OAO Belon and subsidiaries

Consolidated Financial Statements
for the year ended
31 December 2007

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Independent Auditors' Report

To the Board of Directors

OAO Belon

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that the US dollar amounts in the accompanying supplementary information to the consolidated financial statements, which are presented solely for the convenience of users as described on page 40, do not form part of the consolidated financial statements and are unaudited.

KPMG Limited

KPMG Limited

26 April 2008

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

Mln RUR	Note	2007	Restated 2006
Revenue		**13,557**	**10,430**
Cost of sales		(10,255)	(8,267)
Gross profit		**3,302**	**2,163**
Distribution expenses		(1,062)	(1,180)
Administrative expenses		(474)	(288)
Taxes, other than on profit		(169)	(155)
Net income from bank lending operations	5	65	30
Other operating expenses	6	(375)	(301)
Operating profit		**1,287**	**269**
Negative goodwill		-	1,316
Financial income	8	92	84
Financial expenses	8	(400)	(260)
Share of profits in associates		3	13
Profit before tax		**982**	**1,422**
Income tax expense	9	(323)	(163)
Net profit for the year		**659**	**1,259**
Basic and diluted earnings per share (RUR per share)	18	57.30	117.12

These consolidated financial statements were approved by the Board of Directors on 26 April 2008 and were signed on their behalf by:

General Director

Dobrov A. P.

Acting Chief Financial Officer

Vostretsov D. G.

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 39.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

Mln RUR	Note	2007	Restated 2006
ASSETS			
Non-current assets			
Property, plant and equipment	10	19,050	13,252
Intangible assets		19	6
Investments in associates	11	9	69
Investments in joint ventures		32	31
Other investments	12	215	39
Deferred tax assets	13	21	60
Other non-current assets	17	10	10
		19,356	**13,467**
Current assets			
Other investments	12	650	616
Inventories	14	3,120	1,706
Trade and other receivables	15	2,019	2,138
Cash and cash equivalents	16	818	387
		6,607	**4,847**
Total assets		**25,963**	**18,314**
EQUITY AND LIABILITIES			
Equity	18		
Share capital		37	37
Share premium		1,406	1,406
Retained earnings		7,975	7,404
Total equity attributable to shareholders of the Parent company		**9,418**	**8,847**
Non-current liabilities			
Bank customer accounts	19	104	106
Loans and borrowings	20	6,708	3,940
Deferred tax liabilities	13	1,324	1,360
Provisions	22	135	98
Other payables	21	-	82
		8,271	**5,586**
Current liabilities			
Bank customer accounts	19	462	300
Loans and borrowings	20	4,607	2,427
Trade and other payables	21	3,205	1,154
		8,274	**3,881**
Total equity and liabilities		**25,963**	**18,314**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 39.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

	2007	Restated 2006
Mln RUR		
OPERATING ACTIVITIES		
Net profit for the year	**659**	**1,259**
Adjustments for:		
Depreciation	1,008	830
Loss on disposal of property, plant and equipment	56	132
Share of profits in associates	(3)	(13)
Negative goodwill	-	(1,316)
Interest expense	400	257
Interest income	(55)	(61)
Income tax expense	323	163
Operating profit before changes in working capital and provisions	**2,388**	**1,251**
Increase in inventories	(1,326)	(638)
Decrease/(increase) in trade and other receivables	107	(185)
Decrease/(increase) in other non-current assets	-	(2)
Increase in loans to bank customers and credit institutions	(182)	(140)
Increase in bank customer accounts	160	80
Increase/(decrease) in trade and other payables	1,752	(246)
Increase in provisions	37	35
Cash flows from operations before income taxes and interest paid	**2,936**	**155**
Income taxes paid	(302)	(185)
Interest paid	(985)	(534)
Cash flows from/ (utilised by) operating activities	**1,649**	**(564)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	145	36
Interest received	55	61
Net increase in investments	35	343
Development expenditure	(1,832)	(826)
Acquisition of property, plant and equipment	(4,066)	(2,834)
Acquisition of subsidiaries, net of cash acquired	-	(524)
Acquisition of intangible assets	(13)	(6)
Acquisition of minorities	(8)	-
Cash flows utilised by investing activities	**(5,684)**	**(3,750)**
FINANCING ACTIVITIES		
Shares issued	-	1,407
Proceeds from borrowings	10,838	12,913
Repayment of borrowings	(6,146)	(10,126)
Payment of finance lease liabilities	(146)	(106)
Dividends paid	(80)	(333)
Cash flows from financing activities	**4,466**	**3,755**
Net increase/ (decrease) in cash and cash equivalents	**431**	**(559)**
Cash and cash equivalents at beginning of year	387	946
Cash and cash equivalents at end of year	**818**	**387**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 39.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to shareholders of the Parent Company				
Mln RUR	Share capital	Share premium	Retained earnings	Total	Total equity
Balance at 1 January 2006 as previously reported	**36**	**-**	**6,477**	**6,513**	**6,513**
Impact of change in accounting policy (note 3(S))	-	-	1	1	1
Balance at 1 January 2006 (restated)	**36**	**-**	**6,478**	**6,514**	**6,514**
Net profit for the year (restated)	-	-	1,259	1,259	1,259
Total recognised income and expenses for the year	-	-	1,259	1,259	1,259
Shares issued	1	1,406	-	1,407	1,407
Dividends to shareholders	-	-	(333)	(333)	(333)
Balance at 31 December 2006 (restated)	**37**	**1,406**	**7,404**	**8,847**	**8,847**
Balance at 1 January 2007	**37**	**1,406**	**7,404**	**8,847**	**8,847**
Net profit for the year	-	-	659	659	659
Total recognised income and expenses for the year	-	-	659	659	659
Acquisition of minorities	-	-	(8)	(8)	(8)
Dividends to shareholders	-	-	(80)	(80)	(80)
Balance at 31 December 2007	**37**	**1,406**	**7,975**	**9,418**	**9,418**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. BACKGROUND

