OAO KOKS

IFRS Consolidated Financial Statements

For the year ended 31 December 2005

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AUDITORS' REPORT

To the Shareholders and Board of Directors of OAO KOKS

1 We have audited the accompanying consolidated balance sheet of OAO KOKS and its subsidiaries (the "Group") as of 31 December 2005 and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These financial statements as set out on pages 3 to 40 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

4 Without qualifying our opinion, we draw your attention to Note 31. The Group had extensive transactions with related parties, because of these relationships, it is possible that the terms of these transactions are not the same as those that would have resulted from transactions with unrelated parties.

Moscow, Russian Federation
10 August 2006

(in thousand RR, unless stated otherwise)

	Note	31 December 2005	31 December 2004
ASSETS			
Non-current assets:			
Property, plant and equipment	6	6,205,361	4,500,418
Intangible assets	7	2,145,893	129,980
Goodwill	8	1,849,846	433,237
Investments in associates	9	1,888,560	477,577
Available-for-sale investments	10	41,045	748,104
Deferred tax assets	29	107,577	105,846
Other non-current assets		40,589	26,592
Total non-current assets		**12,278,871**	**6,421,754**
Current assets			
Inventories	11	1,465,952	1,163,298
Financial assets at fair value through profit or loss	12	1,488,633	848,806
Trade and other receivables	14	2,239,561	1,996,578
Loans issued	13	446,244	460,680
Restricted cash		-	300,000
Cash and cash equivalents	15	403,697	1,283,621
Total current assets		**6,044,087**	**6,052,983**
Total assets		**18,322,958**	**12,474,737**
EQUITY			
Share capital	16	213,427	213,427
Retained earnings		12,369,956	8,274,542
Equity attributable to the Company's equity holders		**12,583,383**	**8,487,969**
Minority interest		**375,511**	**158,884**
Total equity		**12,958,894**	**8,646,853**
LIABILITIES			
Non-current liabilities:			
Provision for restoration liability	17	210,427	226,030
Deferred tax liabilities	29	680,702	495,600
Total non-current liabilities		**891,129**	**721,630**
Current liabilities:			
Trade and other payables	19	1,263,621	721,965
Current income tax payable		44,359	184,329
Taxes other than income tax payable	20	258,966	474,454
Provision for restoration liability	17	31,900	42,720
Provision for tax claims	21	46,842	882,762
Short-term loans and borrowings	18	2,827,247	800,024
Total short-term liabilities		**4,472,935**	**3,106,254**
Total liabilities		**5,364,064**	**3,827,884**
Total equity and liabilities		**18,322,958**	**12,474,737**

Zubitskiy E.B.
General Director
OOO Managing Company Industrial Metallurgical Holding
10 August 2006

Selezneva M.S.
Chief Accountant
OOO Managing Company Industrial Metallurgical Holding

The accompanying notes on pages 8-40 represent an integral part of the consolidated financial statements

(in thousand RR, unless stated otherwise)

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Revenue	22	21,029,137	15,033,345
Cost of sales	23	(15,171,030)	(6,185,356)
Gross profit		**5,858,107**	**8,847,989**
Distribution costs	25	(181,903)	(85,828)
General and administrative expenses	26	(952,281)	(719,957)
Taxes other than income tax	24	(242,114)	(70,695)
Provision for tax claims	21	577,718	(206,955)
Other income/(expenses), net	27	104,565	(115,630)
Operating profit		**5,164,092**	**7,648,924**
Share of net results of associates	9	373,907	(48,869)
Finance (expenses)/income, net	28	(47,273)	43,073
Profit before taxation		**5,490,726**	**7,643,128**
Income tax expense	29	(963,342)	(2,081,186)
Profit for the year		**4,527,384**	**5,561,942**
Profit (loss) attributable to:			
Equity holders of the Company		4,095,709	5,578,787
Minority interest		431,675	(16,845)
Profit for the year		**4,527,384**	**5,561,942**

(in thousand RR, unless stated otherwise)

	Year ended 31 December 2005	Year ended 31 December 2004
Cash flows from operating activities		
Profit before taxation	**5,490,726**	**7,643,128**
Adjustments for:		
Depreciation (see Note 23, 26)	379,452	214,703
Loss on disposal of property, plant and equipment (see Note 27)	41,833	32,459
Interest income (see Note 28)	(174,493)	(79,268)
Interest expense (see Note 28)	163,417	37,845
Gains on financial assets at fair value through profit and loss (see Note 27)	(294,536)	(56,321)
Accrual (reversal) of obsolete stock provision (see Note 27)	48,431	(4,018)
Provision for tax claims (see Note 21)	(577,718)	206,955
Share of net results of associates (see Note 9)	(373,907)	48,869
Non-cash activities (see Note 32)	(555,307)	(26,945)
Impairment loss on available-for-sale investments (see Note 10)	13,887	-
Negative goodwill (see Note 27)	(69,501)	-
Accrual (reverse) of bad debt provision (see Note 27)	12,784	(709)
Exchange losses/(gains) (see Note 28)	58,349	(1,650)
Dividend income	(4,688)	-
Other effects	8,170	468
Operating cash flows before working capital changes	**4,166,899**	**8,015,516**
Changes in working capital (excluding the effects of acquisition)		
Increase in trade and other receivables	(217,081)	(382,910)
Increase in inventories	(151,740)	(337,539)
Increase (decrease) in trade and other payables	483,791	(360,396)
(Decrease) increase in taxes other than income tax payable	(229,625)	353,601
Change in provision for restoration liability (see Note 17)	(45,800)	(93,726)
Cash generated from operating activities	**4,006,444**	**7,194,546**
Income tax paid	(1,277,884)	(1,817,925)
Net cash generated from operating activities	**2,728,560**	**5,376,621**
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,583,588)	(1,520,585)
Proceeds from the sale of property, plant and equipment	8,366	90,450
Net purchase of financial assets at fair value through profit and loss	(265,697)	(813,903)
Proceeds from sale of available-for-sale financial investments	-	30,588
Acquisition of subsidiaries net of cash acquired (see Note 1, 30)	(1,552,209)	(450,195)
Acquisition of associates (see Note 9)	(788,303)	(264,926)
Acquisition of available-for-sale financial investments	(37,439)	(66)
Acquisition of licenses	(2,041,726)	-
Changes in restricted cash	300,000	(300,000)
Loans given	(1,169,148)	(1,176,509)
Repayment of loans given	1,157,707	313,605
Interest received on loans given	184,013	65,100
Dividend received	9,001	1,120
Receipts from finance lease	263	-
Net cash used in investing activities	**(5,778,760)**	**(4,025,321)**

The accompanying notes on pages 8-40 represent an integral part of the consolidated financial statements

(in thousand RR, unless stated otherwise)

	Year ended 31 December 2005	Year ended 31 December 2004
Cash flows from financing activities		
Proceeds from loans and borrowings	10,766,12	1,048,43
Repayment of loans and borrowings	(8,910,495	(936,827
Interest paid on loans and borrowings	(163,705	(7,694
Net cash generated from financing activities	**1,691,92**	**103,91**
Net (decrease) increase in cash and cash equivalents	**(1,358,271**	**1,455,21**
Net cash and cash equivalents at the beginning of the year, including	**1,283,62**	**(171,591**
Cash and cash equivalents	1,283,62	2,52
Bank overdraft	-	(174,114
Net cash and cash equivalents at the end of the year	**(74,650**	**1,283,62**
Cash and cash equivalents	403,69	1,283,62
Bank overdraft	(478,347	-

(in thousand RR, unless stated otherwise)

	Attributable to equity holders of the Company				
	Share capital	**Treasury shares**	**Retained earnings**	**Minority interest**	**Total equity**
Balance as of 1 January 2004	**213,427**	**(696)**	**2,708,245**	**48,49**	**2,969,467**
Sale of treasury shares	-	696	74	-	**770**
Profit/(loss) for the year	-	-	5,578,787	(16,845	**5,561,942**
Business combination (Note 30)	-	-	(12,564)	127,23	**114,674**
Balance as of 31 December 2004	**213,427**	-	**8,274,542**	**158,88**	**8,646,853**
Profit for the year	-	-	4,095,709	431,67	**4,527,384**
Business combination (Note 30)	-	-	(295)	115,87	**115,576**
Transactions with minorities	-	-	-	(330,919	**(330,919)**
Balance as of 31 December 2005	**213,427**	-	**12,369,956**	**375,51**	**12,958,894**

(in thousand RR, unless stated otherwise)

1 General information about OAO Koks and its subsidiary companies

OAO Koks ("the Company" or "Koks") was established as a state owned enterprise Kemerovski Koksokhimicheski Kombinat in 1924. It was incorporated as an open joint stock company on 30 July 1993 as part of the Russian Federation's privatisation programme. The registered office of the Company is located at Stakhanovskaya ulitsa 1st, 6, 650021, Kemerovo, Russian Federation.

