OAO Belon and subsidiaries

Consolidated Financial Statements for the year ended 31 December 2005

Contents

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Independent Auditors' Report

To the Shareholders

OAO Belon

We have audited the accompanying consolidated balance sheet of OAO Belon (the "Company") and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the fact that the US dollar amounts in the accompanying consolidated financial statements, which are presented solely for the convenience of users as described in Note 2(d) and do not form part of the consolidated financial statements, are unaudited.

KPMG Limited

24 April 2006

	Note	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Revenues	5	12,663,921	10,776,107	439,987	374,398
Cost of sales		(9,607,437)	(8,119,297)	(333,795)	(282,092)
Gross profit		3,056,484	2,656,810	106,192	92,306
Distribution expenses		(706,227)	(839,775)	(24,537)	(29,177)
Administrative expenses	7	(608,670)	(480,235)	(21,147)	(16,685)
Taxes, other than on profit		(100,519)	(60,486)	(3,492)	(2,100)
Other operating (expense)/income, net	8	(101,008)	417,099	(3,509)	14,491
Net financing expenses	10	(147,347)	(130,010)	(5,119)	(4,517)
Income from associates		17,302	-	601	-
Profit before tax		1,410,015	1,563,403	48,989	54,318
Income tax expense	11	(419,996)	(232,242)	(14,592)	(8,069)
Net profit for the year		990,019	1,331,161	34,397	46,249
Attributable to:					-
Shareholders of the Parent Company		990,019	1,377,429	34,397	47,857
Minority interest		-	(46,268)	-	(1,608)
		990,019	1,331,161	34,397	46,249

The consolidated financial statements were approved on 24 April 2006:

General Director

Dobrov A. P.

Chief Financial Officer

Klimusha M.V.

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 4 to 50.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

	Note	2005 '000 RUR	Restated 2004 '000 RUR	2005 '000 USD*	Restated 2004 '000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	12	4,488,478	2,790,755	155,945	96,960
Intangible assets	13	274,020	(257,720)	9,520	(8,954)
Investments in associates	14	17,302	-	601	-
Other investments	15	15,772	16,312	548	567
Deferred tax assets	16	27,580	23,922	958	831
		4,823,152	2,573,269	167,572	89,404
Current assets					
Other investments	15	609,137	815,221	21,163	28,324
Inventories	17	1,021,772	889,267	35,500	30,896
Trade and other receivables	18	2,283,346	1,427,731	79,331	49,604
Cash and cash equivalents	19	860,617	268,494	29,901	9,328
		4,774,872	3,400,713	165,895	118,152
Total assets		9,598,024	5,973,982	333,467	207,556

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 5 to 50.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

	Note	2005 '000 RUR	Restated 2004 '000 RUR	2005 '000 USD*	Restated 2004 '000 USD*
EQUITY AND LIABILITIES					
Equity	20				
Share capital		35,864	35,864	1,246	1,246
Retained earnings		4,130,198	2,799,921	143,497	97,279
Total equity attributable to shareholders of the Parent		4,166,062	2,835,785	144,743	98,525
Minority interest		-	18,352	-	637
Total equity		4,166,062	2,854,137	144,743	99,162
Non-current liabilities					
Loans and borrowings	21	686,099	106,985	23,837	3,717
Other payables	22	117,715	19,012	4,090	660
Deferred tax liabilities	16	102,815	90,190	3,572	3,134
		906,629	216,187	31,499	7,511
Current liabilities					
Loans and borrowings	21	3,184,825	1,855,413	110,652	64,464
Trade and other payables	22	1,340,508	1,048,245	46,573	36,419
		4,525,333	2,903,658	157,225	100,883
Total equity and liabilities		9,598,024	5,973,982	333,467	207,556

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 6 to 50.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

	2005 '000 RUR	Restated 2004 '000 RUR	2005 '000 USD*	Restated 2004 '000 USD*
OPERATING ACTIVITIES				
Net profit for the year, attributable to the shareholders of the Parent	990,019	1,377,429	34,397	47,857
Adjustments for:				
Depreciation	342,050	337,369	11,883	11,722
Amortisation	14,938	(31,213)	519	(1,084)
Loss on disposal of property, plant and equipment	79,427	21,228	2,760	737
Loss on impairment of property, plant and equipment	21,029	179,672	731	6,242
Gain on de-consolidation of subsidiaries	-	(773,990)	-	(26,891)
Income from associates	(17,302)	-	(601)	-
Interest expense	261,667	167,871	9,091	5,832
Interest income	(77,394)	(69,567)	(2,689)	(2,417)
Income tax expense	419,996	232,242	14,592	8,069
Negative goodwill	(87,758)	(36,767)	(3,048)	(1,278)
Minority interest	-	(46,268)	-	(1,608)
Operating profit before changes in working capital and provisions	1,946,672	1,358,006	67,635	47,181
Increase in inventories	(132,505)	(351,311)	(4,604)	(12,206)
Increase in trade and other receivables	(862,025)	(777,553)	(29,950)	(27,015)
Increase in trade and other payables	387,004	725,010	13,446	25,189
Cash flows from operations before income taxes and interest paid	1,339,146	954,152	46,527	33,149
Income taxes paid	(459,927)	(410,903)	(15,981)	(14,276)
Interest paid	(242,038)	(166,369)	(8,409)	(5,780)
Cash flows from operating activities	637,181	376,880	22,137	13,093

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 7 to 50.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

	2005 '000 RUR	Restated 2004 '000 RUR	2005 '000 USD*	Restated 2004 '000 USD*
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	1,345	-	47	-
Interest received	77,394	69,567	2,689	2,417
Net decrease / (increase) in investments	206,624	(57,258)	7,180	(1,990)
Acquisition of property, plant and equipment	(1,624,094)	(1,048,750)	(56,427)	(36,437)
Acquisition of subsidiaries, net of cash acquired	(158,133)	(112,746)	(5,493)	(3,917)
Acquisition of intangible assets	(280,440)	(8,966)	(9,744)	(311)
Cash flows utilised by investing activities	(1,777,304)	(1,158,153)	(61,748)	(40,238)
FINANCING ACTIVITIES				
Net change in borrowings	1,946,378	877,815	67,624	30,498
Payment of finance lease liabilities	(42,368)	-	(1,472)	-
Dividends paid	(20,000)	(15,000)	(695)	(521)
Cash flows from financing activities	1,884,010	862,815	65,457	29,977
Net increase in cash and cash equivalents	743,887	81,542	25,846	2,832
Cash and cash equivalents at beginning of year	116,675	35,133	4,053	1,221
Cash and cash equivalents at end of year (note 19)	860,562	116,675	29,899	4,053

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 50.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