(A) ORGANISATION AND OPERATIONS

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

The Parent Company’s registered office is:

56 Bogdana Khmelnitskogo str., Novosibirsk, Russian Federation.

The Group’s principal areas of activity are:

- Coal mining and refining;
- Metal trading.

These products are sold in the Russian Federation and abroad.

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

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

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

In 2007 the Group was ultimately controlled by a single individual, present General Director of the Group Mr. Andrey Dobrov, who had the power to direct the transactions of the Group at his own discretion and for his own benefit. Related party transactions are detailed in note 26. Following disposal of part of Mr. Dobrov’s interest in the shares of the parent company, subsequent to the year end, there is no single ultimate controlling party of the Group.

(B) RUSSIAN BUSINESS ENVIRONMENT

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

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

(B) BASIS OF MEASUREMENT

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

The consolidated financial statements of the Group as at and for the year ended 31 December 2007 are available upon request from the Company's registered office located at 56 Bogdana Khmelnitskogo str., Novosibirsk, Russian Federation or at www.belon.ru.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest million unless otherwise stated.

(D) CONVENIENCE TRANSLATION

In addition to presenting the consolidated financial statements in RUR, supplementary information in USD has been presented for the convenience of users of the financial statements.

All amounts in the supplementary information to consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 31 December 2007 of RUR 24.5452 to one USD.

(E) USE OF JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimated are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

Note 10 – mining assets;

Note 22 – provisions;

Note 25 – contingencies.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(A) to 3(U). These accounting policies have been consistently applied except for the change in accounting policy described in note 3(S).

(A) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Special purpose entities

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

(iii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

(iv) Transactions eliminated on consolidation

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

(B) FOREIGN CURRENCIES

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

(C) FINANCIAL INSTRUMENTS

(i) Non-derivative financial instruments

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

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer note 3(J)), and foreign exchange gains and losses on available-for-sale monetary items (refer note 3(B)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(D) SHARE CAPITAL

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

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

(E) PROPERTY, PLANT AND EQUIPMENT

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to qualifying assets are recognised as part of the cost of such assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are recognised net in “other income” in the income statement.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

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

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

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

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Leased assets are depreciated over the period of useful life which is determined in line with one applied to similar owned assets.

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

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

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

(iv) Exploration and evaluation assets and expenditure

Exploration and evaluation expenditure is recognised as an exploration and evaluation asset if the probability of success is high. Exploration and evaluation assets include acquisition of rights to explore, topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

The Group recognises each exploration and evaluation asset at cost and as tangible (within properly, plant and equipment) or intangible based on the nature of the asset.

After initial recognition, the Group annually assesses tangible and intangible exploration and evaluation assets for impairment. Capitalisation ceases when exploration and evaluation activity ceases in the related area and capitalised costs are reclassified as tangible or intangible development assets and amortised according to the policy in paragraph (v) below.

