined deemed cost
Coal production and distribution assets	3,137,469	4,997,757	3,137,469
Power and heat generation assets	306,800	473,819	306,800

As a result of the application of the deemed cost of property, plant and equipment, the carrying value of the Group's property, plant and equipment as at 1 January 2006 was increased by RUR 1,765,209 thousand from the carrying value recognized in the financial statements prepared in accordance with the previous GAAP.

The following key assumptions were used in performing the cash flow testing:

<u>Initial production period</u>	Terminal period,	Pre-tax discount
----------------------------------	---------------------	---------------------

	Number of years	Range of annual extraction (production) growth rates	years	rate
Coal production and distribution assets	5	2006: (1.1%), 2007: (4.45%), 2008: 10.07%, 2009: (0.18%), 2010: 0%	Lifetime of respective mines	15.76%
Power and heat generation assets	5	2006: (6.42%), 2007: (10.88%), 2008: 8.98%, 2009: (1.56%), 2010: 16.21%	Perpetuity	14.50%

- Coal production and distribution assets cash-generating unit includes property, plant and equipment of OJSC Kuzbass Fuel Company, LLC TEK Meret, OJSC Kuzbasstoplivobit and CJSC Management Company Kaskad, while Power and heat generation assets cash-generating unit comprises OJSC Kaskad Energo;
- Cash flows for the initial production period were projected based on actual operating results and existing business plans. Extraction (production) volumes were expected to vary during the initial production period as shown in the table above, and to remain constant thereafter;
- Sales prices for coal during the initial period were adjusted for anticipated annual coal price growth rates declining from 1.8% to nil p.a for internal market and increasing from 1.8% to 16.3% p.a. for external markets;
- Operating costs during the initial period were based on the level of existing costs per ton of produced mineral resources, rising at a rate consistent with anticipated industry trends and estimated Russian inflation rates, growing at per annum rates ranging from 21% to nil p.a. for different types of costs during the initial production period.
- Cash flows determined for the initial operating period were extrapolated over an additional terminal period, based on a 3.5% annual growth rate in both revenues and costs;
- The terminal periods for coal production assets were determined based on the expected remaining lives of the mineral resources until full depletion. Where remaining lives of the reserves exceed the remaining lives of the existing property, plant and equipment, management used assumptions about costs necessary for future maintenance and replacements of respective assets, as existing budgets and forecasts make it impracticable to separate future cash flows arising from the use of the existing assets, and those attributable to replacement assets;
- Discount rates were calculated based on the industrial weighted average cost of capital.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

(b) Security

Items of property, plant and equipment with a carrying amount of RUR 2,524,792 thousand (2006: RUR 1,355,048 thousand) have been pledged to secure bank loans (see note 26).

17 Goodwill and intangible assets

'000 RUR	Goodwill	Other	Total
<i>Cost</i>			
Balance at 1 January 2006	-	134	134
Additions	4,202	153	4,355
Disposals	-	(42)	(42)
Balance at 31 December 2006	4,202	245	4,447
Additions	-	456	456
Disposals	-	-	-
Balance at 31 December 2007	4,202	701	4,903
<i>Amortisation</i>			
Balance at 1 January 2006	-	-	-
Amortisation charge	-	(73)	(73)
Disposals	-	42	42
Balance at 31 December 2006	-	(31)	(31)
Amortisation charge	-	(99)	(99)
Disposals	-	-	-
Balance at 31 December 2007	-	(130)	(130)
<i>Net book value</i>			
At 1 January 2006	-	134	134
At 31 December 2006	4,202	214	4,416
At 31 December 2007	4,202	571	4,773

Amortization of other intangible assets is included in cost of sales, distribution together with depreciation of property, plant and equipment.

(a) Impairment testing of goodwill

The Group tested for impairment the goodwill as of 31 December 2007. The results of the test did not identify any impairment of the goodwill as at 31 December 2007.

18 Equity accounted investees

In January 2006 the Group acquired shares in coal distribution companies, operating in Novosibirsk region, for the total cash of RUR 17,033 thousands. These shares were sold in January 2007 for RUR 17,823 thousands. The results of these investees for the period from 1 January 2007 till the date of disposal were not significant and therefore are not presented. In January 2007 the Group

acquired a share in another coal distribution company for RUR 7,247 thousand, which was sold in April 2007 for RUR 7,330 thousand.