'000 RUR	**Attributable to shareholders of the Parent**				
	Share capital	**Retained earnings**	**Total**	**Minority interest**	**Total Equity**
Balance at 1 January 2004	35,864	1,437,492	1,473,356	101,387	1,574,743
Net profit for the period	-	1,377,429	1,377,429	(46,268)	1,331,161
Negative goodwill	-	-	-	(36,767)	(36,767)
Total recognised income and expenses	-	1,377,429	1,377,429	(83,035)	1,294,394
Dividends to shareholders	-	(15,000)	(15,000)	-	(15,000)
Balance at 31 December 2004	35,864	2,799,921	2,835,785	18,352	2,854,137
Balance of negative goodwill (note 3(s))		360,258	360,258	-	360,258
Net profit for the period	-	990,019	990,019	-	990,019
Negative goodwill	-	-	-	(18,352)	(18,352)
Total recognised income and expenses	-	990,019	990,019	(18,352)	971,667
Dividends to shareholders	-	(20,000)	(20,000)	-	(20,000)
Balance at 31 December 2005	35,864	4,130,198	4,166,062	-	4,166,062

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 9 to 50.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

'000 USD*	**Attributable to shareholders of the Parent**				
	Share capital	**Retained earnings**	**Total**	**Minority interest**	**Total Equity**
Balance at 1 January 2004	1,246	49,943	51,189	3,523	54,712
Net profit for the period	-	47,857	47,857	(1,608)	46,249
Negative goodwill	-	-	-	(1,278)	(1,278)
Total recognised income and expenses	-	47,857	47,857	(2,886)	44,971
Dividends to shareholders	-	(521)	(521)	-	(521)
Balance at 31 December 2004	1,246	97,279	98,525	637	99,162
Balance of negative goodwill (note 3(s))		12,516	12,516	-	12,516
Net profit for the period	-	34,397	34,397	-	34,397
Negative goodwill	-	-	-	(637)	(637)
Total recognised income and expenses	-	34,397	34,397	(637)	33,760
Dividends to shareholders	-	(695)	(695)	-	(695)
Balance at 31 December 2005	1,246	143,497	144,743	-	144,743

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 50.

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1 Background

(a) Organisation and operations

OAO Belon (the "Parent company") and its subsidiaries (together referred to as the "Group") comprise of open and closed joint stock and limited liability companies as defined in the Civil Code of the Russian Federation. The Parent company was established in accordance with Russian legislation on 14 May 1991.

The Parent Company's registered office is:

56 Bogdana Khmelnitskogo str., Novosibirsk, Russian Federation.

The Group's principal areas of activity are:

- Coal mining;
- Coal refining;
- Coal and metal trading.

These products are sold in the Russian Federation and abroad.

The Group also has divisions which deal with banking, retailing and other types of businesses. However, these areas are not considered to be core activities of the Group.

The Group has a head office in Novosibirsk, mines and concentrating mills located in Kemerovo region and a network of branches in Leninsk-Kuznetsky, Lipetsk, Moscow, Magnitogorsk and Kemerovo.

(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 accompanying 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.

∗ *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale are stated at fair value; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Parent 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) Convenience translation

The Parent Company's measurement currency is RUR because it reflects the economic substance of the underlying events and circumstances of the Company. In addition to presenting the consolidated financial statements in RUR, supplementary information in USD has been prepared for the convenience of users of the financial statements.

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 31 December 2005 of RUR 28.7825 to one USD.

(e) Use of estimates and judgments

Management has made a number of 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 IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the Note 25 – Contingencies.

∗ *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied except for the changes in accounting policy described in note 3(s).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for investment purposes. The Group does not have any direct or indirect shareholdings in these entities. However, the SPEs are established under terms that impose strict limitations on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

(iii) Increase and decrease in minority interests

Any difference between the consideration paid to decrease a minority interests, and the carrying amount of that minority interest, is recognised as goodwill or negative goodwill.

Any difference between the consideration received to increase a minority interest, and the carrying amount of that portion of the Group's interest in the subsidiary including attributable goodwill, is recognised in the income statement.

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

3 Significant accounting policies continued

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation related to mine production is determined using the unit of production method based on the extracted volumes of mineral reserves and estimated production capacity of the individual assets.

Depreciation of other assets is determined using straight-line method based on the estimated useful lives of the individual assets.

Depreciation is charged to the income statement except for depreciation of assets used for construction of other mine production assets which is included in the cost of constructed assets.

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3 Significant accounting policies continued

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 20 to 80 years
- Plant and equipment 7 to 30 years
- Fixtures and fittings 3 to 6 years.

(d) Intangible assets and negative goodwill

(i) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill is recognised immediately in the income statement.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) Amortisation

Intangible assets are primarily represented by coal extraction licences and are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful life of coal extraction licenses is up to 20 years.

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3 Significant accounting policies continued

(e) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity.

The fair value of investments is their quoted bid price at the balance sheet date. 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.

(f) Inventories

Inventories are stated 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 first-in first-out 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 overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

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

(i) Impairment

The carrying amounts of the Group's other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's loans and receivables, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

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3 Significant accounting policies continued

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, 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) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(l) Employee benefits

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

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3 Significant accounting policies continued

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at cost.

(o) Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

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3 Significant accounting policies continued

(q) Net financing expenses

Net financing expenses comprise interest expense on borrowings, interest income on funds invested, foreign exchange gains and losses, disposal and impairment losses of available-for-sale investments.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses.

Interest income is recognised as it accrues, taking into account the effective yield on the asset. For investments in associates, dividend income is credited to the investment in the associate.

(r) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(s) Changes in accounting policy

During the current year the Group changed a number of its accounting policies as a result of new or revised Standards that are effective for periods beginning on or after 1 January 2005. The following changes had a material impact on the Group's financial position or results of operations, or resulted in material changes in classification.

(i) Negative goodwill

During 2004 the Group adopted IFRS 3 *Business Combinations*, revised IAS 36 *Impairment of Assets* and revised IAS 38 *Intangible Assets* for business combinations with an agreement date on or after 31 March 2004. During the current year the Group adopted the revised standards in full. In accordance with the transitional provisions of these standards:

- As at 1 January 2005 the balance of negative goodwill of RUR 360,258 thousand/ USD*12,516 thousand was written off against opening retained earnings at that date.
- Comparatives were not restated.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

3 Significant accounting policies continued

(ii) *Presentation of minority interests*

The following changes in presentation result from revised IAS 1 *Presentation of Financial Statements*:

- In the income statement, the minority interest share in the results of subsidiaries is no longer added or subtracted in arriving at the Group's net profit (loss) for the period. Instead it is presented as an allocation of the Group's net profit (loss) for the period.
- In the balance sheet, minority interests are presented as a separate component of equity rather than being presented between equity and liabilities. As a result, the statement of changes in equity shows the movement in minority interests during the period.
- Comparatives were restated to reflect these changes.