(v) Development expenditure

The development of mineral resources to bring a mine to production levels of extraction and output, once exploration and evaluation activities have concluded is capitalised in construction in progress and on commencement of production transferred to mining assets. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Development cost capitalisation ceases when the mine output meets the volume and quality conditions required under the production licence. Capitalised development expenditure is depleted over the life of the related mineral reserve as described in 3(E)(iii).

(F) INTANGIBLE ASSETS

(i) Research and development

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

Development activities involve a plan or design for the production of new or substantially improved products and processes and are capitalised in accordance with the policy in 1(E)(v) above. Other development expenditure is recognised in the income statement when incurred.

(ii) Other intangible assets

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

(iii) Amortisation

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

(G) NEGATIVE GOODWILL

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

Negative goodwill is recognised immediately in the income statement.

(H) LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(I) INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Deferred drifting costs

The direct costs and attributable overheads of preparation of underground coal reserves (drifting) for production using advanced mining machinery are included in inventory and recognised as cost of sales on the unit of production basis of each coal drift.

(J) IMPAIRMENT

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed where there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(K) EMPLOYEE BENEFITS

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

(L) PROVISIONS

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

(i) Retirement benefits

The Group has committed by agreement with its employee representatives to provide a retirement benefits scheme to existing and former employees that work underground. The Group's net obligation in respect of this scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value. The discount rate used is the yield at the balance sheet date on government bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed annually by management using the projected unit credit method. Any gain or loss arising from the calculation of the retirement benefit obligation is fully recognised in the income statement.

(ii) Restructuring provision

A provision for restructuring is recognised when the Directors have approved a detailed and formal restructuring plan and the restructuring either has commenced or been announced publicly. Future operating costs are not provided for.

(iii) Site restoration

In accordance with the Group's published environment policy and applicable legal requirements, a provision for site restoration in respect of open pit and shaft mining and related tax effect is recognised when the extraction takes place.

(M) REVENUE

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

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

(ii) Services

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

(N) OTHER EXPENSES

(i) Lease payments

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

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

(ii) Social expenditure

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

(O) FINANCE INCOME AND EXPENSES

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(P) INCOME TAX EXPENSE

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill and negative goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

(Q) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. There are no potential dilutive instruments.

(R) SEGMENT REPORTING

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

Segment results include revenues, cost of sales, distributions costs, taxes other than income and net result from bank lending operations. Other items of the income statement are included in ‘unallocated expenses’. Segment assets and liabilities include property, plant and equipment, inventory, trade accounts receivable, trade accounts payable and provisions. Other items of the balance sheet are included in ‘unallocated assets’ and unallocated liabilities’.

(S) CHANGE IN ACCOUNTING POLICY

(i) Allocation of overhead expenses

In 2007 management changed the accounting treatment related to allocation of certain overheads between period costs and cost of production or construction at several production and construction sites of the Group. Due to the fact that major Group production and construction sites represent identifiable cost centres with general and financing activities being solely operated by the Parent Company, management considered it appropriate to make the allocation of overheads more consistent with the existing functional structure of the business. As a result, a portion of overhead expenses previously treated as period administrative costs incurred on production and construction sites was classified as cost of production or cost of construction depending of the operating status of the site. Comparatives were restated to reflect the changes. The effect is summarised in note 3(T) below.

(ii) Retirement and other long-term employee obligations

During 2007 the Group has started to recognise retirement and other long-term benefits for its employees on the balance sheet (refer notes 3(L)(i) and 22(A)) as opposed to its previously applied policy to recognise such cost in income as incurred. The change was due to additional knowledge and information that management obtained with regard to reliable measurement of related long-term liabilities.

Had no change in accounting policies have taken place the current period net profit would decrease by RUR 65 million.

(T) RECONCILIATION OF PREVIOUSLY REPORTED AND RESTATED FINANCIAL INFORMATION

The summary of changes resulted in restatement of comparative information described in note 3(S) is presented below.