Summary financial information for equity accounted investees, not adjusted for the percentage held by the Group:

'000 RUR	Ownership	Total assets	Total liabilities	Revenue	Expenses	Profit / (loss)
2006						
OJSC Baganskyi Raitop	49%	7,103	4,246	21,734	(21,180)	554
OJSC Kargatskyi Raitop	49%	8,374	6,038	43,161	(42,601)	560
OJSC Suzunskyi Raitop	49%	4,803	595	20,996	(20,315)	681
OJSC Tatarskyi Raitop	49%	11,532	7,208	28,442	(27,006)	1,436
OJSC Cherepanovskyi Raitop	49%	9,595	5,584	33,977	(33,989)	(12)
OJSC Chistoozernyi Raitop	49%	12,724	11,882	23,168	(23,107)	61
LLC Novosibirsktoplivosbit	50%	10,737	10,830	15,465	(15,568)	(103)
		<u>64,868</u>	<u>46,383</u>	<u>186,943</u>	<u>(183,766)</u>	<u>3,177</u>
2007						
OJSC Kochenevskyi Raitop	49%	-	-	6,193	(5,263)	930
		<u>-</u>	<u>-</u>	<u>6,193</u>	<u>(5,263)</u>	<u>930</u>

The Group's share of profit of the associates and net result of their disposal is disclosed as discontinued operations (note 6(b)).

19 Other investments

	2007 '000 RUR	2006 '000 RUR
<i>Non-current</i>		
Available-for-sale investments:		
Stated at cost	-	6
Loans and receivables:		
Loan granted to shareholder	200,000	-
Loans granted to other companies	-	2,830
	200,000	2,836
<i>Current</i>		
Loans and receivables:		
Interest accrued on loan granted to shareholder	3,510	-
Loans granted to other companies	2,910	107,499
	6,420	107,499

Available-for-sale investments stated at cost comprise unquoted equity shares. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. During 2006 the Group received dividends of RUR 1,229 thousand. Entities where the Group possessed equity shares were liquidated during 2007.

Non-current loan granted to shareholder bears interest rate of 10.5% and falls due in 2009.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 30.

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUR	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	-	-	(395,861)	(393,844)	(395,861)	(393,844)
Investments	230	163	-	-	230	163
Inventories	6,392	2,007	-	-	6,392	2,007
Trade and other receivables	2,057	1,162	-	-	2,057	1,162
Trade and other payables	6,357	7,207	-	-	6,357	7,207
Provisions	48,759	25,536	-	-	48,759	25,536
Tax loss carry-forwards	309	322	-	-	309	322
Tax assets/(liabilities)	64,104	36,397	(395,861)	(393,844)	(331,757)	(357,447)
Set off of tax	(56,270)	(33,168)	56,270	33,168	-	-
Net tax assets/(liabilities)	7,834	3,229	(339,591)	(360,676)	(331,757)	(357,447)

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2007	2006
	'000 RUR	'000 RUR
Tax loss carry-forwards (gross amount)	33,500	-
	33,500	-

The tax losses expire in 2017. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the tax losses.

(c) **Movement in temporary differences during the year**

'000 RUR	1 January 2006	Recognised in income	Disposed of	31 December 2006
Property, plant and equipment	(417,781)	23,760	177	(393,844)
Investments	-	163	-	163
Inventories	(43)	2,050	-	2,007
Trade and other receivables	1,635	(144)	(329)	1,162
Trade and other payables	1,945	5,262	-	7,207
Provisions	14,895	10,641	-	25,536
Tax loss carry-forwards	347	(25)	-	322
	(399,002)	41,707	(152)	(357,447)

'000 RUR	1 January 2007	Recognised in income	Acquired/ disposed of	31 December 2007
Property, plant and equipment	(393,844)	(2,017)	-	(395,861)
Investments	163	67	-	230
Inventories	2,007	4,385	-	6,392
Trade and other receivables	1,162	895	-	2,057
Trade and other payables	7,207	(850)	-	6,357
Provisions	25,536	23,223	-	48,759
Tax loss carry-forwards	322	(13)	-	309
	(357,447)	25,690	-	(331,757)

(d) **Unrecognised deferred tax liability**

A temporary difference of RUR 30,708 thousand relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

21 Inventories

	2007 '000 RUR	2006 '000 RUR
Raw materials and consumables	90,564	67,679
Coal in stock	65,391	66,597
Coal in transit	60,263	-
	216,218	134,276

Obsolete inventories in the amount of RUR 836 thousand were written-off during 2007.

Inventories with a carrying amount of RUR 79,893 thousand (2006: RUR 58,360 thousand) were pledged as collateral for secured bank loans (note 26).

