OAO Belon and subsidiaries Consolidated Financial Statements for the year ended 31 December 2006

Contents

Independent Auditors' Report 3
Consolidated Income Statement 5
Consolidated Balance Sheet 6
Consolidated Statement of Cash Flows 7
Consolidated Statement of Changes in Equity 9
Notes to the Consolidated Financial Statements 10

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Independent Auditors' Report

The Board of Directors

OAO Belon

We have audited the accompanying consolidated financial statements of OAO Belon (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, 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. 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, 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

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary US dollar amounts accompanying the consolidated financial statements, which are presented solely for the convenience of users as described in Note 2(d), are not a part of the consolidated financial statements.

KPMG LIMITED

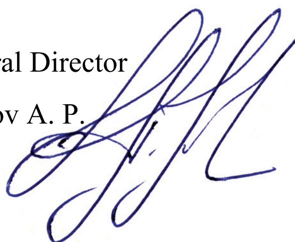
KPMG Limited

16 April 2007

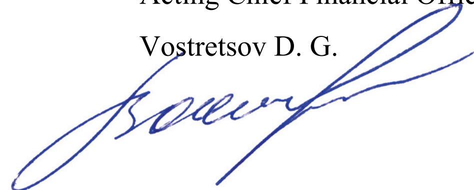
	Note	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Revenues		10,430	12,669	396	481
Cost of sales		(8,232)	(9,590)	(313)	(364)
Gross profit		2,198	3,079	83	117
Distribution expenses		(949)	(706)	(35)	(27)
Administrative expenses		(608)	(609)	(23)	(23)
Net income from bank lending operations	6	30	31	1	1
Negative goodwill	5	1,316	2,212	50	84
Taxes, other than on profit		(155)	(101)	(6)	(4)
Other operating expenses	7	(296)	(177)	(11)	(7)
Net financing expenses	9	(178)	(26)	(7)	(1)
Share of profits in associates		13	17	-	1
Profit before tax		1,371	3,720	52	141
Income tax expense	10	(149)	(456)	(6)	(17)
Net profit for the year		1,222	3,264	46	124
Basic and diluted earnings per share (RUR and USD* per share)	19(b)	113.67	326.40	4.28	12.40

These consolidated financial statements were approved by the Board of Directors on 16 April 2007 and were signed on their behalf by:

General Director
Dobrov A. P.



Acting Chief Financial Officer
Vostretsov D. G.



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 52.

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

	Note	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
ASSETS					
Non-current assets					
Property, plant and equipment	11	13,128	7,845	500	298
Intangible assets		6	1	-	-
Investments in associates	12	69	17	3	1
Investments in joint ventures		31	-	1	-
Other investments	13	39	61	1	2
Deferred tax assets	14	60	28	2	1
Other non-current assets	18	10	8	-	-
		13,343	7,960	507	302
Current assets					
Other investments	13	616	835	23	32
Inventories	15	1,706	1,022	65	39
Trade and other receivables	16	2,138	1,917	81	73
Cash and cash equivalents	17	387	946	15	36
		4,847	4,720	184	180
Total assets		18,190	12,680	691	482
EQUITY AND LIABILITIES					
Equity	19				
Share capital		37	36	1	1
Share premium		1,406	-	54	-
Retained earnings		7,366	6,477	280	246
Total equity attributable to shareholders of the Parent company		8,809	6,513	335	247
Non-current liabilities					
Bank customer accounts	20	106	107	3	4
Loans and borrowings	21	3,940	579	150	22
Deferred tax liabilities	14	1,330	839	51	32
Provisions	23	42	-	2	-
Other payables	22	82	118	3	5
		5,500	1,643	209	63
Current liabilities					
Bank customer accounts	20	300	219	11	8
Loans and borrowings	21	2,427	2,900	92	110
Trade and other payables	22	1,154	1,405	44	54
		3,881	4,524	147	172
Total equity and liabilities		18,190	12,680	691	482

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 52.

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

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
OPERATING ACTIVITIES				
Net profit for the year	1,222	3,264	46	124
Adjustments for:				
Depreciation	829	324	31	12
Amortisation	1	1	-	-
Loss on disposal of property, plant and equipment	132	79	5	4
Loss on impairment of property, plant and equipment	-	21	-	1
Share of profits in associates	(13)	(17)	-	(1)
Negative goodwill	(1,316)	(2,212)	(50)	(84)
Interest expense	259	103	10	4
Interest income	(61)	(40)	(2)	(2)
Income tax expense	149	456	6	17
Acquisition of minorities	-	(18)	-	(1)
Operating profit before changes in working capital and provisions	1,202	1,961	46	74
Increase in inventories	(638)	(133)	(24)	(5)
Increase in trade and other receivables	(185)	(686)	(7)	(26)
Increase in other non-current assets	(2)	(9)	-	-
Increase in loans to bank customers and credit institutions	(140)	(139)	(6)	(5)
Increase in bank customer accounts	80	182	3	7
(Decrease)/increase in trade and other payables	(246)	225	(9)	9
Increase in provisions	29	-	1	-
Cash flows (utilised by)/from operations before income taxes and interest paid	100	1,401	4	54
Income taxes paid	(185)	(459)	(7)	(17)
Interest paid	(534)	(239)	(20)	(9)
Cash flows (utilised by)/ from operating activities	(619)	703	(23)	28

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 52.

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

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	36	1	1	-
Interest received	61	40	2	2
Net decrease in investments	343	74	13	3
Acquisition of property, plant and equipment	(3,605)	(1,473)	(136)	(56)
Acquisition of subsidiaries, net of cash acquired (note 5)	(524)	(158)	(20)	(6)
Acquisition of intangible assets	(6)	-	-	-
Cash flows utilised by investing activities	(3,695)	(1,516)	(140)	(57)
FINANCING ACTIVITIES				
Shares issued	1,407	-	54	-
Proceeds from borrowings	12,913	10,463	490	397
Repayment of borrowings	(10,126)	(8,759)	(386)	(333)
Payment of finance lease liabilities	(106)	(42)	(4)	(2)
Dividends paid	(333)	(20)	(12)	(1)
Cash flows from financing activities	3,755	1,642	142	61
Net (decrease)/ increase in cash and cash equivalents	(559)	829	(21)	32
Cash and cash equivalents at beginning of year	946	117	36	4
Cash and cash equivalents at end of year (note 17)	387	946	15	36

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 10 to 52.