(iii) *Investments*

Previously the Group recognised changes in the fair value of available-for-sale investments in the income statement. Now changes in the fair value are recognised directly in equity.

In accordance with revised IAS 39 *Financial Instruments: Recognition and measurement* comparatives should be restated to reflect the change in accounting policy, but there has been no effect on the Group's financial position or results of operations as those investments were represented by equity securities that were not quoted on a stock exchange, and their fair value could not be estimated on a reasonable basis by other means. Therefore, they were stated at cost less impairment losses.

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3 Significant accounting policies continued

(t) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 6 *Exploration for and Evaluation of Mineral Resources*, which is effective for annual periods beginning on or after 1 January 2006. The Standard includes a requirement to distinguish between tangible and intangible assets that are used in the exploration for and evaluation of mineral resources, and specifies the level at which impairment testing should be carried out.
- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Parent Company's capital.
- IFRIC 4 *Determining whether an Arrangement contains a Lease*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.
- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation deals with funds created for the purpose of settling decommissioning and similar expenses.

The Group has not yet analysed the likely impact of the new Standards on its financial position or performance.

∗ *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

4 Restatement

In 2003 the Group commenced acquisition of the mining businesses of OAO Mine Chertinskaja. In several transactions in 2003 and 2004 the Group purchased property, plant and equipment with the fair values determined at the acquisition dates. In September 2005 the acquisition was completed.

Management considered all acquisitions of the parts of the mining businesses described above to be integral parts of the same business combination transaction. However, due to significant uncertainties regarding specific date of obtaining control over the business of OAO Mine Chertinskaja to the Group in the previous periods, management decided to recognize the acquisition of the business in several steps in 2003, 2004 and 2005 in connection with the legal transfer of assets acquired.

After completion of the acquisition process in 2005 management revised the accounting treatment in respect of the acquisition of OAO Mine Chertinskaja in order to reflect the impact of the transaction on Group's assets and liabilities at the date when the ultimate control over the mining business was obtained, i.e. in September 2005 (refer note 6(a)). Following the revised treatment, items of property, plant and equipment recognized in 2003 and 2004 at fair values were restated to their historical cost. Goodwill and negative goodwill recognized in 2003 and 2004 in respect of this acquisition were derecognized. The restatement had the following effect on the Group's assets:

As at 1 January 2004

- Property plant and equipment decreased by RUR 258,614 thousand/ USD* 8,985 thousand;
- Negative goodwill decreased by RUR 15,530 thousand/ USD* 540 thousand;
- Accounts receivable from associates increased by RUR 192,214 thousand/ USD* 6,678 thousand;
- Deferred tax liability decreased by RUR 50,870 thousand/ USD* 1,767 thousand.

As at 1 January 2005

- Property plant and equipment decreased by RUR 211,950 thousand/ USD* 7,364 thousand;
- Negative goodwill decreased by RUR 15,530 thousand/ USD* 540 thousand;
- Goodwill decreased by RUR 46,664/ USD* 1,621 thousand;
- Accounts receivable from associates increased by RUR 192,214 thousand/ USD* 6,678 thousand;
- Deferred tax liability decreased by RUR 50,870 thousand/ USD* 1,767 thousand.

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5 Segment reporting

(a) Business segments

Segment information is presented in respect of the Group’s business segments. The primary format, business segments, is based on the Group’s management and internal reporting structure.

Inter-segment pricing is not determined on an arm’s length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

The Group comprises the following main business segments:

Coal. The extraction of thermal and coking coal, processing of extracted and purchased coal into a coal concentrate and sale of coal and coal concentrate used in power and steel industries, as well as research and development activities in this area.

Metals. The purchase and re-sale of steel and other metal produce from steel production companies to ultimate customers in Russia.

Other operations include sales of red bricks and coal processing by-products.

(b) Geographical segments

Due to the fact that the majority of the Group’s operations relate to the Russian Federation no separate disclosure in regard to geographical segments is provided.

5 Segment reporting continued

	Metals		Coal		Other operations		Eliminations		Consolidated	
'000 RUR	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue from external customers	4,141,267	3,916,531	8,243,597	6,717,733	279,057	141,843	-	-	12,663,921	10,776,107
Inter-segment revenue	41,776	26,980	54,662	52,231	-	-	(96,438)	(79,211)	-	-
Total revenue	4,183,043	3,943,511	8,298,259	6,769,964	279,057	141,843	(96,438)	(79,211)	12,663,921	10,776,107
Segment result	187,487	336,485	2,061,631	1,518,575	135,365	32,099	-	-	2,384,483	1,887,159
Unallocated expenses	-	-	-	-	-	-	-	-	(844,423)	(193,746)
Net financing expenses	-	-	-	-	-	-	-	-	(147,347)	(130,010)
Income from associates	-	-	-	-	17,302	-	-	-	17,302	-
Income tax expense	-	-	-	-	-	-	-	-	(419,996)	(232,242)
Net profit for the year									990,019	1,331,161
Segment assets	1,121,212	999,543	5,208,323	2,808,953	1,738,081	1,307,775			8,067,616	5,116,271
Investment in associates	-	-	-	-	17,302	-	-	-	17,302	-
Unallocated assets									1,513,106	857,711
Total assets									9,598,024	5,973,982
Segment liabilities	134,566	105,738	743,244	386,293	580,413	575,226	-	-	1,458,223	1,067,257
Unallocated liabilities									3,973,739	2,052,588
Total liabilities									5,431,962	3,119,845
Depreciation/amortisation	-	-	267,074	240,780	89,914	97,037	-	-	356,988	337,817
Capital expenditure	-	-	1,540,832	801,376	219,913	247,374	-	-	1,760,745	1,048,750
Loss on impairment of PPE	-	-	21,029	179,672	-	-	-	-	21,029	179,672

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

5 Segment reporting continued

	Metals		Coal		Other operations		Eliminations		Consolidated	
’000 USD*	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue from external customers	143,882	136,074	286,410	233,396	9,695	4,928	-	-	439,987	374,398
Inter-segment revenue	1,451	937	1,899	1,815	-	-	(3,350)	(2,752)	-	-
Total revenue	145,333	137,011	288,309	235,211	9,695	4,928	(3,350)	(2,752)	439,987	374,398
Segment result	6,514	11,691	71,628	52,760	4,703	1,115	-	-	82,845	65,566
Unallocated expenses	-	-	-	-	-	-	-	-	(29,338)	(6,731)
Net financing expenses	-	-	-	-	-	-	-	-	(5,119)	(4,517)
Income from associates	-	-	-	-	601	-	-	-	601	-
Income tax expense	-	-	-	-	-	-	-	-	(14,592)	(8,069)
Net profit for the year									34,397	46,249
Segment assets	38,955	34,727	180,955	97,592	60,387	45,436			280,297	177,755
Investment in associates	-	-	-	-	601	-	-	-	601	-
Unallocated assets									52,570	29,800
Total assets									333,468	207,555
Segment liabilities	4,675	3,674	25,823	13,421	20,165	19,985	-	-	50,663	37,080
Unallocated liabilities									138,061	71,314
Total liabilities									188,724	108,394
Depreciation/amortisation	-	-	9,279	8,365	3,123	3,373	-	-	12,402	11,738
Capital expenditure	-	-	53,534	27,842	7,642	8,595	-	-	61,175	36,437
Loss on impairment of PPE	-	-	731	6,242	-	-	-	-	731	6,242