OAO Koks and its subsidiaries ("the Group") principal activities include coal mining, production of coke and coal concentrate, of ferrovanadium and vanadium pentoxide, as well as metal powder production (high purity chrome products). The Group's manufacturing facilities are primarily based in the city of Kemerovo, Kemerovo region, and in the city of Tula, Russian Federation. The products are sold in the Russian Federation and abroad. All companies of the Group are incorporated under the Laws of the Russian Federation.

At 31 December 2005, 88% of the Company was ultimately controlled by Mr. Zubitskiy B.D., Mr. Zubitskiy E.B. and Mr. Zubitskiy A.B.

The Group's main subsidiaries are:

Name	Country of incorporation	Activity	Note	Percentage voting interest 31 December 2005	31 December 2004
OAO Vanadiy Tula	Russia	Vanadium production	(1)	90%	52%
OAO Mill Berezovskaya	Russia	Production of coal concentrate	(2)	98%	61%
OOO Trade House Kemerovo-Koks	Russia	Trade activities	(7)	99%	96%
OOO Uchastok Koksoviy	Russia	Coal mining		100%	100%
OOO Gornyak	Russia	Coal mining		100%	100%
ZAO Inertnik	Russia	Production of inert dust	(7)	86%	81%
ZAO Sibirskie Resursy	Russia	Coal mining	(3)	100%	74%
OOO Butovskaya mine	Russia	Coal mining		100%	100%
OOO Romanovskaya mine	Russia	Coal mining		74%	74%
OOO Kruglogorski GOK	Russia	Iron ore mining		70%	70%
OAO Polema	Russia	Production of chrome	(4)	82%	35%
OOO Attik-Invest	Russia	Lease of property	(5)	100%	0%
OOO Consultinvest 2000	Russia	Lease of property	(6)	100%	0%
OOO IC Tulachermet	Russia	Lease of property	(8)	100%	0%

1) In 2005 the Group additionally purchased 32 percent (38 percent of the voting shares) of OAO Vanadiy Tula, thus increasing its ownership in this company to 76 percent (90 percent of the voting shares). Total cost of the additionally acquired shares amounted to RR 550,424 thousand and this amount was paid in cash in 2005.
2) In 2005 the Group additionally purchased 37 percent (37 percent of the voting shares) of OAO Mill Berezovskaya, thus increasing its ownership in this company to 98 percent (98 percent of the voting shares). Total cost of the additionally acquired shares amounted to RR 256,243 thousand and this amount was paid in cash in 2005.
3) In 2005 the Group additionally purchased 26 percent (26 percent of the voting shares) of ZAO Sibirskie Resursy, thus increasing its ownership in this company to 100 percent (100 percent of the voting shares). Total cost of the additionally acquired shares amounted to RR 77,316 thousand and this amount was paid in cash in 2005.
4) In 2005 the Company additionally directly purchased 41 percent (40 percent of the voting shares) of OAO Polema, thus increasing its direct ownership in this company to 67 percent (67 percent of the voting shares). Total cost of the additionally acquired shares amounted to RR 655,570 thousand and this amount was paid in cash in 2005. Total cost of this acquisition on the date of the control transfer to the Company was RR 305,642 thousand and the cost of the subsequently acquired shares amounted to RR 349,928 thousand (net of cash of the acquired company). At 31 December 2004 the Group held effective interest in OAO Polema of 8 percent (8 percent of the voting shares) through OAO Vanadiy Tula. At 31 December 2005 the Group increased its effective interest in OAO Polema (held through OAO Vanadiy Tula) to 15 percent (15 percent of the voting shares) through acquisition of additional ownership interest in OAO Vanadiy Tula in 2005 (see (1) above and also see Note 30).

1 General information about OAO Koks and its subsidiary companies (continued)

5) In 2005 the Group purchased 100 percent of OOO Attik-Invest, a company that owns non-residential premises of 965.6 square meters. Total cost of the acquisition was RR 10,015 thousand and the entire amount was paid in cash in 2005. See Note 30.
6) In 2005 the Group purchased 100 percent of OOO Consultinvest 2000, a company that owns non-residential premises of 2,169.9 square meters. Total cost of the acquisition was RR 5,379 thousand and the entire amount was paid in cash in 2005. See Note 30.
7) As a result of additional acquisition of 37 percent (37 percent of the voting shares) of OAO Mill Berezovskaya the Group additionally acquired an effective 3 percent interest of OOO Trade House Kemerovo-Koks and an effective 5 percent interest (5 percent of voting shares) of ZAO Inertnik.
8) In 2005 the Group founded a wholly-owned subsidiary–OOO Investment Company Tulachermet. The total cost of the investment amounted to RR 10 thousand.

2 Basis of preparation

2.1 Principle of conformity

These consolidated financial statements (hereinafter referred to as the "financial statements") have been prepared in accordance with the International Financial Reporting Standards, including International Accounting Standards and Interpretations, approved by the IAS Board (hereinafter referred to as IFRS).

Each company of the Group individually maintains its accounting and prepares financial statements in accordance with the statutory Regulations on Accounting and Reporting in the Russian Federation (hereinafter referred to as "Russian GAAP"). The attached consolidated financial statements have been prepared on the basis of the Russian GAAP records and reports that have been re-classified to ensure accurate presentation in compliance with IFRS.

The financial (accounting) reports of the Company as at 31 December 2003, which were issued on 30 March 2004 were prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation (Russian GAAP). These were considered to be the previous generally accepted accounting principles (GAAP) as defined in IFRS 1 "First-time Adoption of International Financial Reporting Standards" for the preparation of the preliminary opening IFRS balance sheet as at 1 January 2004.

The Company also issued its financial (accounting) reports as at 31 December 2004 in accordance with Russian GAAP on 28 March 2005. The Company also issued its financial (accounting) reports as at 31 December 2005 in accordance with Russian GAAP on 28 March 2006.

Reconciliations and descriptions of the adjustments from Russian GAAP financial statements to IFRS equity as of 1 January 2004 (the date of transition to IFRS) and 31 December 2005 (the date of the latest period presented in the most recent annual financial statements under Russian GAAP) and reconciliation of 2005 Russian GAAP financial statements to 2005 IFRS statement of income are provided in Note 5.

2.2 Reclassifications

For the purpose of bringing comparative figures as reported in 2004 Special Purpose Financial Information in compliance with the presentation format, adopted for the current reporting period, the following reclassifications of comparative figures were made. The reclassifications provide more useful information for the users of the financial statements.

The most significant reclassifications are related to the following:

- As at 31 December 2004, provision for tax claims was increased by RR 295,000 thousand as the result of reclassification of tax provision (the provision was recorded in 2004 due to the fact that the tax authorities challenged recovery of export VAT. See Note 21) from trade and other receivables (VAT receivable and payable were stated on the net basis).
- As at 31 December 2004, property, plant and equipment was decreased by RR 338,089 thousand due to reclassification to inventory in the amount of RR 149,692 thousand, to intangible assets in the amount of RR 129,980 thousand, and to trade and other receivables in the amount of RR 58,417 thousand.

2 Basis of preparation (continued)

- In 2004 provision for tax claims was recognized in three different income statement captions: (1) income tax expense in the amount of RR 123,216 thousand, (2) taxes other than income tax in the amount of 158,577 thousand, (3) interest expense in the amount of RR 53,621 thousand. In these financial statements the amounts from the two captions (2) and (3) were reclassified to one caption - provision for tax claims in total amount RR 212,198 thousand.

2.3 Accounting for the effects of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the Russian GAAP financial statements for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

2.4 New accounting standards

During the period December 2003 to November 2005, the International Accounting Standards Board ("IASB") revised 17 of its standards and issued 7 new standards. In addition, the International Financial Reporting Interpretations Committee ("IFRIC") issued six new interpretations in 2004, one of which was subsequently withdrawn. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" ("IFRS 6") and IFRS 7 "Financial instruments: disclosures" ("IFRS 7"), which are effective for periods commencing on or after 1 January 2006 and 1 January 2007, respectively, but may be adopted early.

2.5 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted:

- IFRS № 7 *Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).* The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity’s capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.
- IAS 39 *(Amendment) – The Fair Value Option (effective from 1 January 2006).* IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss (‘fair value through profit or loss’). The amendment changes the definition of financial instruments ‘at fair value through profit or loss’ and restricts the ability to designate financial instruments as part of this category. The Group’s policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss.
- IAS 39 *(Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).* The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

2 Basis of preparation (continued)

- IAS 39 *(Amendment) – Financial Guarantee Contracts (effective from 1 January 2006).* Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

- IAS 19 *(Amendment) - Employee Benefits (effective from 1 January 2006).* The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings. It also extends required disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

- IFRS 6, *Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).* IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

- IFRIC 4, *Determining whether an Arrangement contains a Lease (effective from 1 January 2006).* IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management of the Group started assessing the impact of the Interpretation's adoption on the Group's financial statements, but the analysis is not finished yet.

- IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).* Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

- IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006).* The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

- IFRIC 7, *Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).* The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

- IFRIC 8, *Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).* The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

- IFRIC 9, *Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).* The Interpretation clarifies certain aspects of the treatment of embedded derivatives under IAS 39 Financial Instruments: Recognition and Measurement. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Interpretation shall be applied retrospectively.