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

Mln RUR	**Attributable to shareholders of the Parent Company**					
	Share capital	**Share premium**	**Retained earnings**	**Total**	**Minority interest**	**Total Equity**
Balance at 1 January 2005 as previously reported	36	-	2,800	2,836	18	2,854
Impact of change in accounting policy (note 3(s)(i))	-	-	73	73	-	73
Balance at 1 January 2005 (restated)	36	-	2,873	2,909	18	2,927
Balance of negative goodwill	-	-	360	360	-	360
Net profit for the year (restated)	-	-	3,264	3,264	-	3,264
Negative goodwill	-	-	-	-	(18)	(18)
Total recognised income and expenses for the year	-	-	3,264	3,264	(18)	3,246
Dividends to shareholders	-	-	(20)	(20)	-	(20)
Balance at 31 December 2005 (restated)	36	-	6,477	6,513	-	6,513
Balance at 1 January 2006	36	-	6,477	6,513	-	6,513
Net profit for the year	-	-	1,222	1,222	-	1,222
Total recognised income and expenses for the year	-	-	1,222	1,222	-	1,222
Shares issued	1	1,406	-	1,407	-	1,407
Dividends to shareholders	-	-	(333)	(333)	-	(333)
Balance at 31 December 2006	37	1,406	7,366	8,809	-	8,809

Mln USD*	**Attributable to shareholders of the Parent Company**					
	Share capital	**Share premium**	**Retained earnings**	**Total**	**Minority interest**	**Total Equity**
Balance at 1 January 2005 as previously reported	1	-	106	107	1	108
Impact of change in accounting policy (note 3(s)(i))	-	-	3	3	-	3
Balance at 1 January 2005 (restated)	1	-	109	110	1	111
Balance of negative goodwill	-	-	14	14	-	14
Net profit for the year (restated)	-	-	124	124	-	124
Negative goodwill	-	-	-	-	(1)	(1)
Total recognised income and expenses for the year	-	-	124	124	(1)	123
Dividends to shareholders	-	-	(1)	(1)	-	(1)
Balance at 31 December 2005 (restated)	1	-	246	247	-	247
Balance at 1 January 2006	1	-	246	247	-	247
Net profit for the year	-	-	46	46	-	46
Total recognised income and expenses for the year	-	-	46	46	-	46
Shares issued	-	54	-	54	-	54
Dividends to shareholders	-	-	(12)	(12)	-	(12)
Balance at 31 December 2006	1	54	280	335	-	335

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 52.

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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 and refining;
- 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.

The Parent Company's ordinary shares were the listed on RTS stock exchange in the Russian Federation during July 2006 through an initial public offering.

The Group is ultimately controlled by a single individual, present General Director of the Group Mr. Andrey Dobrov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. Related party transactions are detailed in note 27.

(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.

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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 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 million unless otherwise stated.

(d) Convenience translation

In addition to presenting the consolidated financial statements in RUR, supplementary information in USD has been presented 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 2006 of RUR 26.3311 to one USD.

(e) Use of judgments, estimates and assumptions

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 IFRSs. 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 following notes:

Note 5 – acquisition of subsidiaries;

Note 23 – provisions for site restoration;

Note 26 – contingencies.

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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(u). These accounting policies have been consistently applied except for the change in accounting policy described in note to 3(s).

(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 presently 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.

(ii) Special purpose entities

The Group has established a number of special purpose entities ("SPE"s) for investment purposes. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets.

(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 associates, 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 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.

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(b) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. 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 retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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.

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.

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

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer note 3(j)), and foreign exchange gains and losses on available-for-sale monetary items (refer note 3(b)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. 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.

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(d) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

(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. 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) 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 profit or loss as incurred.

(iii) Depreciation

Depreciation (depletion) 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 recognised in profit or loss except for depreciation of assets used for construction of other mine production assets which is included in the cost of constructed assets.

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. Leased assets are depreciated over the period of useful life which is determined in line with one applied to similar owned assets.

The estimated useful lives for the current and comparative periods are as follows:

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• Mining assets	10-40 years
• Buildings and constructions	20 to 80 years
• Plant and equipment	7 to 30 years
• Transport equipment	3 to 12 years
• Other property, plant and equipment	3 to 6 years.

Depreciation methods, useful lives and residual values are reassessed annually.

(iv) Exploration and evaluation assets and expenditure

Exploration and evaluation expenditure is recognised as exploration and evaluation asset if the probability of the success is high. Exploration and evaluation assets include acquisition of rights to explore, 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 asset is measured initially at cost.

Exploration and evaluation expenditure that is not recognised as an exploration and evaluation asset is expensed when incurred. The Group classifies separately each exploration and evaluation asset as tangible (within properly, plant and equipment) or intangible based on the nature of the asset.

After initial recognition, the Group applies the cost model to each of tangible and intangible exploration and evaluation assets. The Group stops capitalising exploration and evaluation costs when exploration and evaluation activity ceases in the related area and reclassifies them as tangible or intangible development assets.

(v) Development expenditure

The development of mineral resource expenditure once exploration and evaluation activities have concluded is capitalised as mining asset. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditures is recognised in the income statement as an expense as incurred. Capitalised development expenditure is depleted over the life of the related mineral reserve as described in 3(e)(iii).

(f) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

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(ii) 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.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 - 8 years.

(g) 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 profit or loss.

(h) 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.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. 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 production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) 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.

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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 profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

(ii) Non-financial assets

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

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

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 where there is an indication that the impairment loss may no longer exist and 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.

(k) Employee benefits

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an expense in profit or loss when they are due.

(l) 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.

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(m) Revenue

(i) Goods sold

Revenue from the sale of goods 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 return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For sales of coal and metals, transfer usually occurs when the product is loaded onto the relevant carrier.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(n) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(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.

(o) 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. All borrowing costs are recognised in profit or loss using the

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effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(p) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 subsidiaries to the extent that they probably 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 reporting 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 reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(q) Earnings per share

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

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

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(s) Change in accounting policy

(i) Capitalisation of borrowing costs

During 2006 the Group decided to change its accounting policy so that borrowing costs on qualifying assets are capitalised as part of the cost of such assets, and not expensed as incurred. Management believes that recognition of borrowing costs for qualifying assets gives a more relevant reflection of the cost of such assets.

The change in accounting policy has the following impact on the results and financial position of the Group.

1 January 2005

- Property, Plant and Equipment increased by RUR 96 million/ USD* 4 million;
- Deferred tax liability increased by RUR 23 million/ USD* 1 million;
- Retained earnings increased by RUR 73 million/USD* 3 million.

Year ended 31 December 2005

- Property, Plant and Equipment increased by RUR 246 million/USD* 9 million;
- Deferred tax liability increased by RUR 59 million/USD* 2 million;
- Retained earnings increased by RUR 187 million/ USD* 7 million;
- Interest expense for the year ended 31 December 2005 decreased by RUR 150 million/ USD* 6 million;
- Deferred income tax benefit for the year ended 31 December 2005 decreased by RUR 36 million/USD*1 million.

Earnings per share have been adjusted accordingly.