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

6 Acquisition of subsidiaries

(a) Acquisition of mining business of OAO Mine Chertinskaja

In September 2005 the Group obtained the ultimate control over the mining business of OAO Mine Chertinskaja. The Group commenced acquisiton of the mining business of OAO Mine Chertinskaja in 2003 and recognised assets and liabilities related to the acquisition in several steps in 2003, 2004 and 2005 in connection with the legal transfer of assets acquired.

The recognition of acquisition of OAO Mine Chertinskaya in September 2005 (refer note 4) had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair value on acquisition	
	'000 RUR	**'000 USD***
Property, plant and equipment	257,119	8,933
Deferred tax liability	(29,580)	(1,029)
Net identifiable assets and liabilities	227,539	7,904
Consideration paid	(158,133)	(5,493)
Negative goodwill	69,406	2,411

The Property, plant and equipment as of 1 January 2005 include Property, plant and equipment of OAO Mine Chertinskaja recorded by the Group in 2003 and 2004 at their historical values in amount of RUR 340,494 thousand/ USD* 11,830 thousand.

Consideration paid in 2005 included receivables from associates of RUR 24,266 thousand/ USD* 843 thousand.

The fair values to be assigned to the acquiree's identifiable assets and liabilities, including property, plant and equipment and mining licenses, were determined only provisionally. As a result, the fair values of the acquired assets and liabilities and the resulting negative goodwill are subject to possible change. Management intends to involve an independent appraiser in order to determine the fair value of the acquired assets and liabilities at the date of acquisition.

Negative goodwill on the recognition of the acquisition in September 2005 arose because the Group was in a bargaining position.

Had the acquisition occurred on 1 January 2005, Group revenue would not have changed significantly as compared to the reported figure.

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6 Acquisition of subsidiaries continued

(b) Adjustments to the carrying amounts of the net identifiable assets acquired and negative goodwill recognised on acquisition of OOO LKZSM

Acquisition of LKZSM

The carrying amounts of certain items of property, plant and equipment acquired through business combinations in 2004 were reassessed in 2005 as additional evidence became available in relation to their fair values at the time of acquisition as a result of an independent valuation being performed. As a result, the carrying amounts of property, plant and equipment, negative goodwill and deferred tax were adjusted as follows as at 1 January 2005:

	'000 RUR	**'000 USD***
Property, plant and equipment	123,710	4,298
Deferred tax liability	(29,690)	(1,031)
Negative goodwill	(94,020)	(3,267)

Negative goodwill arose on the acquisition because of the Group was in a bargaining position.

If the adjusted fair values had been applied from the dates of acquisition, the Group's depreciation expense would have been increased by RUR 7,374 thousand/ USD* 256 thousand and deferred tax expense would have increased by RUR 1,769 thousand/ USD* 61 thousand in the consolidated income statement for the year ended 31 December 2004. These effects have been included in the consolidated income statement for the year ended 31 December 2005.

(c) Acquisition of mining businesses after the balance sheet date

In March 2006 The Group have acquired the controlling interest of 100% in the mining business of OOO Mine Chertinskaja-Yuzhnaja and 100% in the mining business of OAO Mine Novaja-2 for RUR 525,000 thousand/USD* 18,240 thousand. Due to the fact that the acquisition took place substantially close to the date of the accompanying consolidated financial statements were authorized for issue it was impracticable to provide more detailed financial information regarding the acquired businesses.

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7 Administrative expenses

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Wages and salaries	(408,894)	(251,104)	(14,206)	(8,724)
Depreciation and amortisation	(11,104)	(38,091)	(386)	(1,323)
Other administrative expenses	(188,672)	(191,040)	(6,555)	(6,638)
	(608,670)	(480,235)	(21,147)	(16,685)

8 Other operating (expense)/income, net

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Loss on disposal of property, plant and equipment	(79,427)	(21,228)	(2,760)	(737)
Charity	(35,642)	(15,483)	(1,237)	(538)
Penalties	(21,316)	(30,569)	(740)	(1,062)
Loss on impairment of PPE	(21,029)	(179,672)	(731)	(6,242)
Audit and consulting expenses	(6,385)	(4,735)	(222)	(165)
Net change in bad debt provision and write off	7,905	(40,637)	275	(1,413)
Negative goodwill	87,758	36,767	3,048	1,278
Idle time	-	(68,896)	-	(2,394)
Amortisation of negative goodwill	-	31,661	-	1,100
Gain on de-consolidation of subsidiaries	-	773,990	-	26,891
Other items	(32,872)	(64,099)	(1,142)	(2,227)
	(101,008)	417,099	(3,509)	14,491

9 Total personnel costs

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Wages and salaries	(931,842)	(529,190)	(32,375)	(18,386)
Contributions to State pension fund	(193,566)	(126,951)	(6,725)	(4,411)
	(1,125,408)	(656,141)	(39,100)	(22,797)

The average number of employees during 2005 was 6,767 (2004: 4,999).

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10 Net financing expenses

	2005	**2004**	**2005**	**2004**
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Interest expense	(261,667)	(167,871)	(9,091)	(5,832)
Gain / (loss) on disposal of investments	13,180	(14,095)	458	(490)
Foreign exchange gain / (loss)	23,746	(17,611)	825	(612)
Interest income	77,394	69,567	2,689	2,417
	(147,347)	(130,010)	(5,119)	(4,517)

11 Income tax expense

	2005	**2004**	**2005**	**2004**
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Current tax expense				
Current year	(470,299)	(363,622)	(16,341)	(12,634)
Deferred tax benefit				
Origination and reversal of temporary differences	50,303	131,380	1,749	4,565
	(419,996)	(232,242)	(14,592)	(8,069)

The Group's applicable tax rate is the corporate income tax rate of 24% (2004: 24%).