- IAS 21 *(Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006).* This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

2 Basis of preparation (continued)

- IFRS 1 *(Amendment) - First-time Adoption of International Financial Reporting Standards* and IFRS 6 *Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).* This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

2.6 Critical accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Fair value of property, plant and equipment (PP&E)

The Group has recorded property, plant and equipment at fair value in its transition balance sheet. Significant judgment is required in estimating the fair values of such assets. If management's estimates of the fair value of PP&E were reduced by 10%, retained earnings would decrease by RR 194,770 thousand. An increase of 10% in fair value would increase retained earnings by the same amount.

(b) Estimated useful lives of property, plant and equipment

The Group applies a range of useful lives to the buildings, installations, plant and equipment, transport and other assets, which are classified as property, plant and equipment. Significant judgment is required in estimating the useful life of such assets. If management's estimates of the useful life of all assets were reduced by 10%, profit before tax for the year would decrease by RR 44,054 thousand. An increase of 10% in useful lives would increase profit before tax for the year by the same amount.

(c) Deferred taxation

Significant judgment is frequently required in estimating provisions for deferred taxes. Increases in management's estimates of the Group's net deferred tax liabilities as at 31 December 2005 by 10% would reduce profit for the year by RR 68,070 thousand. A 10% decrease in those estimates would increase profit for the year by the same amount.

(d) Provision for tax claims

Based on its judgment and experience, management assessed certain provisions for tax claims. Provisions mostly related to deductibility of the certain types of expenses for tax purposes and recovery of the outstanding amount of value added tax for purchased inventory. Significant judgment is required in determination of the probability of the future outflows for each case, because Russian tax legislation is subject to varying interpretations (see Note 21). Increases in management's estimates of the Group's provision for tax claims as at 31 December 2005 by 10% would reduce profit for the year by RR 4,684 thousand. A decrease in those estimates would increase profit for the year by the same amount.

(e) Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8.

2 Basis of preparation (continued)

(f) Restoration liability

The Group reviews the restoration liability annually. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pre-tax risk free discount rates adjusted for risks specific to the liability. These calculations require the use of estimates as further detailed in Note 17.

(g) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used estimated discounted cash flow analyses for various available-for-sale financial assets that were not traded in active markets.

3 Summary of significant accounting policies

3.1 Consolidated financial statements

(a) Subsidiary undertakings

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

(b) Investments in associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any.

3 Summary of significant accounting policies (continued)

The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

(d) Purchases of minority interests

Difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as goodwill. The excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised immediately in statement of income.

3.2 Transactions in foreign currency

a) Functional and presentation currency

Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

b) Transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in the statement of income. Translation at year-end rates does not apply to non-monetary items, including equity investments.

At 31 December 2005 the official rates of exchange, as determined by the Central Bank of the Russian Federation, were:

- RR 28.7825: US Dollar (US$) 1.00 (31 December 2004: RR 27.7487: US$ 1.00)
- RR 34.1850: Euro 1.00 (31 December 2004: RR 37.8104: Euro 1.00).

3.3 Property, plant and equipment

As discussed in Note 2.1, the Group has adopted IFRS for the first time effective 1 January 2004. The Group has elected to utilize exemptions available for first-time adopters under IFRS 1 and has recorded property, plant and equipment at fair value in its transition balance sheet. The difference between the fair value of the fixed assets and construction in progress and their cost under the Russian GAAP as of 1 January 2004 is recorded as retained earnings at that date (see Note 5).

(in thousand RR, unless stated otherwise)

3 Summary of significant accounting policies (continued)

Subsequent to 1 January 2004, additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs, including overhaul expenses, are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds to the carrying amount. These are included in the statement of income.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated remaining useful lives, as follows:

	Useful lives in years
Buildings	60-80
Installations	20-60
Plant and equipment	10-30
Transport	10-20
Other	5-25

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is zero if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3.5 Other intangible assets

All of the Group's other intangible assets have definite useful lives and primarily include mining licenses. Acquired licenses are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives (20 years). If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

3 Summary of significant accounting policies (continued)

3.6 Investments

The Group classifies its investments as (a) financial assets at fair value through profit and loss, (b) loans and receivables, (c) held-to-maturity investments, and (d) available-for-sale financial assets. Classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(b) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and accounts receivable are included in trade and other receivables in the balance sheet (see Note 3.8).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of available-for-sale investments are initially measured at fair value and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchases includes transaction costs. Available-for-sale investments are carried at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are included in the fair value reserve in equity in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments are included in the consolidated statement of income in the period in which they arise.

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at each balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

3.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3 Summary of significant accounting policies (continued)

3.8 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the statement of income.

3.9 Value added tax

Value added tax related to sales is payable to the tax authorities upon ultimate collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents in the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

3.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented as a share premium.

3.12 Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared on or before the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.13 Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense using the effective interest method. The Group does not capitalise borrowing costs.

3.14 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

3 Summary of significant accounting policies (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on the last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

3.15 Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

3.16 Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are reassessed annually and changes in the provisions resulting from the passage of time are reflected in the statement of income each year within interest expense. Other changes in provisions, related to a change in the expected pattern of settlement of the obligation or in the estimated amount of the obligation or changes in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of provision for restoration liabilities, reflected in the statement of income.

Provisions for restoration liabilities are recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pre-tax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognized as interest expense. Changes in the provision, reassessed at each balance sheet date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

3.17 Recognition of revenue

Revenue from the sale of goods (primarily coke) are measured at the fair value of the consideration received or to be received, net of value-added tax, custom duties, rebates and discounts. Revenues are recognised at the point of transfer of risks and rewards of ownership of the goods.

(in thousand RR, unless stated otherwise)

4 Basis of transition to IFRS

4.1 Application of IFRS 1

The Group's financial statements for the year ended 31 December 2005 will be the first annual financial statements that comply with IFRS. These consolidated financial statements have been prepared as described in Note 2.1 by applying the provisions of IFRS 1.

The Group's preliminary transition date is 1 January 2004 and, accordingly, it has prepared its opening IFRS balance sheet at that date. The reporting date of these consolidated financial statements is 31 December 2005.

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has applied certain of the optional exemptions from full retrospective application of IFRS that were applicable as of 31 December 2005, i.e. on the date of the Group's preparation of the first time IFRS statements.

4.2 Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from retrospective application of IFRS.

(a) Fair value as deemed cost exemption
The Group has elected to measure property, plant and equipment at fair value as at 1 January 2004. The application of this exemption is detailed in Note 5.

(b) Provision for restoration liability included in the cost of property, plant and equipment exemption.
The Group recognizes a provision in respect of environmental liabilities relating to restoration of coal mines. The exemption provided in IFRS 1 from the full retrospective application of IFRIC 1 has been applied to determine the adjustment to PP&E in respect of the obligation to restore existing coal mines. The Group has elected to apply the exemption to the provision for restoration liability. The application of this exemption is detailed in Note 5 (f).

5 Effect of the transition from Russian GAAP to IFRS on the Group's financial position and financial performance

Reconciliation of equity:

	Note	31 December 2005	1 January 2004
Equity under Russian GAAP		**9,919,007**	**1,793,677**
Fair value adjustment on property, plant and equipment	(a)	1,258,046	1,332,816
Additional depreciation charges and losses from disposal	(a)	(66,957)	-
Consolidation of subsidiaries previously excluded from consolidation under Russian GAAP	(b)	1,685,331	164,276
Minority interest	(b)	375,511	48,491
Gain on financial assets at fair value through profit and loss	(c)	127,775	-
Deferred tax adjustment	(d)	(376,123)	(366,817)
Adjustment under IAS 29	(e)	187,517	187,517
Provision for restoration liability	(f)	(140,172)	(37,994)
Provision for tax claims	(g)	-	(76,953)
Provision for obsolescence of inventory	(h)	(6,266)	(39,528)
Provision for impairment of loan receivable and advances write-offs	(i)	-	(35,275)
Effect of other adjustments		(4,775)	(743)
Consolidated equity under IFRS		**12,958,894**	**2,969,467**

(in thousand RR, unless stated otherwise)

5 Effect of the transition from Russian GAAP to IFRS on the Group's financial position and financial performance (continued)

Reconciliation of profit for the year:

	Note	Year ended 31 December 2005
Net profit under Russian GAAP		2,203,449
Additional depreciation charge	(a)	(66,957
Consolidation of subsidiaries previously excluded from consolidation under Russian GAAP	(b)	1,940,018
Minority interest	(b)	(431,675
Gain on financial assets at fair value through profit and loss	(c)	127,775
Deferred tax adjustment	(d)	(12,980
Provision for tax claims	(g)	376,097
Provision for restoration liability	(f)	(42,590
Change in provision for obsolescence of inventory	(h)	17,333
Effect of other adjustments		(14,761
Profit for the year under IFRS attributable to equity holders of the Company		**4,095,709**

Reconciliation of property, plant and equipment:

	Note	31 December 2005	1 January 2004
Carrying value under Russian GAAP		**2,193,602**	**773,462**
Fair value adjustment	(a)	1,258,046	1,332,816
Additional depreciation charge and losses from disposal of property, plant and equipment	(a)	(66,957)	-
Consolidation of subsidiaries previously excluded from consolidation under Russian GAAP	(b)	2,518,900	505,790
Provision for restoration liability	(f)	301,770	348,197
Elimination of unrealized gain		-	(397)
Carrying value under IFRS		**6,205,361**	**2,959,868**

Reconciliation of share capital:

	Note	31 December 2005	1 January 2004
Share capital under Russian GAAP		**33,005**	**33,005**
Indexation of share capital under IAS 29	(e)	180,422	180,422
Share capital under IFRS		**213,427**	**213,427**

(a) This is the difference between the fair value of the property, plant and equipment and its cost under Russian GAAP.