	As previously reported	Note 1(S)(i)	Note 3(S)(ii)	As restated
Mln RUR				
As at 1 January 2006				
Property, plant and equipment	7,845	67	-	7,912
Provisions	-	-	(50)	(50)
Deferred tax liabilities	(839)	(16)	-	(855)
Retained earnings	(6,477)	(51)	50	(6,478)
Year ended 31 December 2006				
Property, plant and equipment	13,128	124		13,252
Provisions	(42)	-	(56)	(98)
Deferred tax liabilities	(1,330)	(30)		(1,360)
Retained earnings opening balance	**(6,477)**	**(51)**	**50**	**(6,478)**
Cost of sales	8,232	35	-	8,267
Administrative expenses	608	(320)	-	288
Distribution expense	949	231		1,180
Other operating expenses	297	-	4	301
Negative goodwill	-	-	-	(1,316)
Interest expense	259	(4)	2	257
Income tax expense	149	14	-	163
Net profit for the period	(1,222)	(43)	6	(1,259)
Retained earnings closing balance	**(7,366)**	**(94)**	**56**	**(7,404)**

(U) ADOPTION OF NEW STANDARDS AND INTERPRETATIONS

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- *IFRS 8 Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.
- Revised *IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

4. SEGMENT REPORTING

(A) BUSINESS SEGMENTS

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses (other than those included in cost of qualifying assets), corporate assets (primarily the Company's headquarter) and head office expenses, and income tax assets and liabilities.

The Group comprises the following main business segments:

- *Coal*. The extraction of thermal and coking coal, processing of extracted and purchased coal into a coal concentrate and sale of coal and coal concentrate used in power and steel industries, as well as research and development activities in this area.
- *Metals*. The purchase and re-sale of steel and other metal products from steel production companies to ultimate customers in Russia.

Other operations include sales of red bricks and banking operation.

	Coal		Metals		Other operations		Eliminations		Consolidated	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Mln RUR										
Revenue from external customers	7,137	5,490	6,071	4,720	349	220	-	-	13,557	10,430
Inter-segment revenue	-	-	180	143	-	-	(180)	(143)	-	-
Total revenue	7,137	5,490	6,251	4,863	349	220	(180)	(143)	13,557	10,430
Segment result	1,843	565	216	344	38	37	-	-	2,097	946
Unallocated expenses	-	-	-	-	-	-	-	-	(810)	639
Net financing expenses	-	-	-	-	-	-	-	-	(308)	(176)

	Coal		Metals		Other operations		Eliminations		Consolidated	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Mln RUR										
Share of profits in associates	-	-	-	-	3	13	-	-	3	13
Income tax expense	-	-	-	-	-	-	-	-	(323)	(163)
Net profit for the year	-	-	-	-	-		-	-	659	1,259
Segment assets	19,695	13,823	1,506	1,212	3,657	2,683	-	-	24,858	17,718
Investment in associates and joint ventures	-	-	-	-	41	100	-	-	41	100
Unallocated assets	-	-	-	-	-	-	-	-	1,064	496
Total assets	-	-	-	-	-	-	-	-	25,963	18,314
Segment liabilities	3,078	791	84	88	738	890	-	-	3,900	1,769
Unallocated liabilities	-	-	-	-	-	-	-	-	12,645	7,698
Total liabilities	-	-	-	-	-	-	-	-	16,545	9,467
Depreciation	1,085	799	-	-	71	60	-	-	1,156	859
Capital expenditure	6,795	3,596	-	-	360	460	-	-	7,155	4,056

(B) GEOGRAPHICAL SEGMENTS

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

5. NET INCOME FROM BANK LENDING OPERATIONS

	2007	2006
Mln RUR		
Interest and commission income	82	55
Interest expense	(25)	(23)
Net income before loan loss allowance	57	32
Change in loan loss allowance	8	(2)
	65	**30**

6. OTHER OPERATING EXPENSES

	2007	Restated 2006
Mln RUR		
Loss on disposal of property, plant and equipment	(56)	(132)
Charity and social expenses	(139)	(34)
Penalties	(1)	(4)
Actuarial expenses	(6)	(4)
Net change in bad debt provision and write off	(14)	(27)
Other items	(159)	(100)
	(375)	**(301)**

7. TOTAL PERSONNEL COSTS

	2007	2006
Mln RUR		
Wages and salaries	(1,302)	(1,166)
Contributions to State pension fund	(288)	(311)
Retirement benefit expense	(7)	(4)
	(1,597)	**(1,481)**

8. FINANCIAL INCOME AND EXPENSES

	2007	Restated 2006
Mln RUR		
Financial income		
Gain on disposal of investments	17	23
Foreign exchange gain	20	-
Interest income	55	61
	92	**84**
Financial expenses		
Interest expense	(400)	(257)
Foreign exchange loss	-	(3)
	(400)	**(260)**

9. INCOME TAX EXPENSE

	2007	Restated 2006
Mln RUR		
Current tax expense		
Current year	(320)	(202)
Deferred tax (charge) / benefit		
Origination and reversal of temporary differences	(3)	39
	(323)	**(163)**

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

Reconciliation of effective tax rate:

	2007		Restated 2006	
Mln RUR		%		%
Profit before income tax	982	100	1,422	100
Income tax at applicable tax rate	(236)	(24)	(341)	(24)
Unrecognised tax assets	(28)	(3)	(55)	(4)
Underprovided in prior years	(12)	(1)	-	-
Recognition of previously unrecognised deferred tax asset	66	7	-	-
Non-taxable / (non-deductible) items, net	(113)	(12)	233	16
	(323)	(33)	**(163)**	(12)

10. PROPERTY, PLANT AND EQUIPMENT

	Mining assets	Land and buildings	Plant and equipment	Transport	Other	Construction in progress	Total
Mln RUR							
Cost							
At 1 January 2006 (restated)	**3,282**	**896**	**2,381**	**135**	**357**	**2,000**	**9,051**
Acquisitions through business combinations	1,968	46	224	3	2	99	2,342
Additions and transfers	73	128	683	2	60	3,110	4,056
Disposals	(11)	(75)	(158)	(5)	(9)	(22)	(280)
Investment in joint venture	-	-	-	-	-	(31)	(31)
At 31 December 2006 (restated)	**5,312**	**995**	**3,130**	**135**	**410**	**5,156**	**15,138**
Acquisitions through business combinations	-	-	-	-	-	-	-
Additions and transfers	266	553	2,193	276	17	3,850	7,155
Disposals	(29)	(11)	(359)	(1)	(5)	(1)	(406)
At 31 December 2007	**5,549**	**1,537**	**4,964**	**410**	**422**	**9,005**	**21,887**
Depreciation and impairment losses							
At 1 January 2006	**(171)**	**(197)**	**(629)**	**(46)**	**(55)**	**(41)**	**(1,139)**
Depreciation charge	(290)	(59)	(411)	(14)	(85)	-	(859)
Disposals	1	26	71	2	3	9	112
At 31 December 2006	**(460)**	**(230)**	**(969)**	**(58)**	**(137)**	**(32)**	**(1,886)**
Depreciation charge	(364)	(73)	(601)	(45)	(73)	-	(1,156)
Disposals	9	2	189	1	4	-	205
At 31 December 2007	**(815)**	**(301)**	**(1,381)**	**(102)**	**(206)**	**(32)**	**2,837**
Net book value							
At 1 January 2006 (restated)	**3,111**	**699**	**1,752**	**89**	**302**	**1,959**	**7,912**
At 31 December 2006 (restated)	**4,852**	**765**	**2,161**	**77**	**273**	**5,124**	**13,252**
At 31 December 2007	**4,734**	**1,236**	**3,583**	**308**	**216**	**8,973**	**19,050**

(A) FAIR VALUE OF MINING ASSETS AQUIRED THROUGH BUSINESS COMBINATIONS

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

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

Consequently the fair value of property, plant and equipment, other than mining assets, was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

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

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

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

- Cash flows were projected based on actual operating results at the date of each valuation and a business plan covering the period from the date of valuation until full extraction of coal reserves. The periods of extraction were estimated as 7 years for mine Chertinskaya and 21 years for mines Chertinskaya-Yuzhnaya and Novaya-2.
- Total coal extraction volumes at the mines were projected as follows. Mine Chertinskaya: 1.1 million tons per year in 2006 with gradual growth in production output up to 2 million tons in 2009 with stable output until full extraction of the reserve by the end of 2012. Mines Chertinskaya-Yuzhnaya and Novaya-2: 0.4 million tons per year in 2006 with an increase in production output up to 1.5 million tons in 2009 with stable output until full extraction of the coal reserve in 2027.
- A discount rate of 14.1% for mine Chertinskaya and 17.4% for mines Chertinskaya-Yuzhanaya and Novaya-2 were applied in determining the coal reserves. The discount rates were estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 30% at a market interest rate of 7.2%. An additional specific risk of 3% increasing the discount rate for mines Chertinskaya-Yuzhnaya and Novaya-2 was imposed to reflect the uncertainty related to future development of an additional coal seam (refer below and note 25(A)).
- Prices used in assessing the discounted cash flows were not readily available on the market as the type of coal within the coal reserves of the acquired mines is rare ("Z"-type). The price for coal was assessed on the basis of the coal concentrate blends for sale on the market and adjusted for the average share of 'Z'-type coal in the blends and for processing costs required to bring the raw coal to the marketable coal concentrated. The pattern of future changes in coal prices was determined in line with the market analyst reports available at the dates of valuation. In assessing the price trends a cyclical decrease in market prices was expected from 2006 until 2009 with major drop in 2006 and gradual slowdown of the decrease rates from 2007 to 2009 and gradual increase in prices by 3% per year in subsequent period.