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11 Income tax expense continued

Reconciliation of effective tax rate:

	2005 '000 RUR	%	2004 '000 RUR	%
Profit before tax	1,410,015	100	1,563,403	100
Income tax at applicable tax rate	(338,404)	(24)	(375,217)	(24)
Unrecognised tax assets	(56,791)	(4)	-	-
Non-taxable / (non-deductible) items, net	(24,801)	(2)	142,975	9
	(419,996)	(30)	(232,242)	(15)

	2005 '000 USD*	%	2004 '000 USD*	%
Profit before tax	48,989	100	54,318	100
Income tax at applicable tax rate	(11,757)	(24)	(13,036)	(24)
Unrecognised tax assets	(1,973)	(4)	-	-
Non-taxable / (non-deductible) items, net	(862)	(2)	4,967	9
	(14,592)	(30)	(8,069)	(15)

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12 Property, plant and equipment

'000 RUR	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2004 (restated)	835,276	1,317,989	60,187	321,302	2,534,754
Acquisitions through business combinations	80,756	46,178	3,640	2,694	133,268
Additions	71,575	410,487	3,882	562,806	1,048,750
Disposals	(6,406)	(20,757)	(4,324)	-	(31,487)
Disposals of subsidiaries and SPEs	(5,252)	(17,022)	-	-	(22,274)
Transfers	55,828	85,115	4,505	(145,448)	-
At 31 December 2004	1,031,777	1,821,990	67,890	741,354	3,663,011
Fair value adjustment (note 6)	(9,124)	136,206	(3,372)	-	123,710
Acquisitions through business combinations	111,744	119,227	26,148	-	257,119
Additions	5,089	296,377	47,044	1,412,235	1,760,745
Disposals	(33,797)	(124,822)	(15,155)	(1,285)	(175,059)
Transfers	113,324	315,540	48,692	(477,556)	-
At 31 December 2005	1,219,013	2,564,518	171,247	1,674,748	5,629,526
Depreciation and impairment losses					
At 1 January 2004 (restated)	(114,220)	(240,095)	(18,410)	-	(372,725)
Depreciation charge	(71,339)	(253,004)	(13,026)	-	(337,369)
Impairment losses	(66,777)	(91,731)	(1,131)	(20,033)	(179,672)
Disposals	367	7,331	2,561	-	10,259
Disposals of subsidiaries and SPEs	345	6,906	-	-	7,251
At 31 December 2004	(251,624)	(570,593)	(30,006)	(20,033)	(872,256)
Depreciation charge	(56,831)	(262,990)	(22,229)	-	(342,050)
Impairment losses	-	-	-	(21,029)	(21,029)
Disposals	8,264	81,912	4,111	-	94,287
At 31 December 2005	(300,191)	(751,671)	(48,124)	(41,062)	(1,141,048)
Net book value					
At 1 January 2004	721,056	1,077,894	41,777	321,302	2,162,029
At 31 December 2004	780,153	1,251,397	37,884	721,321	2,790,755
At 31 December 2005	918,822	1,812,847	123,123	1,633,686	4,488,478

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

12 Property, plant and equipment continued

’000 USD*	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2004 (restated)	29,020	45,791	2,091	11,163	88,065
Acquisitions through business combinations	2,806	1,604	126	94	4,630
Additions	2,487	14,262	135	19,553	36,437
Disposals	(223)	(721)	(150)	-	(1,094)
Disposals of subsidiaries and SPEs	(182)	(591)	-	-	(773)
Transfers	1,940	2,956	157	(5,053)	-
At 31 December 2004	35,848	63,301	2,359	25,757	127,265
Fair value adjustment (note 6)	(317)	4,732	(117)	-	4,298
Acquisitions through business combinations	3,882	4,142	909	-	8,933
Additions	176	10,298	1,634	49,067	61,175
Disposals	(1,174)	(4,337)	(527)	(45)	(6,083)
Transfers	3,937	10,963	1,692	(16,592)	-
At 31 December 2005	42,352	89,099	5,950	58,187	195,588
Depreciation and impairment losses					
At 1 January 2004 (restated)	(3,968)	(8,342)	(640)	-	(12,950)
Depreciation charge	(2,479)	(8,790)	(453)	-	(11,722)
Impairment losses	(2,320)	(3,187)	(39)	(696)	(6,242)
Disposals	13	255	89	-	357
Disposals of subsidiaries and SPEs	12	240	-	-	252
At 31 December 2004	(8,742)	(19,824)	(1,043)	(696)	(30,305)
Depreciation charge	(1,974)	(9,137)	(772)	-	(11,883)
Impairment losses	-	-	-	(731)	(731)
Disposals	287	2,846	143	-	3,276
At 31 December 2005	(10,429)	(26,115)	(1,672)	(1,427)	(39,643)
Net book value					
At 1 January 2004	25,052	37,449	1,451	11,163	75,115
At 31 December 2004	27,106	43,477	1,316	25,061	96,960
At 31 December 2005	31,923	62,984	4,278	56,760	155,945

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12 Property, plant and equipment continued

(a) Security

Properties with a carrying amount of RUR 439,951 thousand/ USD* 15,285 thousand have been pledged as security for bank loans (see note 21).

(b) Leased plant and machinery

The Group leased production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2005 the net book value of leased equipment was RUR 136,651 thousand/ USD* 4,748 thousand (2004: nil). The leased equipment secures lease obligations.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

13 Intangible assets

’000 RUR	Negative goodwill	Licences	Total
Cost			
At 1 January 2004 (restated)	(382,263)	-	(382,263)
Acquisitions through business combinations (restated)	(37,088)	-	(37,088)
Additions	-	8,966	8,966
Disposals	103,015	-	103,015
At 31 December 2004	(316,336)	8,966	(307,370)
Fair value adjustment (note 6)	(94,020)	-	(94,020)
Derecognition of negative goodwill (note 3(s))	410,356	-	410,356
Additions	-	280,440	280,440
At 31 December 2005	-	289,406	289,406
Amortisation and impairment losses			
At 1 January 2004 (restated)	24,720	-	24,720
Amortisation charge	31,661	(448)	31,213
Disposals	(6,283)	-	(6,283)
At 31 December 2004	50,098	(448)	49,650
Derecognition of negative goodwill (note 3(s))	(50,098)	-	(50,098)
Amortisation charge	-	(14,938)	(14,938)
At 31 December 2005	-	(15,386)	(15,386)
Net book value			
At 1 January 2004 (restated)	(357,543)	-	(357,543)
At 31 December 2004 (restated)	(266,238)	8,518	(257,720)
At 31 December 2005	-	274,020	274,020