Additional depreciation charge and losses from disposal of property, plant and equipment are due to fair value adjustment and revision of the assets' useful lives.

(b) This adjustment represents the effect of consolidation of subsidiaries previously excluded from consolidation under Russian GAAP.

(c) Effect of change in fair value of financial assets at fair value through profit or loss, according to IAS 39 "Financial instruments". Adjustment is due to different measurement criteria of financial instruments between Russian GAAP and IFRS.

(d) Deferred income tax adjustment is the additional recognition of deferred income tax liability in accordance with IAS 12 "Income taxes" due to different measurement criteria of assets and liabilities under Russian GAAP and IFRS, see Note 29.

(in thousand RR, unless stated otherwise)

5 Effect of the transition from Russian GAAP to IFRS on the Group's financial position and financial performance (continued)

(e) As discussed in Note 2.3, IFRS requires restatement to the measurement unit current at the balance sheet date while the Russian economy was considered hyperinflationary. No similar adjustments were required under Russian GAAP.

(f) The adjustment is a result of the recognition of provision for restoration liability according to IAS 37 "Provisions, contingent liabilities and contingent assets" (IAS 37). See Note 17.

(g) The adjustment is the result of accrual of the provision for tax claims as it meets the recognition criteria for provisions under IAS 37.

(h) Provision created for the difference between net realizable value of inventory and its carrying value under Russian GAAP, see Note 11.

(i) The adjustment arises because the measurement of impairment provisions for loans receivable under Russian GAAP is different from IFRS, see Note 13 and 14.

6 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land	Buildings	Installations	Plant and equipment	Transport	Other	Assets under construction	Total
Cost at 31 December 2003	**374,332**	**749,978**	**948,015**	**1,952,472**	**222,404**	**23,607**	**455,366**	**4,726,17**
Additions through acquisitions of subsidiaries	-	155,452	37,827	133,828	8,757	20,935	43,022	399,82
Additions	-	21,286	23,964	293,507	141,276	13,862	951,984	1,445,87
Transfers	-	8,384	61,716	88,185	10,359	13,985	(182,629)	
Disposals	-	(3,210)	(7,437)	(24,825)	(11,998)	(19,829)	(19,660)	(86,959
Cost at 31 December 2004	**374,332**	**931,890**	**1,064,085**	**2,443,167**	**370,798**	**52,560**	**1,248,083**	**6,484,91**
Accumulated depreciation at 31 December 2003	**-**	**(332,766)**	**(362,474)**	**(1,024,991)**	**(30,038)**	**(16,037)**	**-**	**(1,766,306)**
Depreciation charges	-	(10,636)	(40,135)	(148,216)	(43,741)	(2,492)	-	(245,220)
Accumulated depreciation related to disposed assets	-	1,594	3,905	18,862	2,395	273	-	27,029
Accumulated depreciation at 31 December 2004	-	(341,808)	(398,704)	(1,154,345)	(71,384)	(18,256)	-	**(1,984,497)**
Net book value at 31 December 2003	**374,332**	**417,212**	**585,541**	**927,481**	**192,366**	**7,570**	**455,366**	**2,959,868**
Net book value at 31 December 2004	**374,332**	**590,082**	**665,381**	**1,288,822**	**299,414**	**34,304**	**1,248,083**	**4,500,418**

(in thousand RR, unless stated otherwise)

6 Property, plant and equipment (continued)

	Land	Buildings	Installations	Plant and equipment	Transport	Other	Assets under construction	Total
Cost at 31 December 2004	**374,332**	**931,890**	**1,064,085**	**2,443,167**	**370,798**	**52,560**	**1,248,083**	**6,484,91**
Additions through acquisitions of subsidiaries	-	491,793	70,240	159,543	3,311	17,161	55,061	797,10
Additions	388	14,798	122,909	213,383	40,391	27,021	1,246,345	1,665,23
Transfers	-	105,927	103,496	210,496	3,614	1,232	(424,765)	-
Disposals	-	(23,697)	(25,836)	(45,223)	(11,086)	(10,457)	(1,629)	(117,928
Cost at 31 December 2005	**374,720**	**1,520,711**	**1,334,894**	**2,981,366**	**407,028**	**87,517**	**2,123,095**	**8,829,33**
Accumulated depreciation at 31 December 2004	**-**	**(341,808)**	**(398,704)**	**(1,154,345)**	**(71,384)**	**(18,256)**	**-**	**(1,984,497)**
Additions through acquisitions of subsidiaries	-	(113,511)	(30,736)	(102,596)	(1,888)	(12,740)	-	(261,471)
Depreciation charges	-	(21,578)	(105,512)	(232,936)	(67,012)	(13,505)	-	(440,543)
Accumulated depreciation related to disposed assets	-	6,312	22,563	26,695	5,779	1,192	-	62,541
Accumulated depreciation at 31 December 2005	**-**	**(470,585)**	**(512,389)**	**(1,463,182)**	**(134,505)**	**(43,309)**		**(2,623,970)**
Net book value at 31 December 2004	**374,332**	**590,082**	**665,381**	**1,288,822**	**299,414**	**34,304**	**1,248,083**	**4,500,418**
Net book value at 31 December 2005	**374,720**	**1,050,126**	**822,505**	**1,518,184**	**272,523**	**44,208**	**2,123,095**	**6,205,361**

In the year ended 31 December 2005 depreciation expense of RR 362,212 thousand (2004: RR 205,185 thousand) was included in the cost of sales, RR 17,240 thousand (2004: RR 9,518 thousand) in general and administrative expenses and RR 61,091 thousand (2004: RR 30,517 thousand) were capitalized during the year.

7 Intangible assets

Intangible assets include licenses for Nikitinsky 2 area for exploration and production of bituminous coal by underground works, Abramovsky area (Romanovskaya) for production of bituminous coal by underground works and license of Kruglogorsky GOK for production of iron ore and associated products.

Below is a reconciliation of intangible assets:

	Year ended 31 December 2005	Year ended 31 December 2004
Cost at 1 January	**129,980**	**47,266**
Accumulated amortisation	**-**	**-**
Net book value at the beginning of the year	**129,980**	**47,266**
Acquisitions through business combinations	-	50,936
Additions	2,041,418	31,778
Amortisation charge	(25,505)	-
Cost at 31 December	2,171,398	129,980
Accumulated amortisation	(25,505)	-
Net book value at the end of the year	**2,145,893**	**129,980**

(in thousand RR, unless stated otherwise)

8 Goodwill

Below is the movement of goodwill arising on acquisition of subsidiaries:

	Year ended 31 December 2005	Year ended 31 December 2004
Net book value at 1 January	**433,237**	**-**
Acquisition of subsidiary OAO Vanadiy Tula	-	433,237
Acquisition of subsidiary OAO Polema	621,066	-
Acquisition of additional shares of subsidiary OAO Polema from minority shareholders	278,167	-
Acquisition of additional shares of subsidiary OAO Vanadiy Tula from minority shareholders	427,791	-
Acquisition of additional shares of subsidiary ZAO Sibirsky Resursy from minority shareholders	89,585	-
Net book value at the end of the year	**1,849,846**	**433,237**
Gross book value at the end of the period	1,849,846	433,237
Net book value at the end of the year	**1,849,846**	**433,237**

Testing goodwill for impairment

Goodwill was allocated to the cash-generating units at the lowest level, at which the management is able to monitor the value of goodwill, but not exceeding the segment level by their composition. The goodwill is allocated as follows:

	31 December 2005	31 December 2004
OAO Polema	899,233	-
OAO Vanadiy Tula	861,028	433,237
ZAO Sibirsky Resursy	89,585	-
Total net book value	**1,849,846**	**433,237**

Recoverable amount of cash-generating unit (CGU) was determined based on its value in use. For this calculation the predictive estimate of the expected cash flows included in the financial plan approved by the management and calculated for five years through 2010 is used.

Cash flows beyond five year period were extrapolated considering the projected rates of growth indicated below. The rates of growth do not exceed the long-term average rates of growth projected for industry, in which a cash-generating unit operates.