22 Trade and other receivables

	2007	2006
	'000 RUR	'000 RUR
Trade receivables	272,273	128,480
Receivables for railway tariff	124,823	168,568
Input VAT receivable	111,693	44,546
Overpayment of VAT to budget	86,132	58,202
Compensation receivable from budget	36,584	34,525
Receivable from personnel	12,613	12,758
Other receivables	43,192	28,500
Provision for doubtful debts	(7,100)	(5,854)
	<u>680,210</u>	<u>469,725</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in note 30.

23 Prepayments

	2007	2006
	'000 RUR	'000 RUR
Advances given for services	23,123	23,548
Deferred expenses	12,477	8,301
Advances given for inventories	12,396	29,637
	<u>47,996</u>	<u>61,486</u>

24 Cash and cash equivalents

	2007	2006
	'000 RUR	'000 RUR
Petty cash	1,001	413
Bank balances	29,795	125,828
Cash and cash equivalents	<u>30,796</u>	<u>126,241</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

25 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated

	Ordinary shares 2007	Ordinary shares 2006
Authorised shares, number	1,687,988	1,687,988
Par value	RUR 10	RUR 10
On issue at end of year, RUR thousand	16,880	16,880

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.

(b) Dividends

In accordance with 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 2007 the Company had retained earnings, including the loss for the current year, of RUR 922,764 thousand (2006: RUR 1,016,270 thousand) according to Russian accounting principles.

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 30.

	2007 '000 RUR	2006 '000 RUR
<i>Non-current liabilities</i>		
Secured bank loans	1,270,928	552,696
Loans from other companies	630	629
	1,271,558	553,325
<i>Current liabilities</i>		
Secured bank loans	1,738,527	1,195,400
Unsecured bank loans	-	95,446
Loan from shareholder	62,800	62,800
Loans from other companies	35,215	64,847
Interest accrued	8,748	5,168
	1,845,290	1,423,661

As at 31 December 2007 the Group had unused credit lines from various banks totaling to RUR 421,294 thousand (2006: 205,015 thousand) with interest rates from 9.5% to 12% per annum.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUR	Currency	Nominal interest rate	Year of maturity	2007	2006
				Face and carrying value	Face and carrying value
Secured bank loan	RUR	10.50% - 11.55%	2010-2011	878,108	-
Secured bank loan	RUR	8.60% - 10.48%	2009	392,820	92,820
Secured bank loan	RUR	9.20% - 12.00%	2008	1,727,282	459,876
Secured bank loan	USD	9.00%	2008	11,245	-
Secured bank loan	RUR	9.00% - 13.00%	2007	-	1,170,400
Secured bank loan	RUR	5.50%	2007	-	25,000
Unsecured bank loans	RUR	7.50% - 9.00%	2007	-	95,446
Loan from shareholder	RUR	12.00%	2007	62,800	62,800
Loans from other companies	RUR	10.50% - 11.00%	2007-2008	5,500	4,700
Loans from other companies	RUR	0.00%	2009	630	629
Loans from other companies	RUR	0.00%	2007-2008	29,715	60,147
				<u>3,108,100</u>	<u>1,971,818</u>

Bank loans are secured by the following:

- property, plant and equipment with a carrying amount of RUR 2,524,792 thousand (2006: 1,355,048 thousand) – see note 16(b).
- inventory with a carrying amount of RUR 79,893 (2006: RUR 58,360 thousand) – see note 21.

27 Net assets attributable to minority participants in LLC entities

	'000 RUR
Balance at 1 January 2006	130,014
Acquired through business combination	4,121
Profit attributable to minority participants , before dividends	19,370
Balance at 31 December 2006	153,505
Acquired through business combination	998
Profit attributable to minority participants, before dividends	5,493
Dividends paid to minority participants	(15,690)
Acquisition of share of minority participants by the Group	(137,354)
Balance at 31 December 2007	6,952

In accordance with Federal Law of the Russian Federation a participant in a limited liability company may unilaterally withdraw from the entity. In such circumstances, the entity is obliged to pay a withdrawing participant its share of the net assets in cash or, with the consent of the participant, by in-kind transfer of assets.

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

28 Provisions

'000 RUR	Site restoration	Tax claims	Total
Balance at 1 January 2006	68,303	80,021	148,324
Provisions made during the year	33,617	19,622	53,239
Unwind of discount	4,481	-	4,481
Balance at 31 December 2006	106,401	99,643	206,044
<i>Non-current</i>	106,401	-	106,401
<i>Current</i>	-	99,643	99,643
Balance at 1 January 2007	106,401	99,643	206,044
Provisions made during the year	89,784	-	89,784
Unwind of discount	6,977	-	6,977
Provisions used during the year	-	(51,134)	(51,134)
Balance at 31 December 2007	203,162	48,509	251,671
<i>Non-current</i>	203,162	-	203,162
<i>Current</i>	-	48,509	48,509
	203,162	48,509	251,671

(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.