∗ *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

13 Intangible assets continued

’000 USD*	**Negative goodwill**	**Licences**	**Total**
Cost			
At 1 January 2004 (restated)	(13,281)	-	(13,281)
Acquisitions through business combinations (restated)	(1,288)	-	(1,288)
Additions	-	311	311
Disposals	3,579	-	3,579
At 31 December 2004	(10,990)	311	(10,679)
Fair value adjustment (note 6)	(3,267)	-	(3,267)
Derecognition of negative goodwill (note 3(s))	14,257	-	14,257
Additions	-	9,744	9,744
At 31 December 2005	-	10,055	10,055
Amortisation and impairment losses			
At 1 January 2004 (restated)	859	-	859
Amortisation charge	1,100	(16)	1,084
Disposals	(218)	-	(218)
At 31 December 2004	1,741	(16)	1,725
Derecognition of negative goodwill note 3(s))	(1,741)	-	(1,741)
Amortisation charge	-	(519)	(519)
At 31 December 2005	-	(535)	(535)
Net book value			
At 1 January 2004 (restated)	(12,422)	-	(12,422)
At 31 December 2004 (restated)	(9,249)	295	(8,954)
At 31 December 2005	-	9,520	9,520

(a) Amortisation charge

The amortisation charge for the year is included in “cost of sales” and “administrative expenses”.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

14 Investments in associates

The following is summarised financial information, in aggregate, in respect of associates:

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Assets	233,139	640,637	8,100	22,258
Liabilities	(181,182)	(1,402,950)	(6,295)	(48,743)
	51,957	(762,313)	1,805	(26,485)
Revenues	175,787	581,011	6,107	20,186
Net income / (loss)	51,957	(124,748)	1,805	(4,334)

In 2004 the Group did not recognise its share in accumulated losses of the associated entities as the carrying value of the Group's investments in associates in the consolidated financial statements was nil and the Group had no obligation to its associates or other parties in respect of those losses.

15 Other investments

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Non-current				
Available-for-sale equity securities, stated at cost	15,772	16,312	548	567
Current				
Bank promissory notes held for trading, stated at cost:				
RUR, on demand, no interest	20,000	545,502	695	18,953
RUR, 1-1.5%	403,440	-	14,017	-
RUR, 4-5%	184,884	52,723	6,423	1,832
RUR, 6-8%	-	214,372	-	7,448
	608,324	812,597	21,135	28,233
Available-for-sale equity securities, stated at cost	813	2,624	28	91
	609,137	815,221	21,163	28,324

Available-for-sale investments stated at cost comprise unquoted equity securities. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value.

Promissory notes were repaid in January-February 2006.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

'000 RUR	**Assets**		**Liabilities**		**Net**	
				Restated		**Restated**
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Property, plant and equipment	24,678	50,122	(211,942)	(199,848)	(187,264)	(149,726)
Intangible assets	3,459	-	-	-	3,459	-
Investments	-	2,550	(1,970)	(79)	(1,970)	2,471
Inventories	5,263	2,151	(1,618)	(2,496)	3,645	(345)
Trade and other receivables	29,484	36,069	-	(96)	29,484	35,973
Loans and borrowings	25,071	-	-	-	25,071	-
Trade and other payables	46,955	14,547	(32,378)	(2,015)	14,577	12,532
Tax loss carry-forwards	37,763	32,827	-	-	37,763	32,827
Tax assets/(liabilities)	172,673	138,266	(247,908)	(204,534)	(75,235)	(66,268)
Set off of tax	(145,093)	(114,344)	145,093	114,344	-	-
Net tax liabilities	27,580	23,922	(102,815)	(90,190)	(75,235)	(66,268)

'000 USD*	**Assets**		**Liabilities**		**Net**	
				Restated		**Restated**
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Property, plant and equipment	858	1,741	(7,364)	(6,944)	(6,506)	(5,203)
Intangible assets	120	-	-	-	120	-
Investments	-	89	(68)	(3)	(68)	86
Inventories	183	75	(56)	(87)	127	(12)
Trade and other receivables	1,024	1,253	-	(3)	1,024	1,250
Loans and borrowings	871	-	-	-	871	-
Trade and other payables	1,631	505	(1,125)	(70)	506	435
Tax loss carry-forwards	1,312	1,141	-	-	1,312	1,141
Tax assets/(liabilities)	5,999	4,804	(8,613)	(7,107)	(2,614)	(2,303)
Set off of tax	(5,041)	(3,973)	5,041	3,973	-	-
Net tax liabilities	958	831	(3,572)	(3,134)	(2,614)	(2,303)

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

16 Deferred tax assets and liabilities continued

(b) Unrecognised deferred tax assets

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

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Tax loss carry-forwards	56,791	-	1,973	-
	56,791	-	1,973	-

The tax losses expire in 2014-2015.

(c) Movement in temporary differences during the year

'000 RUR	Restated 1 January 2004	Acquired	Disposed	Recognised in income	Restated 31 December 2004
Property, plant and equipment	(176,273)	(4,758)	(34,046)	65,351	(149,726)
Investments	(2,465)	-	-	4,936	2,471
Inventories	201	-	-	(546)	(345)
Receivables	9,670	-	-	26,303	35,973
Trade and other payables	10,023	-	-	2,509	12,532
Tax value of loss carry-forwards recognised	-	-	-	32,827	32,827
	(158,844)	(4,758)	(34,046)	131,380	(66,268)

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

16 Deferred tax assets and liabilities continued

'000 RUR	1 January 2005	Acquired	Fair value adjustment	Recognised in income	31 December 2005
Property, plant and equipment	(149,726)	(29,580)	(29,690)	21,732	(187,264)
Intangible assets	-	-	-	3,459	3,459
Investments	2,471	-	-	(4,441)	(1,970)
Inventories	(345)	-	-	3,990	3,645
Receivables	35,973	-	-	(6,489)	29,484
Loans and borrowings	-	-	-	25,071	25,071
Trade and other payables	12,532	-	-	2,045	14,577
Tax value of loss carry-forwards recognised	32,827	-	-	4,936	37,763
	(66,268)	(29,580)	(29,690)	50,303	(75,235)

'000 USD*	Restated 1 January 2004	Acquired	Disposed	Recognised in income	Restated 31 December 2004
Property, plant and equipment	(6,124)	(165)	(1,183)	2,269	(5,203)
Investments	(86)	-	-	172	86
Inventories	7	-	-	(19)	(12)
Receivables	336	-	-	914	1,250
Trade and other payables	348	-	-	87	435
Tax value of loss carry-forwards recognised	-	-	-	1,141	1,141
	(5,519)	(165)	(1,183)	4,564	(2,303)

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

16 Deferred tax assets and liabilities continued

'000 USD*	1 January 2005	Acquired	Fair value adjustment	Recognised in income	31 December 2005
Property, plant and equipment	(5,203)	(1,029)	(1,031)	757	(6,506)
Intangible assets	-	-	-	120	120
Investments	86	-	-	(154)	(68)
Inventories	(12)	-	-	139	127
Receivables	1,250	-	-	(226)	1,024
Loans and borrowings	-	-	-	871	871
Trade and other payables	435	-	-	71	506
Tax value of loss carry-forwards recognised	1,141	-	-	171	1,312
	(2,303)	(1,029)	(1,031)	1,749	(2,614)

(d) Unrecognised deferred tax liability

A temporary difference of RUR 64,000 thousand/USD* 2,224 thousand (2004: RUR 64,000 thousand/USD* 2,224 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. The amount of the related unrecognised deferred tax liability is RUR 15,360 thousand/USD* 534 thousand (2004: RUR 15,360 thousand/USD* 534 thousand).