The fair value of the mining assets of mines Chertinskaya-Yuzhnaya and Novaya-2 included discounted cash flows related to an additional coal seam that is not yet covered by an appropriate mining license. This coal seam (which is ringfenced by other reserves over which the Group has the right to extract) was identified by management as an integral part of the business acquisition and, given the fact that this seam extends the period of extraction from an estimated 5 years to 21 years and 6 million tons to 23 million tons, is a critical component of the acquisition. Management anticipates developing this seam as part of the whole coal reserve related to the mines. Management believes that obtaining the licenses for the additional seam is highly probable due to the fact that other mines adjacent to the acquired seams are owned by the Group and it has become a matter of practice that a mining license for additional seams within the same coal reserve is granted to the entity developing the existing seams adjacent to a new seam. Expected costs of obtaining the license are included in the discounted cash flows related to the mining asset. Management plans to formally obtain the license in 2008 through the normal process of licensing in Russia. Nevertheless an uncertainty exists with regard to the mining asset recognised as part of the business combination (refer note 25(A)). Had management recorded the fair value of mining assets only covered by the existing coal extraction licenses, the value of the acquired coal reserves as at the date of acquisition would decrease by RUR 1,199 million.

(B) EXPLORATION AND EVALUATION EXPENDITURE

In the course of exploration and evaluation activities in 2007 the Group capitalised exploration and evaluation costs of RUR 62 million (2006: RUR 58 million). The total amount of exploration and evaluation costs capitalised as at 31 December 2007 was RUR 166 million (2006: RUR 104 million). These costs are included in construction in progress.

(C) SECURITY

Properties with a carrying amount of RUR 654 million have been pledged as security for bank loans (refer note 20).

(D) LEASED PLANT AND MACHINERY

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2007 the net book value of leased assets equipment was RUR 615 million (2006: RUR 275 million). The leased equipment secures lease obligations (refer note 20).

(E) CAPITALISATION RATE

In 2007 the Group has capitalised borrowing costs as part of the qualifying assets (refer note 20) in amount of RUR 585 million (2006: RUR 305 million) using a capitalisation rate of 9.4% (2006: 10.9%).

11. INVESTMENTS IN ASSOCIATES

	2007	2006
Mln RUR	**Mln RUR**	**Mln RUR**
Assets	114	523
Liabilities	(86)	(239)
Revenues	225	446
Net profit for the year	6	22

12. OTHER INVESTMENTS

Mln RUR	2007 Mln RUR	2006 Mln RUR
Non-current		
Available for sale equity securities stated at cost	29	28
Loans to other companies	-	7
Loans to bank customers	186	4
	215	**39**
Current		
Available for sale equity securities stated at cost	18	4
Held-to-maturity promissory notes	226	206
Loans to bank customers	290	378
Loans to credit institutions	116	28
	650	**616**

Promissory notes are redeemable with 3 months and bear interest of 6% p.a.

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

13. DEFERRED TAX ASSETS AND LIABILITIES

(A) RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
Mln RUR	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Property, plant and equipment	293	49	(1,627)	(1,436)	(1,334)	(1,387)
Intangible assets	6	7	(4)	(8)	2	(1)
Investments	1	1	(2)	(6)	(1)	(5)
Inventories	8	30	(222)	(146)	(214)	(116)
Trade and other receivables	32	22	-	-	32	22
Loans and borrowings	-	14	(5)	(3)	(5)	11
Trade and other payables	28	36	(26)	(27)	2	9
Provisions	17	10	-	-	17	10
Tax loss carry-forwards	198	157	-	-	198	157
Tax assets/(liabilities)	**583**	**326**	**(1,886)**	**(1,626)**	**(1,303)**	**(1,300)**
Set off of tax	(562)	(266)	562	266	-	-
Net tax liabilities	**21**	**60**	**(1,324)**	**(1,360)**	**(1,303)**	**(1,300)**

(B) UNRECOGNISED DEFERRED TAX ASSETS

	2007	2006
Mln RUR		
Tax effect of tax loss carry-forwards unrecognised	120	158

The tax losses expire in 2014-2015.