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, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred. During 2007, RUR 21,070 thousands were recognized as part of the mining assets (2006: nil) and RUR 33,138 thousands (2006: RUR 20,720 thousand) were expensed to cost of goods sold.

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.

(b) Tax liabilities

During 2006 the Group recognized a provision for income tax of RUR 17,280 thousand, which was included as part of loss from discontinued operations (note 6(a)) and related to additional taxes expected to be paid as a result of disposal.

As at 1 January 2006 tax provision represented provisions for corporate profit tax, VAT and other taxes that were created as a result of a tax audit related to earlier periods. Due to the fact that the Group settled additional taxes arising from this tax audit during 2007 and 2008 in cash, part of the tax provision of RUR 51,134 was utilized in 2007 with the remaining portion of the tax provision of RUR 31,229 thousand utilized in 2008.

As of the date when these financial statements were authorised, the Group filed an appeal against previous court rulings, and is seeking to reverse the tax penalties paid as a result of this tax audit. The most recent appeal court ruling was made at the beginning of October 2008 in favour of the Group to the full extent of the claim. Management expects the tax authorities to file a counter-appeal to the court of higher jurisdiction before the end of 2008.

29 Trade and other payables

	2007	2006
	'000 RUR	'000 RUR
Trade payables	423,554	306,433
Advances received	128,397	22,174
Taxes (other than income tax) payables	52,945	46,654
Payables to personnel	52,586	29,082
Accrual for unused vacation	26,487	27,691
Payables to shareholder	25,500	-
Other payables	16,154	34,351
	<u>725,623</u>	<u>466,385</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

30 Financial instruments

(a) Credit risk

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:

	Carrying amount	
'000 RUR	2007	2006
Available-for-sale financial assets	-	6
Loans and receivables	206,420	110,329
Trade and other receivables	680,210	469,725
Cash and cash equivalents	30,796	126,241
	<u>917,426</u>	<u>706,301</u>

The Group's exposure to credit risk in respect of trade receivables at the end of the current and previous reporting periods is primarily represented by receivables from customers in Russia.

The Group is exposed to concentration of credit risk in respect of a single customer, a related party. As at 31 December 2007 trade receivables and receivables for railway tariff due from this single customer amounted to RUR 190,426 thousand (2006: RUR 89,590 thousand). Additionally, as at 31 December 2007 the Group has a loan receivable of RUR 203,510 thousand due from one of the shareholders who controls the above mentioned related party.

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
'000 RUR	2007	2007	2006	2006
Not past due	150,341	-	111,470	-
Past due 0-30 days	64,500	10	5,107	10
Past due 30-60 days	46,559	-	1,353	-
Past due 60-90 days	1,184	-	532	-
Past due 90-180 days	1,047	-	-	-
More than 180 days	8,642	1,083	10,018	1,083
	272,273	1,093	128,480	1,093

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

	2007	2006
	'000 RUR	'000 RUR
Balance at 1 January	5,854	2,286
Impairment loss recognised	1,246	3,568
Balance at 31 December	7,100	5,854

The impairment losses at 31 December 2007 relate to customers that were declared bankrupt during the year.

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

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2007		Average interest rate				
'000 RUR	Contractual and effective	Less than 1 year	1-2 yrs	2-3 yrs	3-4 yrs	Total
Non-derivative financial liabilities						
Secured bank loans	10.00%	1,912,346	432,094	899,903	65,999	3,310,342
Loan from shareholder	12.00%	70,336	-	-	-	70,336
Loans from other companies	0% - 11%	35,782	640	-	-	36,422
Trade and other payables	-	725,623	-	-	-	725,624
		<u>2,744,087</u>	<u>432,734</u>	<u>899,903</u>	<u>65,999</u>	<u>4,142,723</u>
2006		Average interest rate				
'000 RUR	Contractual and effective	Less than 1 year	1-2 yrs	2-3 yrs	3-4 yrs	Total
Non-derivative financial liabilities						
Secured bank loans	10.11%	1,316,270	506,375	102,205	-	1,924,850
Unsecured bank loans	8.63%	103,682	-	-	-	103,682
Loan from shareholder	12.00%	70,336	-	-	-	70,336
Loans from other companies	0% - 11%	65,359	-	634	-	65,993
Trade and other payables	-	466,385	-	-	-	466,385
		<u>2,022,032</u>	<u>506,375</u>	<u>102,839</u>	<u>-</u>	<u>2,631,246</u>