Below are assumptions, on the basis of which the value in use was determined and to which the recoverable amount is mostly sensitive:

	31 December 2005	31 December 2004
Extrapolation period from 2010 (OAO Vanadiy Tula, OAO Polema, ZAO Sibirsky Resursy)	10 years	10 years
Rates of growth beyond five years	3% annual	3% annual
Discount rate before tax	14 -22% annual	21.3% annual

Management determined budgets based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

Recoverable amount (value in use) of CGU calculated on the basis of the above assumptions for all cash-generating units exceeds the book value of assets (including allocated goodwill). Therefore, there are no goodwill impairments.

(in thousand RR, unless stated otherwise)

9 Investments in associates

	Year ended 31 December 2005	Year ended 31 December 2004
Balance at 1 January	**477,577**	
Reclassification from available-for-sale investments	731,224	186,8
Share of net profit (loss) of associates for the period	373,907	(48,86
Reclassification to subsidiaries	(482,451)	(139,30
Acquisition of associates	788,303	478,9
Balance at 31 December	**1,888,560**	**477,5**

Below is the information on the Group's share in major associates and summary of financial information about them including total assets, liabilities, revenues, profit or loss at 31 December 2005 and for the year ended 31 December 2005:

Name	Total assets	Total liabilities	Revenues	Profit/ (loss) for the year	Profit/ (loss) from acquisition date	Group's share %	Country of incorporation
OAO Tulachermet	6,354,572	(4,615,486)	17,611,427	(363,076)	(16,435)	31 %	RF
OAO Ufaleinikel	2,220,483	(2,496,816)	4,254,826	2,168,163	1,852,853	19.9 %	RF
ZAO PO Rezhnikel	502,442	(424,959)	908,266	274,386	27,124	19.9 %	RF
OAO Polema	-	-	201,654	12,006	12,006	35 - 38 %	RF
Total	9,077,497	(7,537,261)	22,976,173	2,091,479	1,875,548		

Revenue and profit of OAO Polema is presented prior to its reclassification to subsidiary. Profit of other associates is presented from the date of their acquisition.

Comparative data

Below is the information about the Group's share in major associates and summary of financial information about them including total assets, liabilities, revenues, profit or loss at 31 December 2004 and for the year ended 31 December 2004:

Name	Total assets	Total liabilities	Revenues	Profit/(loss)	Group's share %	Country of incorporation
OAO Polema	648,45	(377,864)	488,905	8,30	35 %	RF
OAO Vanadiy Tula		-	2,166,433	(135,636	29-40%	RF

Revenue and profit of OAO Vanadiy Tula is presented prior to its reclassification to subsidiary.

10 Available-for-sale investments

	31 December 2005	31 December 2004
Shares of OAO Tulachermet	-	731,224
Other shares of companies, in which the ownership share of less 20%	41,045	16,880
Total available-for-sale investments	**41,045**	**748,104**

At 31 December 2005 major available-for-sale investments in equity securities included the following:

Name	Type of activities	Country of incorporation	Fair value 31 December 2005	Fair value 31 December 2004
OAO Tulachermet	Iron production	RF	-	731,224
ZAO Krontif-Center	Iron castings products	RF	1,030	1,030
ZAO RK-Reestr	Transactions with securities	RF	3,260	1,106
OAO Siblitmash		RF	26,583	-
Bank Tulsky Industrial	Banking activities	RF	3,669	3,669
ZAO Chermetfinbrock	Transactions with securities	RF	2,096	2,096
ZAO Tulateploset	Heat power	RF	1,174	1,174
OOO Rozhdestvensky Karier	Beakstone production	RF	-	5,375
OAO Schekinsky Zavod KVOiT	Metal goods	RF	2,194	2,194
Other		RF	1,039	236
Total			**41,045**	**748,104**

(in thousand RR, unless stated otherwise)

10 Available-for-sale investments (continued)

Management cannot reliably measure the fair value of investments in shares of the above companies. Investments are reported in the balance sheet at acquisition cost of RR 41,045 thousand (2004: RR 748,104 thousand). The investees did not publish the latest financial information about their activities, their shares are not quoted and the latest information about their price of current deals cannot be obtained from publicly-accessible sources. These investments are recorded at cost less impairment losses of RR 13,887 thousand recorded within Other operating expenses (see Note 27).

11 Inventories

	31 December 2005	31 December 2004
Raw materials (coal)	225,879	214,335
Raw materials (for vanadium production)	204,708	254,369
Materials and supplies for production purposes	811,970	601,353
Expenses related to work-in-progress	79,393	11,667
Finished products	144,002	81,574
Total inventories	**1,465,952**	**1,163,298**

Materials and supplies are recorded at net realizable value, net of obsolescence provision of 99,361 thousand at 31 December 2005 (RR 31,718 thousand at 31 December 2004).

12 Financial assets at fair value through profit and loss

	31 December 2005	31 December 2004
Securities (equity and debt instruments) in trust management	1,488,298	159,645
Shares of Bank of Moscow	-	593,600
Bonds of OAO Tulachermet (11% annual)	-	80,361
Other notes (3% annual)	335	15,200
Total financial assets at fair value through profit and loss	**1,488,633**	**848,806**

The Group transfers cash to investment companies and banks holding the relevant licenses to purchase and resell securities (both equity and debt securities). Effective interest rate is within the range from 20% to 40% per annum. The Group recognizes unrealized fair value gain in the amount RR 127,775 thousand at 31 December 2005 (RR 34,568 thousand – at 31 December 2004) in the statement of income.

13 Loans issued

	31 December 2005	31 December 2004
Loans issued to the related parties in rubles (Note 31)	441,792	243,862
Other loans denominated in Russian Rubles	4,452	216,818
Total loans issued	**446,244**	**460,680**

Effective interest rates on loans issued to the related parties vary from 10% to 12% annually at 31 December 2005 (from 10 % to 15 % at 31 December 2004). Effective interest rates on loans issued to the third parties is 12% at 31 December 2005 (from 11% to 12% at 31 December 2004). The fair value of loans at the respective reporting date corresponds to their amortized cost.

(in thousand RR, unless stated otherwise)

14 Trade and other receivables

	31 December 2005	31 December 2004
VAT recoverable	1,382,057	1,138,034
Trade receivables (net of bad debt provision amounting to RR 11,062 thousand as at 31 December 2005, nil as at 31 December 2004)	155,841	94,056
Trade receivable – related parties	345,287	393,302
Other receivables (net of bad debt provision amounting to RR 7,589 thousand, as at 31 December 2005, nil as at 31 December 2004)	50,597	111,063
Other receivables – related parties	22,337	600
Advances issued (net of bad debt provision amounting to RR 9,825 thousand as at 31 December 2005, nil as at 31 December 2004)	279,435	245,355
Interest on loans issued	4,007	14,168
Total trade and other receivables	**2,239,561**	**1,996,578**

15 Cash and cash equivalents

	31 December 2005	31 December 2004
RR bank deposits	170,169	1,123,500
RR denominated cash on hand and balances with banks	224,578	159,570
Foreign currency denominated balances with bank	8,950	551
Total cash and cash equivalents	**403,697**	**1,283,621**

The effective interest rate on RR bank deposits is within the range from 10% to 12% linked to actual maturity deposit (2004: 10%). Average maturity period is 6 months, but the Company is able to withdraw the money from the bank accounts subject to prior 5 day notice.

16 Shareholders' equity

Total authorized number of ordinary shares is 1,650,232 (31 December 2004 – 1,650,232); value per share is RR 129.33. All authorized shares are issued and outstanding.

Russian GAAP financial statements are the basis for profit distribution and other appropriations. The basis of distribution is defined by the Russian legislation as net profit. For 2005, the statutory profit for the Company was RR 2,203,449 thousand (2004: RR 5,932,613 thousand), and accumulated profit for previous periods totaled RR 6,175,959 thousand. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly, management believes at present it would not be appropriate to disclose the amount for distributable reserves in this financial information. In 2005 no dividends for 2004 were declared in respect of 2004 earnings.

17 Provision for restoration liability

Movements in the provision for restoration liability during the year were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Balance at 1 January	**268,75**	**338,09**
Restoration costs incurred during the year	(45,80	(93,72
Increase in liability to passage of time	19,37	24,37
Total	**242,32**	**268,75**
Less: current portion of restoration liability	(31,90	(42,72
Non-current portion of restoration liability at 31 December	**210,42**	**226,03**

On 31 August 2002 the Group received a license № KEM00943 PP to restore the Vakhrusheva coal mine. The license holder has the right to extract coal of up to 670 thousand tones annually. In 2006 the license was extended through 2020. Management has estimated the restoration liability through 2020 based upon their interpretation of the license agreement and the environmental legislation and, in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets".

(in thousand RR, unless stated otherwise)

17 Provision for restoration liability (continued)

The provision for restoration liability represents the net present value of the estimated future obligation to restore land related to the Vakhrusheva coal mine. The discount rate used to calculate the net present values of the restoration liability at 31 December 2005 was 7.21 percent (31 December 2004: 7.21 percent), which is a pre-tax real rate and considered appropriate to the Group in the economic environment of the Russian Federation at the balance sheet date.

The corresponding net book value of the related asset of RR 301,770 thousand at 31 December 2005 (31 December 2004: RR 324,984 thousand) is recorded as Installations within property, plant and equipment.