Had no change in accounting policies taken place the net result for the year ended 31 December 2006 would decrease by RUR 231 million/ USD* 9 million.

(t) Changes in classification

Mining assets

During the current year the Group modified the classification of property, plant equipment and intangible assets in order to distinguish non-current assets related to mining processes and provide more detailed disclosure of the classes of property, plant and equipment.

Apart from the reclassification of cost and accumulated depreciation within property, plant and equipment, mining licenses previously presented within intangible assets were reclassified to the mining assets classification of property, plant and equipment as such licenses are considered by management as an integral part of the related coal interests. Comparative information was restated accordingly.

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The reclassification had the following effect on the carrying amounts of the Group's assets.

1 January 2005

Property, plant and equipment increased and intangible assets decreased by RUR 8 million/ USD* nil million.

31 December 2005

Property, plant and equipment increased and intangible assets decreased by RUR 288 million/ USD* 11 million.

Classification of balance sheet and profit and loss captions related to the bank

During the current year the Group modified the classification of assets, liabilities, income and expense related to the banking activity in order to distinguish the Group's core activities. As a result additional captions were introduced in the income statement and balance sheet with the corresponding notes where applicable (refer notes 6, 13 and 20). Comparatives were reclassified for consistency.

(u) Adoption of new Standards and Interpretations

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial reporting. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.

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4 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 products from steel production companies to ultimate customers in Russia.

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

(b) Geographical segments

Due to the fact that the majority of the Group's operations are located to the Russian Federation and therefore are subject to a similar risk profile, no separate disclosure in regard to geographical segments is provided.

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Mln RUR	Coal 2006	Coal Restated 2005	Metals 2006	Metals Restated 2005	Other operations 2006	Other operations Restated 2005	Eliminations 2006	Eliminations Restated 2005	Consolidated 2006	Consolidated Restated 2005
Revenue from external customers	5,490	8,244	4,720	4,141	220	284	-	-	10,430	12,669
Inter-segment revenue	-	55	143	42	-	-	(143)	(96)	-	1
Total revenue	5,490	8,299	4,863	4,183	220	284	(143)	(96)	10,430	12,670
Segment result	631	2,061	344	187	150	135	-	-	1,125	2,383
Unallocated expenses	-	-	-	-	-	-	-	-	411	1,346
Net financing expenses	-	-	-	-	-	-	-	-	(178)	(26)
Share of profits in associates	-	-	-	-	13	17	-	-	13	17
Income tax expense	-	-	-	-	-	-	-	-	(149)	(456)
Net profit for the year									1,222	3,264
Segment assets	13,699	8,291	1,212	1,121	2,683	1,738	-	-	17,594	11,150
Investment in associates and joint ventures	-	-	-	-	100	17	-	-	100	17
Unallocated assets	-	-	-	-	-	-	-	-	496	1,513
Total assets	-	-	-	-	-	-	-	-	18,190	12,680
Segment liabilities	705	743	88	135	890	580	-	-	1,683	1,458
Unallocated liabilities	-	-	-	-	-	-	-	-	7,698	4,709
Total liabilities	-	-	-	-	-	-	-	-	9,381	6,167
Depreciation/amortisation	799	250	-	-	60	90	-	-	859	340
Capital expenditure	3,539	1,970	-	-	460	220	-	-	3,999	2,190
Loss on impairment of property, plant and equipment	-	21	-	-		-	-	-	-	21

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	Coal		Metals		Other operations		Eliminations		Consolidated	
Mln USD*	**2006**	**Restated 2005**	**2006**	**Restated 2005**	**2006**	**Restated 2005**	**2006**	**Restated 2005**	**2006**	**Restated 2005**
Revenue from external customers	209	313	179	157	8	11	-	-	396	481
Inter-segment revenue	-	2	5	2	-	-	(5)	(4)	-	-
Total revenue	209	315	184	159	8	11	(5)	(4)	396	481
Segment result	24	78	13	7	6	5	-	-	43	90
Unallocated expenses	-	-	-	-	-	-	-	-	16	51
Net financing expenses	-	-	-	-	-	-	-	-	(7)	(1)
Share of profits in associates	-	-	-	-	-	1	-	-	-	1
Income tax expense	-	-	-	-	-	-	-	-	(6)	(17)
Net profit for the year									46	124
Segment assets	520	315	46	43	102	66	-	-	668	424
Investment in associates and joint ventures	-	-	-	-	4	1	-	-	4	1
Unallocated assets	-	-	-	-	-	-	-	-	19	57
Total assets	-	-	-	-	-	-	-	-	691	482
Segment liabilities	27	28	3	5	34	22	-	-	64	55
Unallocated liabilities	-	-	-	-	-	-	-	-	292	180
Total liabilities	-	-	-	-	-	-	-	-	356	235
Depreciation/amortisation	31	10	-	-	2	3	-	-	33	13
Capital expenditure	136	76	-	-	17	8	-	-	153	84
Loss on impairment of property, plant and equipment	-	1	-	-	-	-	-	-	-	1

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5 Acquisition of subsidiaries

(a) Acquisition of mining businesses of OOO Mine Chertinskaya-Yuzhnaya and OAO Mine Novaya-2

During March 2006 the Group acquired 100% in OOO Mine Chertinskaya-Yuzhnaya and 100% in OAO Mine Novaya-2 for RUR 525 million/ USD* 20 million through its special purpose entities described in note 3(a)(ii).

The fair values to be assigned to the acquiree's identifiable assets and liabilities, including property, plant and equipment, coal reserves and mining licenses were determined by an independent appraiser. In the course of the estimation of fair values management has made a number of estimates and assumptions which involved an extensive judgment (refer notes 11 and 26).

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

	Recognised fair value on acquisition	
	Mln RUR	**Mln USD***
Property, plant and equipment	2,342	88
Inventories	46	2
Trade and other receivables	48	2
Cash and cash equivalents	1	-
Provisions	(12)	-
Deferred tax liabilities	(512)	(20)
Trade and other payables	(72)	(2)
Net identifiable assets and liabilities	1,841	70
Negative goodwill on acquisition	(1,316)	(50)
Consideration paid	525	20
Cash acquired	(1)	-
Net cash outflow	524	20

Negative goodwill arose on the acquisition because the Group was in a strong bargaining position, given the proximity of the acquired mines to its existing mines and the relative capacity of the counterparties to operate and develop the mines.

Had the acquisition occurred on 1 January 2006, the Group's net result for the year ended 31 December 2006 would not have changed significantly as compared to that reported.

(b) Acquisition of mining businesses of OAO Mine Chertinskaya

In 2003 the Group commenced the acquisition of the mining businesses of OAO Mine Chertinskaya. 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.