(C) UNRECOGNISED DEFERRED TAX LIABILITY

A temporary difference of RUR 3,415 million (2006: RUR 3,714 million) relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

14. INVENTORIES

	2007	2006
Mln RUR		
Raw materials and consumables	262	213
Finished goods and goods for resale	1,201	872
Deferred mine drifting	1,661	627
Allowance for inventory obsolescence	(4)	(6)
	3,120	**1,706**

Inventories with a carrying amount of RUR 721 million have been pledged as security for bank loans (refer note 20).

15. TRADE AND OTHER RECEIVABLES

	2007	2006
Mln RUR		
Trade accounts receivable	543	473
Value added tax receivable	740	682
Loans to Directors (note 26)	357	437
Prepayments	185	348
Income tax receivable	12	23
Receivables from associates	-	-
Other receivables	182	175
	2,019	**2,138**

As at 31 December 2007 a provision for doubtful debts of RUR 13 million was carried in respect of accounts receivable (2006: RUR 62 million).

The Group's exposures to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

16. CASH AND CASH EQUIVALENTS

	2007	2006
Mln RUR		
Cash in Roubles	290	171
Cash in foreign currencies:		
USD	417	18
EUR	1	2
Other cash equivalents	38	12
Settlement accounts at the Central Bank of Russia in Roubles	72	184
Cash and cash equivalents in the balance sheet and in the statement of cash flows	**818**	**387**

17. OTHER NON-CURRENT ASSETS

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

18. EQUITY

(A) SHARE CAPITAL AND SHARE PREMIUM

	2007	2006
Mln RUR		
Share capital of the Parent Company, nominal value	11	11
Inflation adjustment (note 2(B))	26	26
Share capital, as reported	37	37

(B) EARNINGS PER SHARE

	2007	Restated 2006
Net profit for year attributable to ordinary shareholders, RUR million	659	1,259
Number of ordinary shares in issue 1 January	11,500,000	10,000,000
Effect of 1,500,000 ordinary shares issued in July 2006	-	750,000
Weighted average number of shares in issue for the year	11,500,000	10,750,000
Earnings per share	RUR 57.30	RUR 117.12

(C) DIVIDENDS

In accordance with Russian legislation the Parent Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As of 31 December 2007 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 4,251 million) (2006: RUR 3,902 million).

At the Parent Company Board of Directors meeting on 4 April 2008 the Directors recommended a dividend of RUR 17.18 per share totalling RUR 198 million.

19. BANK CUSTOMER ACCOUNTS

	2007	2006
Mln RUR		
Non-current		
Customer accounts	104	106
Current		
Customer accounts	452	290
Deposits	10	10
	462	**300**

20. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

(A) NON-CURRENT LIABILITIES

Creditor	Terms of repayment	Currency	Effective interest rate, %	2007	2006
Mln RUR					
Secured loans					
Vneshtorgbank, fixed	2009	RUR	10.5	600	600
Vneshtorgbank, fixed	2009-2011	EUR	6.6	143	54
Vneshtorgbank, fixed	2008-2011	USD	8.0	313	403
MMB, fixed	2009	RUR	9.9	313	497
Finance lease, fixed	2008-2012	EUR	15.0 - 21.8	522	196
Raiffeisen, variable	2009	RUR	9.4	576	600
Other	2009-2010	RUR		57	81
Unsecured loans					
Bond issues	2009	RUR	9.5	3,500	1,500
Gasprombank, fixed	2008	RUR	9.3	220	-
Raiffeisen, variable	2013	RUR	5.6	1,800	-
HBV, variable	2016	EUR	5.2	349	-
Commerzbank, variable	2009	EUR	5.6	194	218
Other	2008-2009	RUR		92	35
				8,679	**4,184**
Less current portion				**(1,971)**	**(244)**
				6,708	**3,940**

In March 2007 the Group issued 2,000,000 unsecured non-convertible rouble-denominated bonds with the face value of 1,000 roubles maturing in February 2012 with ten coupons payable semi-annually. The coupon rate for the first five coupons is 9.25% p.a. The Group declared an offer to redeem the bonds in September 2009 when the new coupon rate will be determined.