18 Short-term loans and borrowings

Loans and borrowings by type may be analyzed as follows:

	31 December 2005	Effective interest rate	31 December 2004	Effective interest rate
RR denominated bank loans, fixed	2,146,788	8%	-	-
RR denominated bank loans, fixed	53,477	10%	-	-
RR denominated bank overdraft, fixed	478,347	8%	-	-
Other RR denominated borrowings, fixed	19,117	Interest free – 10%	572,000	7%
USD denominated bank loans, variable	129,518	6.3% – 7.19%	-	-
USD denominated bank loans, fixed	-	-	228,024	7%
Total short-term loans and borrowings	**2,827,247**		**800,024**	

As at 31 December 2005, short-term debt totalling RR 1,462,082 thousand (at 31 December 2004 - RR 223,584 thousand) included above was secured with a floating charge over assets of the Group. As separate loan agreements do not specify individual pledged assets, the carrying amount of pledged assets is not disclosed.

19 Trade and other payables

	31 December 2005	31 December 2004
Trade payables	323,015	185,828
Accounts payable – related parties	703,981	371,032
Wages and salaries payable	93,075	47,043
Advances received	29,255	67,073
Bank interest payable	5,722	6,010
Other accounts payable	108,573	44,979
Total trade and other payables	**1,263,621**	**721,965**

20 Taxes other than income tax payable

	31 December 2005	31 December 2004
VAT	210,199	436,464
Property tax	11,236	4,708
Unified social tax	21,654	10,010
Other taxes	15,877	23,272
Total taxes payable	**258,966**	**474,454**

(in thousand RR, unless stated otherwise)

21 Provision for tax claims

	VAT	Income tax	Penalty and interest	Total
Book value at 1 January 2004	**27,310**	**32,000**	**17,64**	**76,9**
Accruals recorded in statement of income	114,364	128,460	92,59	335,4
Purchased within business	334,008	136,387	-	470,3
Book value at 31 December 2004	**475,682**	**296,847**	**110,23**	**882,7**
Accruals recorded in statement of income	5,132	10,19	3,06	18,3
Purchased within business	9,974	11,52	6,94	28,4
Reversal of unutilised amounts	(475,682)	(296,84	(110,233	(882,76
Book value at 31 December 2005	**15,106**	**21,72**	**10,01**	**46,8**

All abovementioned provisions were classified as short-term liabilities as the Group has no unconditional right of deferral for their payment not less for a year after the reporting date. Provision for income tax claims is disclosed as Income tax expense in Statement of income.

Management has assessed, based on their interpretation of the relevant legislation that certain tax positions taken by the Group may not be sustained. Accordingly, for 2005 the Group additionally recorded the provision for tax claims in the amount of RR 18,391 thousand. Management believes the Group will not have any significant losses above the provision made at 31 December 2005.

According to the rulings of Arbitration courts and Resolutions of the appellate courts (Note 35) the Group reversed two provisions made in 2004: (1) unrealized provision amounting to RR 295,000 thousand (the provision was made in 2004 based on the fact that tax authorities challenged the recovery of export VAT), (2) unrealized provision amounting to RR 587,762 thousand (the provision was made in 2004 based on the fact the tax authorities challenged deductibility of charges relating to management services).

22 Revenue

	Year ended 31 December 2005	Year ended 31 December 2004
Domestic sales of coke	8,995,812	12,540,460
Domestic sales of coal concentrate	1,063,648	823,041
Domestic sales of vanadium	916,456	64,400
Domestic sales of coal reprocessing services	279,767	232,067
Domestic sales of powder metallurgy products	226,832	-
Domestic sales of coal	46,453	-
Domestic other sales	219,096	174,082
Total domestic sales	**11,748,064**	**13,834,050**
Export sales of vanadium	8,086,941	270,122
Export sales of coke	518,419	929,173
Export sales of coal concentrate	210,777	-
Export sales of ferroalloy	180,784	-
Export sales of chrome	144,426	-
Export sales of powder metallurgy products	139,726	-
Total export sales	**9,281,073**	**1,199,295**
Total revenues	**21,029,137**	**15,033,345**

23 Cost of sales

	Year ended 31 December 2005	Year ended 31 December 2004
Raw materials and supplies	13,144,116	5,183,794
Wages and salaries including associated taxes	948,348	495,873
Depreciation	362,212	205,185
Energy	351,488	139,631
Other services	66,852	80,498
Other expenses	306,995	86,063
Changes in finished goods	(8,981)	(5,688)
Total of cost of sales	**15,171,030**	**6,185,356**

(in thousand RR, unless stated otherwise)

24 Taxes other than income tax

	Year ended 31 December 2005	Year ended 31 December 2004
Property tax	36,644	22,340
Penalties and fines	39,750	5,181
Other taxes	165,720	43,174
Total taxes other than income tax	**242,114**	**70,695**

25 Distribution costs

	Year ended 31 December 2005	Year ended 31 December 2004
Transportation services	171,531	80,526
Other selling expenses	10,372	5,302
Total distribution costs	**181,903**	**85,828**

26 General and administrative expenses

	Year ended 31 December 2005	Year ended 31 December 2004
Wages and salaries including associated taxes	222,343	144,618
Purchased management services (see Note 31)	602,588	518,133
Other purchased services	71,446	22,387
Depreciation	17,240	9,518
Materials	29,118	14,092
Other	9,546	11,209
Total general and administrative expenses	**952,281**	**719,957**

27 Other income/(expenses), net

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Gain on financial instruments at fair value through profit and loss	12	294,536	56,321
Social payments and charity		(138,073)	(133,048)
Excess of fair value of net assets acquired over cost	30	69,501	-
(Accrual)/reverse of bad debt provision		(12,784)	709
(Accrual)/reverse of obsolete stock provision		(48,431)	4,018
Loss on disposal of property, plant and equipment		(41,883)	(32,459)
Dividend income		4,688	-
Other operating expenses, net		(22,989)	(11,171)
Total other income/(expenses), net		**104,565**	**(115,630)**

28 Finance (expenses)/income, net

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Interest income	15	174,493	79,2
Interest expense	18	(163,417)	(37,84
Exchange (losses)/gains, net		(58,349)	1,6
Finance (expenses)/income, net		**(47,273)**	**43,0**

(in thousand RR, unless stated otherwise)

29 Income tax expense

	Year ended 31 December 2005	Year ended 31 December 2004
Current income tax expense	1,141,103	1,967,344
Provision for income tax claims	(286,653)	128,460
Deferred income tax expense (benefit)	108,892	(14,618)
Income tax expense	**963,342**	**2,081,186**

Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Profit before taxation	**5,490,726**	**7,643,128**
Theoretical tax charge at statutory rate of 24%	1,317,774	1,834,351
Tax effect of items which are not deductible for taxation purposes		
Provision for tax claims (see Note 21)	(425,305)	178,129
Charity payments	33,138	31,932
Negative goodwill	(16,680)	-
Other non-deductible expenses	54,415	36,774
Total income tax expense	**963,342**	**2,081,186**

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24 percent.

	31 December 2004	Charge to statement of income	Purchase of subsidiary	31 December 2005
Deferred tax liabilities				
Property, plant and equipment	433,284	(35,241)	87,025	485,068
Financial assets at fair value through profit and loss	156	30,666	-	30,822
Financial assets available-for- sale	46,599	(1,634)	-	44,965
Investments in associates	-	89,738	-	89,738
Inventories	15,561	14,748	-	30,309
Other	-	(200)	-	(200)
Total deferred tax liabilities	**495,600**	**98,077**	**87,025**	**680,702**
Deferred tax assets				
Restoration liability	(64,500)	6,342	-	(58,158)
Losses carried forward	(26,597)	13,237	-	(13,360)
Inventories	(5,403)	10,043	(7,387)	(2,747)
Accounts receivable	(4,183)	(9,009)	(4,208)	(17,400)
Accounts payable	(1,608)	(4,574)	-	(6,182)
Rent	(2,417)	(3,865)	-	(6,282)
Other	(1,138)	(1,359)	(951)	(3,448)
Total deferred tax assets	**(105,846)**	**10,815**	**(12,546)**	**(107,577)**
Total deferred tax liabilities, net	**389,754**	**108,892**	**74,479**	**573,125**

(in thousand RR, unless stated otherwise)

29 Income tax expense (continued)

	1 January 2004	Charge to statement of income	Purchase of subsidiary	31 December 2004
Deferred tax liabilities				
Property, plant and equipment	420,125	(29,62	50,1	440,6
Financial assets at fair value through profit and loss	38,457	8,29	-	46,7
Inventories	917	7,28	-	8,1
Total deferred tax liabilities	**459,499**	**(14,04**	**50,1**	**495,6**
Deferred tax assets				
Restoration liability	(81,132)	16,63	-	(64,50
Losses carried forward	(11,494)	(15,10	-	(26,59
Inventories	(8,153)	2,75	-	(5,40
Accounts receivable	(3,682)	(501)	-	(4,18
Accounts payable		(1,60	-	(1,60
Other	2,618	(2,74	(3,43	(3,55
Total deferred tax assets	**(101,843)**	**(570)**	**(3,43**	**(105,84**
Total deferred tax liabilities, net	**357,656**	**(14,61**	**46,7**	**389,7**

The Group did not record the deferred tax liabilities with regard to taxable temporary differences amounting to RR 563,508 thousand (2004: RR 172,486 thousand) related to investments in subsidiaries, i.e. the Group is able to control the reversal of temporary differences and does not intend to realize them in foreseeable future.