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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 the specific date of obtaining control over the business of OAO Mine Chertinskaya for the Group in the previous periods, management decided to recognise the acquisition of the business in several steps in 2003, 2004 and 2005 in accordance 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 Chertinskaya in order to reflect the impact of the transaction on the Group's assets and liabilities at the date when ultimate control over the mining business was obtained, i.e. in September 2005. Following the revised treatment, items of property, plant and equipment recognised in 2003 and 2004 at their fair values were restated to their historical cost. Goodwill and negative goodwill recognised in 2003 and 2004 in respect of this acquisition were derecognised. The recognition of the acquisition of OAO Mine Chertinskaya in September 2005 had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair value on acquisition	
	Mln RUR	**Mln USD***
Property, plant and equipment	257	10
Deferred tax liability	(30)	(1)
Net identifiable assets and liabilities	227	9
Consideration paid	(158)	(6)
Negative goodwill	(69)	(3)

The Property, plant and equipment as of 1 January 2005 include Property, plant and equipment of OAO Mine Chertinskaya recorded by the Group in 2003 and 2004 at their historical values in amount of RUR 340 million/ USD* 13 million. Consideration paid in 2005 included receivables from associates of RUR 24 million/ USD* 1 million.

The fair values to be assigned to the acquiree's identifiable assets and liabilities, including property, plant and equipment and mining assets, were determined only provisionally. During 2006 the carrying amounts of certain items of property, plant and equipment acquired through business combinations were reassessed 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. In the course of the estimation of fair values management has made a number of estimates and assumptions which involved an extensive judgment (refer note 11).

As a result, the carrying amounts of property, plant and equipment, negative goodwill and deferred tax were adjusted as follows as at 31 December 2005.

	Mln RUR	**Mln USD***
Property, plant and equipment	2,820	107
Deferred tax liability	(677)	(26)
Negative goodwill	(2,143)	(81)

The depreciation expense for the year ended 31 December 2005 decreased by RUR 17 million/ USD* 1 million. The comparatives and earning per share were adjusted accordingly.

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

6 Net income from bank lending operations

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Interest and commission income	55	39	2	1
Interest expense	(23)	(8)	(1)	-
Net income before loan loss allowance	32	31	1	1
Change in loan loss allowance	(2)	-	-	-
Net interest income	30	31	1	1

7 Other operating expenses

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Loss on disposal of property, plant and equipment	(132)	(79)	(5)	(4)
Charity and social expenses	(34)	(36)	(1)	(1)
Penalties	(4)	(21)	-	(1)
Loss on impairment of property, plant and equipment	-	(21)	-	(1)
Net change in bad debt provision and write off	(27)	8	(1)	1
Other items	(99)	(28)	(4)	(1)
	(296)	(177)	(11)	(7)

8 Total personnel costs

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Wages and salaries	(1,166)	(932)	(45)	(36)
Contributions to State pension fund	(311)	(194)	(12)	(7)
	(1,477)	(1,126)	(57)	(43)

The average number of employees during 2006 was 7,665 (2005: 6,767).

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9 Net financing expenses

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Interest expense	(259)	(103)	(10)	(4)
Gain on disposal of investments	23	13	1	-
Foreign exchange (loss) / gain	(3)	24	-	1
Interest income	61	40	2	2
	(178)	(26)	(7)	(1)

10 Income tax expense

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Current tax expense				
Current year	(202)	(470)	(8)	(18)
Deferred tax benefit				
Origination and reversal of temporary differences	53	14	2	1
	(149)	(456)	(6)	(17)

The Group's applicable tax rate is the Russian Federation corporate income tax rate of 24% (2005: 24%).

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Reconciliation of effective tax rate:

	2006 Mln RUR	%	Restated 2005 Mln RUR	%
Profit before tax	1,371	100	3,720	100
Income tax at applicable tax rate	(329)	(24)	(893)	(24)
Unrecognised tax assets	(55)	(4)	(57)	(2)
Non-taxable / (non-deductible) items, net	235	17	494	13
	(149)	(11)	(456)	(13)

	2006 Mln USD	%	Restated 2005 Mln USD	%
Profit before tax	52	100	141	100
Income tax at applicable tax rate	(12)	(24)	(34)	(24)
Unrecognised tax assets	(2)	(4)	(2)	(2)
Non-taxable / (non-deductible) items, net	8	17	19	13
	(6)	(11)	(17)	(13)

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11 Property, plant and equipment

Mln RUR	Mining assets	Land and buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
At 1 January 2005 (restated)	534	643	1,640	121	115	838	3,891
Acquisitions through business combinations (restated)	2,426	169	372	-	136	(26)	3,077
Additions	322	5	177	14	72	1,600	2,190
Disposals	-	(34)	(124)	-	(15)	(1)	(174)
Transfers	-	113	316	-	49	(478)	-
At 31 December 2005	3,282	896	2,381	135	357	1,933	8,984
Acquisitions through business combinations	1,968	46	224	3	2	99	2,342
Additions	29	16	523	8	46	3,377	3,999
Disposals	(11)	(75)	(158)	(5)	(9)	(22)	(280)
Transfers	44	112	160	(6)	14	(324)	-
Investment in joint venture	-	-	-	-	-	(31)	(31)
At 31 December 2006	5,312	995	3,130	135	410	5,032	15,014
Depreciation and impairment losses							
At 1 January 2005	(109)	(146)	(522)	(32)	(43)	(20)	(872)
Depreciation charge (restated)	(62)	(59)	(189)	(14)	(16)	-	(340)
Impairment losses	-	-	-	-	-	(21)	(21)
Disposals	-	8	82	-	4	-	94
At 31 December 2005	(171)	(197)	(629)	(46)	(55)	(41)	(1,139)
Depreciation charge	(290)	(59)	(411)	(14)	(85)	-	(859)
Disposals	1	26	71	2	3	9	112
At 31 December 2006	(460)	(230)	(969)	(58)	(137)	(32)	(1,886)
Net book value							
At 1 January 2005	425	497	1,118	89	72	818	3,019
At 31 December 2005	3,111	699	1,752	89	302	1,892	7,845
At 31 December 2006	4,852	765	2,161	77	273	5,000	13,128