17 Inventories

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Raw materials and consumables	190,889	144,531	6,632	5,022
Work in progress	943	2,338	33	81
Finished goods and goods for resale	829,940	742,398	28,835	25,793
	1,021,772	889,267	35,500	30,896

As at 31 December 2005 inventories were written down to their net realisable value by RUR 19,078 thousand/ USD* 663 thousand (2004: 11,238 thousand/ USD* 390 thousand).

Inventories with a carrying amount of RUR 761,175 thousand / USD* 26,446 thousand have been pledged as security for bank loans (refer note 21).

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

18 Trade and other receivables

	2005 '000 RUR	Restated 2004 '000 RUR	2005 '000 USD*	Restated 2004 '000 USD*
Accounts receivable – trade	759,405	326,904	26,384	11,357
VAT receivable	507,243	245,457	17,623	8,528
Loans provided by bank KB Belon	365,049	135,568	12,683	4,710
Prepayments	283,434	220,778	9,847	7,671
Income tax receivable	33,720	40,130	1,172	1,394
Receivables from associates	6,823	340,358	237	11,825
Other receivables	327,672	118,536	11,385	4,119
	2,283,346	1,427,731	79,331	49,604

As at 31 December 2005 provision of RUR 76,210 thousand/ USD* 2,648 thousand was recognised in respect of accounts receivable (2004: RUR 139,696 thousand/ USD* 4,853 thousand).

Loans to Directors in amount of RUR 93,890 thousand/ USD* 3,262 thousand are included in 'Other receivables' as of 31 December 2005 (2004: nil) (see note 26).

19 Cash and cash equivalents

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Cash in roubles	759,452	149,103	26,386	5,180
Cash in foreign currencies	34,633	50,884	1,203	1,768
Deposits	66,532	68,507	2,312	2,380
Cash and cash equivalents in the balance sheet	860,617	268,494	29,901	9,328
Bank overdrafts	(55)	(151,819)	(2)	(5,275)
Cash and cash equivalents in the statement of cash flows	860,562	116,675	29,899	4,053

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

20 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	Ordinary shares 2005	Ordinary shares 2004
Authorised shares	10,000,000	400
Par value, RUR	1	25,000
On issue at beginning of year	400	400
Issued for cash	400	400
Effect of share par value split	9,999,600	-
On issue at end of year, fully paid	10,000,000	400

In May 2005, the Parent Company registered a split of par the value of existing shares by increasing the number of shares from 400 to 10,000,000. The change in the par value and the number of shares did not have any effect on the total nominal value of the Parent Company's share capital.

	2005 ’000 RUR	2004 ’000 RUR	2005 ’000 USD*	2004 ’000 USD*
Share capital of the Parent, nominal value	10,000	10,000	347	347
Inflation adjustment (note 2(b))	25,854	25,854	899	899
Share capital, as reported	35,864	35,864	1,246	1,246

(b) Dividends

In accordance with Russian legislation the Parent Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As of 31 December 2005 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 3,948,140 thousand/ USD* 137,172 thousand (2004: RUR 2,736,337 thousand/ USD*95,069 thousand).

At the Parent Company annual shareholders meeting on 28 March 2006, shareholders approved a dividend of RUR 33.32 per share totaling RUR 333,200 thousand/ USD*11,576 thousand.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Non-current				
Secured bank loans	496,667	100,000	17,255	3,474
Unsecured loans obtained by bank	106,654	4,425	3,706	154
Unsecured bank loans	4,525	2,560	157	89
Finance lease liabilities	78,253	-	2,719	-
	686,099	106,985	23,837	3,717
Current				
Secured loans	877,231	758,786	30,478	26,363
Unsecured loans obtained by bank	285,256	148,342	9,911	5,154
Unsecured bank loans	1,996,073	796,466	69,350	27,672
Bank overdraft	55	151,819	2	5,275
Current portion of finance lease liabilities	26,210	-	911	-
	3,184,825	1,855,413	110,652	64,464

(a) Terms and debt repayment schedule

As at 31 December 2004

'000 RUR	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
RUR – fixed at 4%	22,200	22,200	-	-
RUR – fixed at 11-14%	367,879	267,879	100,000	-
RUR – fixed at 18%	35,081	35,081	-	-
USD – fixed at 9-10%	433,626	433,626	-	-
Unsecured loans obtained by bank:				
RUR – fixed at 5-8%	152,767	148,342	-	4,425
Unsecured bank loans:				
RUR – fixed at 5-8%	49,599	47,039	2,560	-
RUR – fixed at 9-10%	35,704	35,704	-	-
RUR – fixed at 11-14%	613,612	613,612	-	-
RUR – fixed at 15%	100,111	100,111	-	-
Bank overdrafts	151,819	151,819	-	-
	1,962,398	1,855,413	102,560	4,425

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

21 Loans and borrowings continued

'000 USD*	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
RUR – fixed at 4%	771	771	-	-
RUR – fixed at 11-14%	12,781	9,307	3,474	-
RUR – fixed at 18%	1,219	1,219	-	-
USD – fixed at 9-10%	15,066	15,066	-	-
Unsecured loans obtained by bank:				
RUR – fixed at 5-8%	5,308	5,154	-	154
Unsecured bank loans:				
RUR – fixed at 5-8%	1,724	1,635	89	-
RUR – fixed at 9-10%	1,240	1,240	-	-
RUR – fixed at 11-14%	21,319	21,319	-	-
RUR – fixed at 15%	3,478	3,478	-	-
Bank overdrafts	5,275	5,275	-	-
	68,181	64,464	3,563	154

As at 31 December 2005

'000 RUR	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
RUR – fixed at 10-12%	855,009	855,009	-	-
RUR – fixed at 13-14%	518,889	22,222	496,667	-
Unsecured loans obtained by bank:				
RUR – fixed at 5-8%	391,910	285,256	-	106,654
Unsecured bank loans				
RUR – fixed at 11-14%	2,000,598	1,996,073	4,525	-
Finance lease liabilities				
USD – fixed at 14%	99,713	24,593	75,120	-
Euro – fixed at 14.4%	4,750	1,617	3,133	-
Bank overdrafts	55	55	-	-
	3,870,924	3,184,825	579,445	106,654

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

21 Loans and borrowings continued

’000 USD*	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
RUR – fixed at 10-12%	29,706	29,706	-	-
RUR – fixed at 13-14%	18,027	772	17,255	-
Unsecured loans obtained by bank:				
RUR – fixed at 5-8%	13,617	9,911	-	3,706
Unsecured bank loans				
RUR – fixed at 11-14%	69,507	69,350	157	-
Finance lease liabilities				
USD – fixed at 14%	3,464	854	2,610	-
Euro – fixed at 14.4%	166	57	109	-
Bank overdrafts	2	2	-	-
	134,489	110,652	20,131	3,706

The effective interest rates related to the debt instruments disclosed above are within the disclosed fixed interest rate ranges.