Amounts as at and for the year ended 31 December 2006 have not been audited

(c) Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

'000 RUR	USD- denominated 2007	USD- denominated 2006
Current assets		
Trade and other receivables	1,162	2,887
Cash and cash equivalents	33	-
Current liabilities		
Trade and other payables	-	(48)
Loans and borrowings	(11,245)	-
	(10,050)	2,839

The following significant exchange rates applied during the year:

	1 USD equals 2007	1 USD equals 2006
RUR	24.5462	26.3311

Sensitivity analysis

A 10% strengthening of the RUR against the US dollar at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Equity and profit / (loss) '000 RUR
2007	
USD	1,005
2006	
USD	(284)

A 10% weakening of the RUR against the US dollar at 31 December would have had the equal but opposite effect on equity and profit or loss, on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

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

'000 RUR	Carrying amount	
	2007	2006
Fixed rate instruments		
Financial assets	206,420	110,335
Financial liabilities	(3,116,848)	(1,976,986)
	<u>(2,910,428)</u>	<u>(1,866,651)</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 equity or profit or loss.

Cash flow sensitivity analysis for variable rate instruments

As at 31 December 2007 and 2006 the Group did not have any exposure to variable-rate instruments.

(e) Fair values

The fair value of unquoted equity investments is discussed in note 19. In other cases management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

31 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 34,311 thousand (2006: RUR 38,498 thousand) 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. As at year end the Group leased in excess of 300 hectares of land and made payments during the year of RUR 102,832 thousand (2006: RUR 94,927 thousand). 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.

32 Commitments

As at 31 December 2007 the Group has entered into a number of contracts to purchase plant and equipment for RUR 394,329 thousand.

33 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 Group is a defendant in litigation with tax authorities in respect of a tax audit covering 2004 – 2005. As disclosed in note 28(b), a provision has been recorded for the full amount of additional taxes claimed.

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.

34 Related party transactions

(a) Management remuneration

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

	2007	2006
	'000 RUR	'000 RUR
Salaries and bonuses	142,099	56,181
Social charges (UST)	3,281	2,342
	<u>145,380</u>	<u>58,523</u>

Amounts as at and for the year ended 31 December 2006 have not been audited

(b) Transactions with related parties

The Group's related party transactions are disclosed below.

(i) Revenue

'000 RUR	Transaction value 2007	Transaction value 2006	Outstanding balance 2007	Outstanding balance 2006
Sale of coal	426,655	496,025	190,426	89,590
Other revenue	1,299	642	4,504	4,861
	427,954	496,667	194,930	94,451

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

(ii) Expenses

'000 RUR	Transaction value 2007	Transaction value 2006	Outstanding balance 2007	Outstanding balance 2006
Purchase of goods	88,442	52,475	40,713	20,924
Acquisitions under common control	50,011	-	25,500	-
Services received	37,382	32,967	2,760	2,620
	175,835	85,442	68,973	23,544

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

(iii) Loans

'000 RUR	Amount loaned 2007	Amount loaned 2006	Outstanding balance 2007	Outstanding balance 2006
Loans received:				
Shareholders of the Group	-	-	(62,800)	(62,800)
Entities with significant influence	16,750	16,800	(5,500)	(4,700)
Loans given:				
Shareholders of the Group	(200,000)	-	200,000	-
Entities with significant influence	-	(800)	1,430	76,680
	(183,250)	16,000	133,130	9,180

'000 RUR	Interest (expense) / income	Interest (expense) / income	Outstanding balance	Outstanding balance
	2007	2006	2007	2006
Interest expense on loans received:				
Shareholders of the Group	(6,903)	(7,536)	(1,583)	(1,259)
Entities with significant influence	(826)	(995)	(30)	(41)
Interest income on loans given:				
Shareholders of the Group	13,745	-	3,510	-
Entities with significant influence	1,040	3,393	-	28
	<u>7,056</u>	<u>(5,138)</u>	<u>1,897</u>	<u>(1,272)</u>

Loans from entities with significant influence bear interest at 10.5% - 11% per annum and are repayable upon demand.

Loan granted to one of the shareholders bears interest rate of 10.5% and falls due in 2009. Part of the loan of RUR 131,000 thousand was repaid in 2008.

Loan received from one of the shareholders bears interest rate of 12% and falls due in 2008.