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Mln USD*	Mining assets	Land and buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Cost							
At 1 January 2005 (restated)	21	25	63	5	4	32	150
Acquisitions through business combinations (restated)	92	6	14	-	5	(1)	116
Additions	12	-	7	1	3	61	84
Disposals	-	(1)	(5)	-	(1)	-	(7)
Transfers	-	4	12	-	2	(18)	-
At 31 December 2005	125	34	91	6	13	74	343
Acquisitions through business combinations	75	2	8	-	-	3	88
Additions	1	1	20	-	2	129	153
Disposals	-	(3)	(6)	-	-	(1)	(10)
Transfers	2	4	6	-	1	(12)	1
Investment in joint venture	-	-	-	-	-	(1)	(1)
At 31 December 2006	203	38	119	6	16	192	574
Depreciation and impairment losses							
At 1 January 2005	(4)	(6)	(20)	(1)	(2)	(1)	(34)
Depreciation charge (restated)	(2)	(2)	(7)	(1)	(1)	-	(13)
Impairment losses	-	-	-	-	-	(1)	(1)
Disposals	-	-	3	-	-	-	3
At 31 December 2005	(6)	(8)	(24)	(2)	(3)	(2)	(45)
Depreciation charge	(11)	(2)	(16)	(1)	(3)	-	(33)
Disposals	-	1	3	-	-	-	4
At 31 December 2006	(17)	(9)	(37)	(3)	(6)	(2)	(74)
Net book value							
At 1 January 2005	17	19	43	4	2	31	116
At 31 December 2005	119	26	67	4	10	72	298
At 31 December 2006	186	29	82	3	10	190	500

(a) Fair value of property, plant and equipment acquired through business combinations

In order to assess the fair values of property, plant and equipment at the dates of acquisitions for Mine Chertinskaya as at 1 October 2005 and mines Chertinskaya-Yuzhanya and Novaya-2 as at 1 April 2006 management commissioned American Appraisal (AAR) Inc. to independently appraise property, plant and equipment.

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. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

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Consequently the fair value of property, plant and equipment, other than mining assets, 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.

A discounted cash flow calculation, adjusted for working capital requirements and trained and operational work force in place, was conducted in order to assess the fair value of the mining assets and to assess the reasonableness of the depreciated replacement cost of property plant and equipment.

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

- Cash flows were projected based on actual operating results at the date of each valuation and a business plan covering the period from the date of valuation until full extraction of coal reserves. The periods of extraction were estimated as 7 years for mine Chertinskaya and 21 years for mines Chertinskaya-Yuzhnaya and Novaya-2.
- Total coal extraction volumes at the mines were projected as follows. Mine Chertinskaya: 1.1 million tons per year in 2006 with gradual growth in production output up to 2 million tons in 2009 with stable output until full extraction of the reserve by the end of 2012. Mines Chertinskaya-Yuzhnaya and Novaya-2: 0.4 million tons per year in 2006 with an increase in production output up to 1.5 million tons in 2009 with stable output until full extraction of the coal reserve in 2027.
- A discount rate of 14.1% for mine Chertinskaya and 17.4% for mines Chertinskaya-Yuzhanaya and Novaya-2 were applied in determining the coal reserves. The discount rates were estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 30% at a market interest rate of 7.2%. An additional specific risk of 3% increasing the discount rate for mines Chertinskaya-Yuzhnaya and Novaya-2 was imposed to reflect the uncertainty related to future development of an additional coal seam (refer below and note 26(a)).
- Prices used in assessing the discounted cash flows were not readily available on the market as the type of coal within the coal reserves of the acquired mines is rare ("Z"-type). The price for coal was assessed on the basis of the coal concentrate blends for sale on the market and adjusted for the average share of 'Z'-type coal in the blends and for processing costs required to bring the raw coal to the marketable coal concentrated. The pattern of future changes in coal prices was determined in line with the market analyst reports available at the dates of valuation. In assessing the price trends a cyclical decrease in market prices was expected from 2006 until 2009 with major drop in 2006 and gradual slowdown of the decrease rates from 2007 to 2009 and gradual increase in prices by 3% per year in subsequent period.

The fair value of the mining assets of mines Chertinskaya-Yuzhnaya and Novaya-2 included discounted cash flows related to an additional coal seam that is not yet covered by an appropriate mining license. This coal seam (which is ringfenced by other reserves over which the Group has the right to extract) was identified by management as an integral part of the business acquisition and, given the fact that this seam extends the period of extraction from an estimated 5 years to 21 years and 6 million tons to 23 million tons, is a critical component of the acquisition. Management anticipates developing this seam as part of the whole coal reserve related to the mines. Management

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believes that obtaining the licenses for the additional seam is highly probable due to the fact that other mines adjacent to the acquired seams are owned by the Group and it has become a matter of practice that mining license for additional seams within the same coal reserve is granted to the entity developing the existing seams adjacent to a new seam. Expected costs of obtaining the license are included in the discounted cash flows related to the mining asset. Management plans to formally obtain the license in 2008 through the normal process of licensing in Russia. Nevertheless an uncertainty exists with regard to the mining asset recognised as part of the business combination (refer note 26(a)). Had management recorded the fair value of mining assets only covered by the existing coal extraction licenses, the value of the acquired coal reserves as at the date of acquisition would decrease by RUR 1,199 million/ USD* 46 million.

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.

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the value of coal reserves by RUR 116 million /USD* 4 million for mine Chertinskaya and RUR 187 million /USD* 7 million for mines Chertinskaya-Yuzhnaya and Novaya-2.
- A 10% decrease in future production volumes would have decreased the value of coal reserves by RUR 638 million /USD* 24 million for mine Chertinskaya and RUR 820 million /USD* 31 million for mines Chertinskaya-Yuzhnaya and Novaya-2.
- A 15% decrease in coal prices starting from 2007 keeping the planned pattern of cyclical changes would have decreased the value of coal reserves by RUR 958 million /USD* 36 million for mine Chertinskaya and RUR 1,231 million /USD* 47 million for mines Chertinskaya-Yuzhnaya and Novaya-2.

(b) Exploration and evaluation expenditure

In the course of exploration and evaluation activities in 2006 the Group capitalised exploration and evaluation costs of RUR 58 million/ USD *2 million (2005: RUR 37 million/ USD * 1 million). The total amount of exploration and evaluation costs capitalised as at 31 December 2006 was RUR 104 million/ USD *4 million (2005: RUR 44 million/ USD *2 million). These costs are included in construction in progress.

(c) Security

Properties with a carrying amount of RUR 650 million / USD* 25 million have been pledged as security for bank loans (refer note 21).

(d) Leased plant and machinery

The Group leases 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 2006 the net book value of leased equipment was RUR 275 million / USD* 10 million (2005: RUR 137 million/ USD* 5 million). The leased equipment secures lease obligations (refer note 21).

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

(e) Capitalisation rate

In 2006 the Group has capitalised borrowing costs as part of the qualifying assets (refer note 3(s)(i)) in amount of RUR 305 million/*USD 12 million (2005: RUR 150 million/ USD* 6 million) using a capitalisation rate of 10.9% (2005: 10.895%).

(f) Capital commitments

As at 31 December 2006 the Group is committed to capital expenditure of approximately RUR 1,034 million / USD* 39 million.