30 Business combination

During 2005, the Company, through a series of transactions with related and external parties directly acquired an additional 41 percent (40 percent of voting shares) of OAO Polema increasing its direct ownership interest to 67 percent (67 percent of voting shares). Total purchase consideration paid for these additional shares amounted to RR 655,570 thousand and was paid during 2005. Total cost of this acquisition on the date of the control transfer to the Company was RR 305,642 thousand and the cost of the subsequently acquired shares amounted to RR 349,928 thousand (net of cash of the acquired company).

In addition, during 2005 the Group additionally acquired 32 percent (38 percent of voting shares) of OAO Vanadiy Tula increasing its ownership interest to 76 percent (90 percent of voting shares). Total purchase consideration paid for these additional shares amounted to RR 550,424 thousand and was paid in 2005. As a result of this transaction the Group additionally acquired effective 7 percent (7 percent of voting shares) of OAO Polema (the shares are held by OAO Vanadiy Tula)

At 31 December 2004 the Group held effective interest in OAO Polema of 8 percent (8 percent of the voting shares) through OAO Vanadiy Tula. At 31 December 2005 the Group increased its effective interest in OAO Polema (held through OAO Vanadiy Tula) to 15 percent (15 percent of the voting shares) through acquisition of additional ownership interest in OAO Vanadiy Tula in 2005 (see above and also see Note 1).

The control over OAO Polema was obtained on 29 March 2005 and accordingly, the purchase method of accounting has been applied as of this date. The acquired business contributed revenues for the period from 29 March 2005 through 31 December 2005 amounted to RR 713,475 thousand and profit amounted to RR 69,754 thousand from the date of acquisition. If the acquisition had occurred on 1 January 2005 the Group revenue would have been RR 21,239,179 thousand and profit for 2005 would amount to RR 4,661,439 thousand.

(in thousand RR, unless stated otherwise)

30 Business combination (continued)

Below is the information about the acquired assets and liabilities and goodwill arising on acquisition:

	Book value under IFRS before business combination	Related fair value
Cash and cash equivalents	2,152	2,1
Property, plant and equipment	380,306	380,3
Trade and other receivables	158,767	158,7
Inventories	199,345	199,3
Other non-current assets	212	212
Bank loans and borrowings	(279,758)	(279,75
Trade payable and other accounts payable	(85,013)	(85,01
Taxes payable	(10,694)	(10,69
Other liabilities	(82,714)	(82,71
Fair value of net assets of a subsidiary	**282,603**	**282,6**
Less: minority interest		(115,87
Less: earlier acquired ownership interest		(3,24
Fair value of the acquired share in net assets of a subsidiary		**163,4**
Goodwill associated with acquisition		621,0
Total purchase consideration		**784,5**
Less: book value of investments in the acquired company prior to acquisition date		(478,91
Less: cash and cash equivalents held by the acquired subsidiary		(2,15
Cash outflow and cash equivalents on acquisition		**303,4**

The goodwill is attributable to expected high profitability of the acquired business and the significant synergies expected to arise and savings on costs.

In 2005 the Group acquired 100% of OOO Attik-Invest. Total purchase consideration amounted to RR 10,015 thousand and was paid in 2005. The control was obtained on 1 April 2005, accordingly, the purchase method of accounting has been applied from this date. From the date of acquisition through 31 December 2005 the acquired subsidiary's loss included in the consolidated profit for the period amounted to 1,540 thousand. If the acquisition had occurred on 1 January 2005 the Group's revenues would amount to RR 21,037,525 thousand and profit for 2005 would amount to RR 4,672,764 thousand.

Below is the information about the acquired assets and liabilities and goodwill arising on acquisition:

	Book value under IFRS before business combination	Related fair value
Cash and cash equivalents	6	6
Property, plant and equipment	42,8	42,80
Trade and other receivables	1,8	1,87
Bank loans and borrowings	(15,6	(15,60
Trade payable and other accounts payable	(196)	(196)
Other liabilities	(7,2	(7,20
Fair value of net assets of a subsidiary	**21,6**	**21,67**
Fair value of the acquired share in net assets of a subsidiary		**21,67**
Excess of fair value of net assets acquired over cost		(11,661
Total purchase consideration		**10,01**
Less: cash and cash equivalents held by the acquired subsidiary		(6)
Cash outflow and cash equivalents on acquisition		**10,00**

Excess of fair value of net assets acquired over cost is recognized in Other income, net.

(in thousand RR, unless stated otherwise)

30 Business combination (continued)

During 2005 the Group acquired 100% of OOO Consultinvest 2000. Total purchase consideration amounted to RR 5,389 thousand and was paid in 2005. The control was obtained on 30 April 2005, accordingly, the purchase method of accounting has been applied from this date. From the date of acquisition through 31 December 2005 the acquired subsidiary's profit included in the consolidated profit for the period amounted to RR 2,548 thousand. If the acquisition had occurred on 1 January 2005 the Group's revenues would amount to RR 21,055,611 thousand and profit for 2005 would amount to RR 4,707,735 thousand.

Below is the information about the acquired assets and liabilities and goodwill arising on acquisition:

	Book value under IFRS before business combination	Related fair value
Cash and cash equivalents	590	590
Property, plant and equipment	112,5	112,52
Trade and other receivables	10,6	10,61
Bank loans and borrowings	(43,21	(43,218
Trade payable and other accounts payable	(5,39	(5,392
Taxes payable	(254)	(254)
Other liabilities	(15,97	(15,979
Fair value of net assets of a subsidiary	**58,8**	**58,88**
Fair value of the acquired share in net assets of a subsidiary		**58,88**
Excess of fair value of net assets acquired over cost		(53,497
Total purchase consideration		**5,38**
Less: cash and cash equivalents held by the acquired subsidiary		(590)
Cash outflow and cash equivalents on acquisition		**4,79**

Excess of fair value of net assets acquired over cost is recognized in Other income, net.

During 2005 the Group founded the wholly-owned company OOO Investment Company Turachermet. Total investments were RR 10 thousand.

Comparative data

During 2004, the Group, through a series of transactions with related and external parties acquired an additional 29% (33 percent of voting shares) of OAO Vanadiy Tula increasing its ownership interest to 44 percent (52 percent of voting shares). Total purchase consideration amounted to RR 593,081 thousand and was paid during 2003 and 2004. The control was obtained on 10 December 2004, and accordingly, the purchase method of accounting has been applied for this date. The acquired business contributed revenues of RR 334,521 thousand and net loss of RR 92,347 thousand for the period from 10 December 2004 to 31 December 2004. If the acquisition had occurred on 1 January 2004 the Group revenue would amount to RR 18,690,390 thousand and profit before taxation for 2004 would amount to RR 7,598,587 thousand.

The goodwill is attributable to expected high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of OAO Vanadiy Tula.

(in thousand RR, unless stated otherwise)

30 Business combination (continued)

Below is the information about the acquired assets and liabilities and goodwill arising on acquisition:

	Book value under IFRS before business combination	Related fair value
Property, plant and equipment	399,821	399,821
Investments in associates	213,989	213,989
Available-for-sale financial assets	12,316	12,316
Inventories	395,703	395,703
Trade and other receivables	496,058	496,058
Cash and cash equivalents	38,597	38,597
Trade and other payables	(462,564)	(462,564)
Taxes payable	(9,161)	(9,161)
Tax provisions	(175,395)	(175,395)
Short-term loans	(635,660)	(635,660)
Deferred tax liabilities - net	(46,716)	(46,716)
Fair value of net assets of a subsidiary	**226,988**	**226,988**
Less: minority interest		(127,238)
Fair value of the acquired share in net assets of a subsidiary		**99,750**
Goodwill associated with acquisition		433,237
Total purchase consideration		**532,987**
Less: book value of investments in the acquired company prior to acquisition date		139,306
Less: cash and cash equivalents held by the acquired subsidiary		38,597
Cash outflow and cash equivalents on acquisition		**355,084**

31 Balances and transactions with related parties

For the purposes of these financial statements parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The information about the party, which exercises the ultimate control over the Company is disclosed in Note 1.