(b) Security

Bank loans are secured by the following:

- Machinery and equipment with a carrying amount of RUR 439,951 thousand/ USD* 15,285 thousand – see note 12.
- Inventory with a carrying amount of RUR 761,175 thousand/ USD* 26,446 thousand – see note 17.

The finance lease liabilities are secured by the leased assets (see note 12(b)).

(c) Finance lease liabilities are payable as follows:

	2005			2004		
’000 RUR	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	37,802	11,592	26,210	-	-	-
Between one and five years	92,809	14,556	78,253	-	-	-
	130,611	26,148	104,463	-	-	-

	2005			2004		
’000 USD*	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	1,314	403	911	-	-	-
Between one and five years	3,225	506	2,719	-	-	-
	4,539	909	3,630	-	-	-

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

22 Trade and other payables

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Accounts payable – trade	779,962	569,123	27,098	19,773
Payable to employees	138,940	64,885	4,827	2,254
Other taxes payable	203,915	140,461	7,085	4,880
Advances from customers	35,665	68,934	1,239	2,395
Income tax payable	4,044	82	141	3
Payables to associates	3,058	64,758	106	2,250
Other payables and accrued expenses	174,924	140,002	6,077	4,864
	1,340,508	1,048,245	46,573	36,419

Non-current payables include long term portion of payable for equipment recorded at its fair value of RUR 84,946 thousand/ USD* 2,951 thousand (2004: nil) and delayed taxes due to be paid in 2007 recorded at their fair value of RUR 19,562 thousand/ USD* 680 thousand (2004:RUR 19,012 thousand/USD* 660 thousand).

The nominal amount of those liabilities as at 31 December 2005 is RUR 153,922 thousand/ USD*5,348 thousand (2004: RUR 27,205 thousand/USD* 980 thousand).

23 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

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

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

23 Financial instruments continued

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

(d) Fair values

The fair value of unquoted equity investments is discussed in note 15. In other cases management believes that the fair value of its financial assets and liabilities approximates their carrying amounts, except for long-term payables as discussed in note 22.

24 Commitments

The Group has entered into a contract to purchase plant and equipment and capital construction related for RUR 1,494,469 / USD* 51,923.

25 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) Bankruptcy law

The bankruptcy law in Russia is relatively new, often unclear and subject to interpretation. Application of bankruptcy procedures in practice is often contradictory, and the legality of such procedures is often challenged by different groups of stakeholders.

A part of the assets of the Group was acquired as a result of bankruptcy procedures. This fact might create uncertainty with respect to the title to such assets, which potentially may be subject to challenge by former legal owners of these assets or their shareholders. The effect of such potential challenge could be significant, and materially impact the financial position of the Group.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

25 Contingencies continued

(c) Taxation contingencies

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

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

(d) Environmental contingencies

The Group is obligated to undertake certain environmental remediation activities to ensure site restoration of coal extraction mines in the Kemerovo and Belovo regions. In accordance with the permission granted by the regional authorities, the Group utilizes production waste to fill the mines where this waste does not exceed a prescribed toxicity level. Group management believes that the future costs associated with the restoration of the mines will not be material. These costs, and other environmental compliance costs associated with air and water pollution are included in the normal operating expenses of the Group as they are incurred.

Environmental regulations are currently under consideration in the Russian Federation and the Group is continuously evaluating its obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, management believes that there are no material unrecorded liabilities or contingencies, which could have a significant adverse effect on the operating results and / or financial position of the Group.

26 Related party transactions

(a) Control relationships

The Parent Company's shareholders are individuals. Directors of the Parent Company and their immediate families control 100% of the voting shares of the Parent Company.

In 2005 the Parent Company paid a bonus to the Directors amounting to RUR 66,281 thousand/ USD* 2,303 thousand.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

26 Related party transactions continued

(b) Transactions with management and close family members

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2005 ’000 RUR	2004 ’000 RUR	2005 ’000 USD*	2004 ’000 USD*
Salaries, bonuses and related taxes	76,779	46,472	2,667	1,615

(ii) Other transactions

Loans to executive directors amounting to RUR 93,890 thousand/ USD* 3,262 thousand are included in “other receivables” (see note 18). The loans bear interest of 6%.

(c) Transactions with other related parties

Related parties comprise the shareholders of the Parent Company and all other companies in which those shareholders, either individually or together, have a controlling interest or significant influence.

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

Sales with related parties for the year were as follows:

	2005 ’000 RUR	2004 ’000 RUR	2005 ’000 USD*	2004 ’000 USD*
Sales of goods	16,823	62,823	584	2,183

Purchases of raw materials and services from related parties for the year were as follows:

	2005 ’000 RUR	2004 ’000 RUR	2005 ’000 USD*	2004 ’000 USD*
Purchases of raw materials and equipment	153,683	110,869	5,339	3,852
Purchases of services	407,263	123,936	14,150	4,306
	560,946	234,805	19,489	8,158

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*

26 Related party transactions continued

Trade and other receivables owing by related parties at the end of the year were as follows:

	2005	2004	2005	2004
	’000 RUR	’000 RUR	’000 USD*	’000 USD*
Receivables from associates	6,823	148,144	237	5,147

Trade and other payables owing to related parties at the end of the year were as follows:

	2005	2004	2005	2004
	’000 RUR	’000 RUR	’000 USD*	’000 USD*
Payables to associates	3,058	64,758	106	2,250

27 Events subsequent to the balance sheet date

In March 2006, the Group acquired the controlling interest of 100% in the mining business of OOO Mine Chertinskaja-Yuzhnaja and 100% in the mining business of OAO Mine Novaja-2 (refer note 6(c)).

On 28 March 2006, the shareholders approved to increase the share capital of the Parent company by 15% by issuance of ordinary shares for the total nominal amount of RUR 15,000 thousand/ *USD 521 thousand and approved a dividend of RUR 33.32 per share totaling RUR 333,200 thousand/ USD*11,576 thousand (refer note 20).

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* *The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements – refer note 2(d).*