12 Investments in associates

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

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Assets	523	233	17	9
Liabilities	(239)	(181)	(9)	(7)
	284	52	8	2
Revenues	446	176	17	7
Net profit for the year	22	52	1	2

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

13 Other investments

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Non-current				
Available for sale equity securities stated at cost	28	16	1	-
Loans to other companies	7	-	-	-
Loans to bank customers	4	45	-	2
	39	61	1	2
Current				
Available for sale equity securities stated at cost	4	1	-	-
Held-to-maturity investments:				
promissory notes redeemable on demand	10	20	-	1
RUR, 1 - 1.5%	-	103	-	4
USD, 1 - 1.5%	-	300	-	11
RUR, 4 - 5%	196	41	8	2
USD, 4 - 5%	-	144	-	5
Loans to bank customers	378	206	14	8
Loans to credit institutions	28	20	1	1
	616	835	23	32

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

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

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

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

Mln RUR	Assets		Liabilities		Net	
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Property, plant and equipment	49	26	(1,430)	(948)	(1,381)	(922)
Intangible assets	7	3	(8)	-	(1)	3
Investments	1	-	(6)	(2)	(5)	(2)
Inventories	30	5	(146)	(2)	(116)	3
Trade and other receivables	22	29	-	-	22	29
Loans and borrowings	114	25	(79)	-	35	25
Trade and other payables	36	47	(27)	(32)	9	15
Provisions	10	-	-	-	10	-
Tax loss carry-forwards	133	38	24	-	157	38
Tax assets/(liabilities)	402	173	(1,672)	(984)	(1,270)	(811)
Set off of tax	(342)	(145)	342	145	-	-
Net tax liabilities	60	28	(1,330)	(839)	(1,270)	(811)

Mln USD*	Assets		Liabilities		Net	
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Property, plant and equipment	2	1	(55)	(37)	(53)	(36)
Intangible assets	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Inventories	1	-	(6)	-	(5)	-
Trade and other receivables	1	2	-	-	1	2
Loans and borrowings	5	1	(3)	-	2	1
Trade and other payables	1	2	(1)	(1)	-	1
Provisions	-	-	-	-	-	-
Tax loss carry-forwards	5	1	1	-	6	1
Tax assets/(liabilities)	15	7	(64)	(38)	(49)	(31)
Set off of tax	(13)	(6)	13	6	-	-
Net tax liabilities	2	1	(51)	(32)	(49)	(31)

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

(b) Movement in temporary differences during the year

Mln RUR	Restated 1 January 2005	Acquired	Recognised in income	Restated 1 January 2006	Acquired	Recognised in income	31 December 2006
Property, plant and equipment	(203)	(707)	(12)	(922)	(512)	53	(1,381)
Intangible assets	-	-	3	3	-	(4)	(1)
Investments	3	-	(5)	(2)	-	(3)	(5)
Inventories	-	-	3	3	-	(119)	(116)
Trade and other receivables	36	-	(7)	29	-	(7)	22
Loans and borrowings	-	-	25	25	-	10	35
Trade and other payables	13	-	2	15	-	(6)	9
Provisions	-	-	-	-	-	10	10
Tax loss carry-forwards	33	-	5	38	-	119	157
	(118)	(707)	14	(811)	(512)	53	(1,270)

Mln USD*	Restated 1 January 2005	Acquired	Recognised in income	Restated 1 January 2006	Acquired	Recognised in income	31 December 2006
Property, plant and equipment	(8)	(27)	(1)	(36)	(20)	3	(53)
Intangible assets	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	(5)	(5)
Trade and other receivables	1	-	1	2	-	(1)	1
Loans and borrowings	-	-	1	1	-	1	2
Trade and other payables	1	-	-	1	-	(1)	-
Provisions	-	-	-	-	-	-	-
Tax loss carry-forwards	1	-	-	1	-	5	6
	(5)	(27)	1	(31)	(20)	2	(49)

(c) Unrecognised deferred tax assets

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

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Tax effect of tax loss carry-forwards unrecognised	158	57	6	2

The tax losses expire in 2014-2015.

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(d) Unrecognised deferred tax liability

A temporary difference of RUR 562 million/ USD* 21 million (2005: RUR 797 million/ USD* 30 million) 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. If the temporary difference were reversed in form of distributions remitted to the Company, then an enacted tax rate of 9% would apply. If the temporary difference were reversed in a disposal of the subsidiaries, then a tax rate of 24% would apply.

15 Inventories

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Raw materials and consumables	213	191	8	7
Work in progress	-	1	-	-
Finished goods and goods for resale	872	849	33	33
Deferred mine drifting	627	-	24	-
Allowance for inventory obsolescence	(6)	(19)	-	(1)
	1,706	1,022	65	39

Inventories with a carrying amount of RUR 348 million / USD* 13 million have been pledged as security for bank loans (refer note 21).

In 2006 the Group started to use new production equipment and technology for the development and extraction at its shaft mines. As a result, the process of coal extraction has changed in terms of the allocation of time and effort between coal body preparation (drifting) and extraction steps as well as in terms of overall efficiency.

As a result, the Group prepares (drifts) for subsequent extraction substantially larger portions of coal reserves (coal fields) at a time. This implies significant costs to be incurred at the stage of preparation for extraction and extraction being delayed until the drifting process is complete. In previous years the Group generally mined within several smaller coal fields striving to keep them at different mining stages so that the overall mine preparation and extraction costs were stable for the entire financial period.

The financial impact of the change in process resulted in an increase in inventories related to capitalised drifting costs. These costs will be written off to cost of production pro-rata the volumes of coal extracted within the prepared coal field.

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16 Trade and other receivables

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Accounts receivable – trade	473	759	18	29
Value added tax receivable	682	507	26	19
Loans to Directors (note 27)	437	94	17	4
Prepayments	348	282	13	11
Income tax receivable	23	35	1	1
Receivables from associates	-	7	-	-
Other receivables	175	233	6	9
	2,138	1,917	81	73

As at 31 December 2006 a provision for doubtful debts of RUR 62 million / USD* 2 million was carried in respect of accounts receivable (2005: RUR 76 million / USD* 3 million).

17 Cash and cash equivalents

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Cash in Roubles	171	712	6	27
Cash in foreign currencies:				
USD	18	33	1	1
EUR	2	2	-	-
Other cash equivalents	12	93	1	4
Settlement accounts at the Central Bank of Russia in Roubles	184	106	7	4
Cash and cash equivalents in the balance sheet and in the statement of cash flows	387	946	15	36

18 Other non-current assets

Other non-current assets consist of an obligatory reserve deposit in a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the Central Bank of the Russian Federation, the withdrawal of which is restricted, based on either a reduction in the Group's deposit base or a reduction in the required level of reserves.

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19 Equity

(a) Share capital and share premium

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Share capital of the Parent Company, nominal value	11	10	-	-
Inflation adjustment (note 2(b))	26	26	1	1
Share capital, as reported	37	36	1	1

In July 2006, the Parent Company issued 1,500,000 ordinary shares for RUR 950 per share (USD* 36 per share) through an initial public offering. The expenses related to the share issue were deducted from share premium.