(in thousand RR, unless stated otherwise)

31 Balances and transactions with related parties (continued)

Transactions between the related parties, companies under common control and related balances for the year ended 31 December 2005 are as follows:

Accounts receivable and accounts payable - related parties

	Companies under common control	Associates	Total
Trade and other receivables:			
Trade receivable	322,616	22,671	345,287
Other accounts receivable	2,191	20,146	22,337
Loans issued	22,846	418,946	441,792
Interest on loans issued	128	2,792	2,920
Loans received	19,117	-	19,117
Current accounts payable:			
Trade payable and other payables	676,890	27,091	703,981

Transactions with related parties

	Companies under common control	Associates	Total
Domestic sales of goods:			
Sales of coke	34,766	6,120,75	6,155,5
Sales of vanadium	916,456	-	916,4
Chrome reprocessing services	-	18,00	18,0
Other sales	8,674	52,07	60,7
Export sales of goods:			
Sales of vanadium	1,084,982	-	1,084,9
Sales of chrome	143,272	-	143,2
Sales of powder metallurgy products	124,037	-	124,0
Other income:			
Interest receivable	3,782	52,90	56,6
Purchases of goods and services:			
Purchase of raw materials and suppliers	(7,274,538)	(87,96	(7,362,5
Purchase of other services	(4,652)	(10,14	(14,7
Purchase of energy	-	(148,90	(148,9
Other production expenses	-	(17,76	(17,7
Distribution expenses	(1,204)	(8,34	(9,5
Purchase of management services	(602,588)	-	(602,5
Other general and administrative expenses	(35)	(28,45	(28,4
Other operating income/(expenses), net	(180)	1,60	1,4

Comparative data

Transactions between the related parties, companies under common control and related balances for the year ended 31 December 2004 are as follows:

Accounts receivable and accounts payable - related parties

	Companies under common control	Associates	Total
Trade and other receivables:			
Trade receivable	65,770	294,251	360,021
Loans granted to the related parties	243,862	-	243,862
Other accounts receivable	33,281	600	33,881
Non-convertible bonds in Russian Rubles	320	80,041	80,361
Current accounts payable:			
Trade payables	405,322	5,410	410,732

(in thousand RR, unless stated otherwise)

31 Balances and transactions with related parties (continued)

Transactions with related parties

	Companies under common control	Associates	Total
Sales of goods:			
Sales of coke and coal concentrate	123,251	8,864,383	8,987,634
Sales of vanadium	246,825	-	246,825
Purchase of goods and services:			
Purchase of management services	518,133	-	518,133
Purchase of raw materials and supplies	329,948	-	329,948
Purchase of other services	9,599	14,167	23,766
Purchase of goods	-	1,705	1,705

Key management personnel payments

Payments to key management personnel included in general and administrative expenses in the statement of income amounted to RR 10,902 thousand for the year ended 31 December 2005 (RR 13,220 thousand for the year ended 31 December 2004). The number of management personnel to which the compensation relates is nine for the year ended 31 December 2005 and eight for the year ended 31 December 2004.

Guarantees issued

At 31 January 2005 and 31 December 2004, guarantees issued to related parties totaled RR 575,650 thousand and RR 394,241 thousand, respectively.

32 Significant non-cash activities

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Acquisition of property, plant and equipment in the form of mutual settlements	(56,723)	(62,685)
Proceeds from disposal of property, plant and equipment in the form of mutual settlements	-	394
Capitalized depreciation	60,696	35,346
Redemption of other borrowings	(560,000)	-
Other	720	-
Non-cash activities	(555,307)	(26,945)

33 Contingencies, commitments and operating risks

Commitments

At 31 December 2005, the Group had no material contractual commitments for the purchase of property, plant and equipment.

Taxes

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As discussed in Note 21, the Group reversed a provision amounting to RR 587,762 thousand (the provision was made in 2004 based on the fact the tax authorities challenged deductibility of charges relating to management services) because in March 2006 the Company was successful in appellate court with regard to its position on deducting these charges for 2004. However, the Group believes that there is a possible risk that the tax authorities will challenge the deductibility of charges for other companies of the Group and for other periods. The amount of VAT and income tax charge for tax exposures which are possible approximates RR 890,487 thousand. Accordingly no provision has been recognized in these consolidated financial statements.

During 2005 the tax authorities partially rejected recovery of input VAT related to export sales claiming the non-payment of output VAT by the suppliers of raw material (vanadium slag) and the unjustified overvaluation of its purchase price. In 2005 the Group challenged this position in the court. Currently the Group believes that probability of additional tax charges is possible and the estimated amount of VAT and income tax charge is RR 878,965 thousand. Accordingly no provision has been recognized in these consolidated financial statements.

The Russian transfer pricing rules, which were introduced from 1 January 1999, provide the possibility for the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to certain controllable transactions, provided that the tax authorities prove that the transaction price established by the parties differs from the market price by more than 20%.

The controllable transactions include transactions with inter-related parties (in the RF Tax code terms), all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time. There is no formal guidance as to how these rules should be applied in practice.

The form of the Group intercompany transactions would generally meet the literal requirements of the applicable tax legislation and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of the Russian transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reasonably estimated.

At 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements. The accrual for these matters at 31 December 2005 and 31 December 2004 is RR 46,842 thousand and RR 882,762 thousand, respectively, and is included in provision for tax claims.

Insurance policies

At 31 December 2005 the Group held limited insurance policies in relation to its assets and operations, or in respect of public liability or other insurable risks.

33 Contingencies, commitments and operating risks (continued)

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental claims.

Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as plaintiff and defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

Licenses

The Group is subject to periodic reviews of its activities by governmental authorities with respect to compliance with the requirements of its coal mining licenses. The Group's management responds in an expedient manner and provides the reports based on the reviews results, if necessary, cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations, elimination of weaknesses or corrective actions. The management believes that these issues will be resolved without any materially adverse effect on the Group's financial position, results of operations or cash flows.

The Group's coal fields are situated on land belonging to the Kemerovo Regional Administration. Licenses are issued by the Russian Ministry of Natural Resources and the Group pays unified production tax to explore and produce coal from these fields.

License holder	Field	Expiry date	Coal reserves: ABC1C2 (in mln. tones)
OOO Gornyak	Abramovsky area of Glushinsky coal field (mine Romanovskya-1)	April 2022	22
OOO Butovskaya mine	Butovskoe-Zapadnoe and Chesnokovskoe areas of Kemerovo coal field (Mine Butovskaya)	January 2014	73
ZAO Sibirskie resursy	Kedrovsko-Krohalevskoe coal field (Mine Vladimirskaya)	March 2021	7
OOO Koksovuy area	Koksovuy area (Mine Vakhrusheva)	December 2020	7
OAO Koks	Nikitinsky area-2	September 2025	109
Total			**218**

Management believes the Group has the right to extend its licenses beyond the initial expiration date and intends to exercise this right.

Operating environment of the Group

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

34 Financial risks

Credit risks

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables and loans receivable. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is deposited in financial institutions, which are considered at time of deposit to have minimal risk of default.

Interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest-bearing short-term borrowings; the majority of which are at fixed interest rates. At 31 December 2005, 95% of the Group's loans bear fixed interest rates. The Group's significant interest bearing assets are disclosed in note 13. The majority of these assets bear fixed interest and are thus exposed to fair value interest rate risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Fair value

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date. Management is not able to measure the fair value of investments in available-for-sale securities reasonably. Therefore, these investments are recorded in the balance sheet at cost less impairment losses.

The carrying amounts of financial assets and liabilities with maturity of less than one year are assumed to approximate their fair values.

35 Events after the Balance Sheet Date

Dividends declared

During the annual general meeting held on 26 January 2006 the Company's shareholders declared dividends for 2005 in the amount of RR 1,000,041 thousand or RR 606 per share. On 1 June 2006 the Company paid dividends in the amount of RR 994,736 thousand.

New subsidiary

In March 2006 OAO Polema set up a wholly-owned subsidiary ZAO Polema (Switzerland) S.A. with a share capital of 100,000 Swiss francs. The subsidiary will be involved in trading activities.

Acquisition of subsidiaries

In April 2006 the Group increased its interest in ZAO PO Rezhnikel from 20 percent (20% voting interest) to 53 percent (53% voting interest) for a total consideration of RR 165,415 thousand. The Group's management is currently reviewing the allocations of fair value of the acquired assets and liabilities.

35 Events after the Balance Sheet Date (continued)

During 2006 the Group, through a series of purchase transactions, increased its interest in OAO Polema from 82% (82 voting interest) to 89% (89 voting interest) for total consideration of RR 106,957 thousand.

In April 2006 the Group purchased 100 percent of OOO Managing Company "Industrial Metallurgical Holding", which principal activities include management of entities under common control, trade, intermediary, advertising activities for a total purchase consideration of RR 83,916 thousand. Management is currently reviewing allocations of fair value of the acquired assets and liabilities.

Legal proceedings

In March 2006 the Group was successful in appellate court with regard to its position on deducting charges relating to management services. Based on the decision of Arbitration court and Resolution of the appellate court the Group reversed provision for income tax amounting to RR 587,762 thousand (Note 21).

In April 2006 the Group was successful in appellate court with regard to its position on recovery of export VAT. Based on the decision of Arbitration court and Resolution of the appellate court the Group reversed provision for VAT amounting to RR 295,000 thousand (Note 21).

Bonds issue

On 20 July 2006 the Company placed its Rouble denominated bonds with a face value of RR 3 billion. The coupon rate is 8.95% per annum and the coupon interest is paid semi-annually. The bonds mature on 16 July 2009.