Mln RUR	**Ordinary shares**	**Share premium**	**Total**
Authorised and issued shares as at 1 January 2006	10	-	10
Additional shares issued for cash	1	1,423	1,424
Transaction costs	-	(17)	(17)
Authorised and issued shares on issue as at 31 December 2006	11	1,406	1,417

Mln USD*	**Ordinary shares**	**Share premium**	**Total**
Authorised and issued shares as at 1 January 2006	-	-	-
Additional shares issued for cash	-	54	54
Transaction costs	-	-	-
Authorised and issued shares on issue as at 31 December 2006	-	54	54

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

(b) Earnings per share

	2006	Restated 2005	2006	Restated 2005
Net profit for year attributable to ordinary shareholders, RUR million, USD* million	1,222	3,264	46	124
Number of ordinary shares in issue 1 January	10,000,000	10,000,000	10,000,000	10,000,000
Effect of 1,500,000 ordinary shares issued in July 2006	750,000	-	750,000	-
Weighted average number of shares in issue for the year	10,750,000	10,000,000	10,750,000	10,000,000
Earnings per share	RUR 113.67	RUR 326.40	USD 4.28	USD 12.40

There are no potential dilutive instruments.

(c) 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 2006 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 3,902 million/ USD* 148 million) (2005: RUR 3,948 million/ USD* 150 million).

At the Parent Company Board of Directors meeting on 13 April 2007 the Directors recommended a dividend of RUR 6.96 per share totaling RUR 80 million/ USD*3 million.

20 Bank customer accounts

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Non-current				
Customer accounts	106	107	3	4
Current				
Customer accounts	290	219	11	8
Deposits	10	-	-	-
	300	219	11	8

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21 Loans and borrowings

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

	2006 Mln RUR	**Restated 2005 Mln RUR**	**2006 Mln USD***	**Restated 2005 Mln USD***
Non-current				
Secured bank loans	1,675	495	64	19
Unsecured bank loans	254	6	10	-
Unsecured loans from other companies	4	-	-	-
Letters of credit	387	-	15	-
Bonds issued	1,493	-	57	-
Finance lease liabilities	127	78	4	3
	3,940	579	150	22
Current				
Secured bank loans	361	878	14	33
Unsecured bank loans	1,792	1,996	68	76
Unsecured loans from other companies	43	-	1	-
Unsecured loans from associates	43	-	1	-
Letters of credit	119	-	5	-
Current portion of finance lease liabilities	69	26	3	1
	2,427	2,900	92	110

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(a) Terms and debt repayment schedule

As at 31 December 2005

Mln RUR	**Total**	**Under 1 year**	**1-5 years**	**Over 5 years**
Secured bank loans:				
RUR – fixed at 10-12%	855	855	-	-
RUR – fixed at 13-14%	518	23	495	-
Unsecured bank loans				
RUR – fixed at 11-14%	2,002	1,996	6	-
Finance lease liabilities				
USD – fixed at 14%	100	25	75	-
Euro – fixed at 14.4%	4	1	3	-
	3,479	2,900	579	-

Mln USD*	**Total**	**Under 1 year**	**1-5 years**	**Over 5 years**
Secured bank loans:				
RUR – fixed at 10-12%	32	32	-	-
RUR – fixed at 13-14%	20	1	19	-
Unsecured bank loans				
RUR – fixed at 11-14%	76	76	-	-
Finance lease liabilities				
USD – fixed at 14%	4	1	3	-
Euro – fixed at 14.4%	-	-	-	-
	132	110	22	-

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As at 31 December 2006

Mln RUR	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
RUR – fixed at 8-10%	289	244	45	-
RUR – fixed at 11-14%	1,049	19	1,030	-
RUR – variable at MOSIBOR + 2.5%	97	97	-	-
RUR – variable at MOSPRIME + 2.75%	601	1	600	-
Unsecured bank loans:				
RUR – fixed at 7-10%	1,569	1,569	-	-
RUR – fixed at 11-14%	202	202	-	-
RUR – variable at EURIBOR + 0.9%	219	1	-	218
RUR – variable at EURIBOR + 1.25%	37	1	-	36
RUR – variable at EURIBOR + 2.25%	10	10	-	-
Bonds issued				
RUR – fixed at 9.6%	1,502	9	-	1,493
Unsecured loans from other companies				
RUR – fixed at 0-1%	5	1	4	-
RUR – fixed at 11-12%	42	42	-	-
Unsecured loans from associates				
RUR – fixed at 0%	17	17	-	-
RUR – fixed at 8-10%	26	26	-	-
Letters of credit:				
USD – variable at 6M LIBOR + 2.9%	391	109	282	-
USD – variable at 6M LIBOR + 3.9%	18	-	18	-
EUR – variable at 6M LIBOR + 3.7%	66	-	66	-
EUR – variable at 6M EURIBOR + 4.6%	27	8	15	4
EUR – variable at 6M EURIBOR + 5.0%	4	2	2	-
Finance lease liabilities				
USD – fixed at 14.07%	135	47	88	-
EUR – fixed at 12.95%	61	22	39	-
	6,367	2,427	2,189	1,751

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

Mln USD*	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
RUR – fixed at 8-10%	11	9	2	-
RUR – fixed at 11-14%	40	1	39	-
RUR – variable at MOSIBOR + 2.5%	4	4	-	-
RUR – variable at MOSPRIME + 2.75%	23	-	23	-
Unsecured bank loans:				
RUR – fixed at 7-10%	60	60	-	-
RUR – fixed at 11-14%	8	8	-	-
RUR – variable at EURIBOR + 0.9%	9	-	-	9
RUR – variable at EURIBOR + 1.25%	1	-	-	1
RUR – variable at EURIBOR + 2.25%	-	-	-	-
Bonds issued				
RUR – fixed at 9.6%	57	-	-	57
Unsecured loans from other companies				
RUR – fixed at 0-1%	-	-	-	-
RUR – fixed at 11-12%	1	1	-	-
Unsecured loans from associates				
RUR – fixed at 0%	1	1	-	-
RUR – fixed at 8-10%	-	-	-	-
Letters of credit:				
USD – variable at 6M LIBOR + 2.9%	16	5	11	-
USD – variable at 6M LIBOR + 3.9%	1	-	1	-
EUR – variable at 6M LIBOR + 3.7%	2	-	2	-
EUR – variable at 6M EURIBOR + 4.6%	1	-	1	-
EUR – variable at 6M EURIBOR + 5.0%	-	-	-	-
Finance lease liabilities				
USD – fixed at 14.07%	5	2	3	-
EUR – fixed at 12.95%	2	1	1	-
	242	92	83	67

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

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

(b) Security

Bank loans are secured by the following:

- Machinery and equipment with a carrying amount of RUR 650 million / USD* 25 million – refer note 11.
- Inventory with a carrying amount of RUR 348 million / USD* 13 million – refer note 15.

The finance lease liabilities are secured by the leased assets (refer note 11(b)(d)).

(c) Finance lease liabilities are payable as follows:

Mln RUR	2006			2005		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	89	20	69	38	12	26
Between one and five years	144	17	127	92	14	78
	233	37	196	130	26	104

Mln USD*	2006			2005		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	4	1	3	1	-	1
Between one and five years	5	1	4	4	1	3
	9	2	7	5	1	4

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

22 Trade and other payables

	2006 Mln RUR	Restated 2005 Mln RUR	2006 Mln USD*	Restated 2005 Mln USD*
Accounts payable – trade	370	779	14	30
Payable to employees	122	139	5	5
Other taxes payable	213	203	8	8
Advances from customers	66	36	3	1
Income tax payable	9	4	-	-
Payables to associates	1	3	-	-
Other payables and accrued expenses	373	241	14	10
	1,154	1,405	44	54

Non-current payables include the long term portion of payables for equipment recorded at its fair value of RUR 72 million/ USD* 3 million (2005: RUR 85 million/ USD* 3 million). The nominal amount of those payables as at 31 December 2006 is RUR 135 million/ USD* 5 million (2005: RUR 164 million/ USD* 6 million).

Non-current liabilities related to restructured taxes recorded as at 31 December 2005 at a fair value of RUR 20 million/ USD* 1 million were waived by the tax authorities in 2006 and released to income. The income is included in the other (expenses)/income.

23 Provisions for site restoration

	Mln RUR	Mln USD*
Balance 1 January 2006	-	-
Acquired in a business combination (note 5(a))	12	-
Provisions made during the year	30	2
Balance 31 December 2006	42	2

Site restoration costs mainly relate to the revegetation of soil that was damaged in the course of development of the open pit mine at the Novobachatsky site.

Other site restoration costs, including acquired in a business combination, relate to expected costs of shutting down shaft mines after completion of the extraction process.

The expected costs of revegetation and shutting down shaft mines after consideration of discounting were included in the cost of related classifications in property, plant and equipment.

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

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

24 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risk.

(a) Credit risk

Other than in the banking operation, 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.

(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. Refer to notes 13, 17 and 21 for details of significant foreign currency positions.

(d) Other

The Group is exposed to liquidity and cash flow risks and price risk in its banking operation. However, the banking operation is relatively insignificant to the Group and management sets limits on the minimum cash reserve necessary for conducting current customer payments. The Goup manages price risks, which is the risk that a financial instrument will fluctuate as a result of the changes in market prices, through periodic estimation of potential losses and maintaining and monitoring appropriate limits.

(e) Fair values

The fair value of unquoted equity investments is discussed in note 13. In other cases management believes that the fair values of its financial assets and liabilities approximates their carrying amounts, except for long-term payables as discussed in note 22.

25 Commitments

As at 31 December 2006 the Group had entered into a contract to purchase property, plant and equipment for RUR 1,031 million / USD* 39 million.

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

26 Contingencies

(a) Ownership of coal reserves acquired through business combination

In 2006 the Group acquired the mining businesses of mines Chertinskaya-Yuzhnaya and Novaya-2. Part of the value assigned to the mining assets within the fair value assessment at the date of acquisition related to the coal reserves for which the title of ownership was not obtained with reference to the appropriate mineral extraction license (refer note 11(a)). Management believes that the mining license will be obtained within the period normally required to obtain similar licenses. However, the outcome could differ from this assessment and the effect of including these coal reserves in the fair value of the mining asset on acquisition is disclosed in notes 5 and 11.

(b) 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 utilises 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.

(c) 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.

(d) 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.

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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.

(e) 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.

27 Related party transactions

(a) Control relationships

The Parent Company's ultimate controlling party is Mr. Dobrov A.P.

(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:

	2006 Mln RUR	2005 Mln RUR	2006 Mln USD*	2005 Mln USD*
Salaries, bonuses and related taxes	124	77	5	3

(ii) Other transactions

Loans to executive directors amounting to RUR 437 million / USD* 17 million (31 December 2005: RUR 94 million / USD* 4 million) are included in "trade and other receivables". The loans bear interest of 6% p.a.

Deposits held by directors and key management in Group bank KB Belon as at 31 December 2006 amounted to RUR 137 million / USD* 5 million (31 December 2005: RUR 126 million/ USD* 5 million).

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(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:

	2006 Mln RUR	**2005 Mln RUR**	**2006 Mln USD***	**2005 Mln USD***
Sales of goods	17	17	1	1

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

	2006 Mln RUR	**2005 Mln RUR**	**2006 Mln USD***	**2005 Mln USD***
Purchases of raw materials and equipment	2	154	-	6
Purchases of services	18	407	1	15
	20	561	1	21

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

	2006 Mln RUR	**2005 Mln RUR**	**2006 Mln USD***	**2005 Mln USD***
Receivables from associates	4	7	-	-

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

	2006 Mln RUR	**2005 Mln RUR**	**2006 Mln USD***	**2005 Mln USD***
Payables to associates	45	3	2	-

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28 Significant subsidiaries

	Country of incorporation	2006 Ownership/voting	2005 Ownership/voting
ZAO “Shakhta Kostromovskaya”	Russian Federation	100%	100%
OOO “Shakhta Listvyazhnaya”	Russian Federation	100%	100%
OOO “Razrez Novobachatsky”	Russian Federation	100%	100%
OOO “Shakhta Chertinskaya-Koksovaya”	Russian Federation	100%	100%
OAO “COF Belovskaya”	Russian Federation	100%	100%
OOO “LKZSM”	Russian Federation	100%	100%
OOO “OF Listvyazhnaya”	Russian Federation	100%	100%
OOO “Ugleobogashchenie”	Russian Federation	100%	100%
OOO “Shakhta Chertinskaya-Yuzhnaya”	Russian Federation	100%	-
OOO “Belon-Finance”	Russian Federation	100%	100%
OAO “Shakhta Novaya-2”	Russian Federation	100%	-
OAO Belovopogruztrans	Russian Federation	99.96%	99.96%
OOO KB Belon	Russian Federation	99.79%	99.79%
OOO Belon-Geologiya	Russian Federation	51%	51%

29 Events subsequent to the balance sheet date

During March 2007 the Group issued 2,000,000 Rouble-dominated bonds in the amount of RUR 2,000 million/ USD* 76 million with a maturity of 5 years at interest rate of 9.25%.

On 13 April 2007, the Board of Directors recommended a dividend of RUR 6.96 per share totaling RUR 80 million / USD*3 million (refer note 19(c)).

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