(B) CURRENT LIABILITIES

Creditor	Currency	Effective interest rate, %	2007	2006
Mln RUR				
Secured loans				
Gasprombank, variable	RUR	9.4	351	-
Gasprombank, fixed	RUR	8.4	-	200
Ogresbank, variable	USD	7.2	125	-
Ogresbank, fixed	USD	10.0	201	-
PSB, fixed	RUR	10.5	213	21
Pariba, variable	RUR	9.2	70	97
Other	RUR		15	-
Unsecured loans				
Vneshtorgbank, fixed	RUR	9.6	783	1,155
PSB, fixed	RUR	8.8	359	395
TKB, variable	RUR	10.5	220	-
TKB, fixed	RUR	10.6	-	236
Citimist, variable	EUR	8.4	206	-
Other	RUR		-	65
			2,543	**2,169**
Current portion of long-term debt			1,971	244
Interest outstanding on long-term debt			93	14
			4,607	**2,427**

(C) DEBT REPAYMENT SCHEDULE

The table below analyses the Group's loans and borrowing into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity dated, based on the contractual undiscounted cash flows excluding interest payments except for interest outstanding at the balance sheet date and expected to be paid in the first year of maturity.

	2007	2006
Mln RUR		
During the first year	4,607	2,427
During the second year	4,704	2,471
During the third year	744	426
During the fourth year	737	421
During the fifth year	362	312
After five years	161	310
	11,315	**6,367**

(D) SECURITY

Bank loans are secured by the following:

- Machinery and equipment with a carrying amount of RUR 654 million – refer note 10.
- Inventory with a carrying amount of RUR 721 million – refer note 14.

The finance lease liabilities are secured by the leased assets (refer note 10(D))

(E) FINANCE LEASE LIABILITIES ARE PAYABLE AS FOLLOWS:

	2007			2006		
Mln RUR	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	174	26	148	89	20	69
Between one and five years	438	64	374	144	17	127
	612	**90**	**522**	**233**	**37**	**196**

21. TRADE AND OTHER PAYABLES

	2007	2006
Mln RUR		
Trade accounts payable	461	370
Payable to employees	174	122
Other taxes payable	287	213
Advances from customers	1,716	66
Income tax payable	16	9
Payables to associates	-	1
Other payables and accrued expenses	551	373
	3,205	**1,154**

Non-current payables in amount of RUR 82 million as at 31 December 2006 included the long-term portion of payables for equipment which were repaid ahead of payment schedule in full in 2007. The Group's exposure to liquidity and foreign currency risk related to trade and other payables is disclosed in note 23.

22. PROVISIONS

	2007	Restated 2006
Mln RUR		
Retirement benefit provision	23	22
Other long-term employee benefit provision	40	35
Site restoration provision	72	41
	135	**98**

(A) RETIREMENT BENEFIT PROVISION

The following assumptions have been used to calculated the retirement benefit provision

	2007	Restated 2006
Discount rate	9%	9%
Future rate benefit increase	5%	5%
Average expected annual staff turnover	15%	15%

The components in retirement benefit liabilities were as follows:

	2007	Restated 2006
Mln RUR		
Vested	10	10
Non-vested	13	12
Balance 31 December	**23**	**22**

The movements in the retirement benefit liabilities were as follows:

	2007	Restated 2006
Mln RUR		
Net liabilities at beginning of year	**22**	**21**
Amounts recognised in profit or loss:		
Interest cost	2	2
Paid during the period	(7)	(4)
Actuarial loss	6	3
Net liabilities at end of year	**23**	**22**

(B) OTHER LONG-TERM EMPLOYEE BENEFITS

	2007	Restated 2006
Mln RUR		
Balance 1 January	**35**	**29**
Change in provision during the year	5	6
Balance 31 December	**40**	**35**

Long-term employee benefits relate to lump-sum payments subject to qualifying conditions of service. Changes in provision are included in social expenses of other operating expense.

(C) PROVISION FOR SITE RESTORATION

	2007	2006
Mln RUR		
Balance 1 January	**41**	**-**
Acquired in a business combination	-	12
Provisions made during the year	35	29
Unwinding of the discount rate	(4)	-
Balance 31 December	**72**	**41**

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

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

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

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

23. FINANCIAL INSTRUMENTS

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

(A) CREDIT RISK

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

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

The maximum exposure to credit risk for trade receivables at reporting date by type of customer was:

	2007	2006
Mln RUR		
Metal	359	324
Coal	92	132
Other	92	17
Balance 31 December	**543**	**473**

There is no significant individual customer credit risk concentration. There was no significant individual "past due" trade receivables or other individual trade receivable balances that required impairment recognition at the end of current or prior financial year.

(B) LIQUIDITY RISK

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date, based on the contractual undiscounted cash flows including estimated interest payments.

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
Mln RUR						
Financial liabilities						
Bank loans	7,240	7,984	2,586	2,103	1,285	2,010
Unsecured bond issue	3,553	3,999	166	166	3,667	-
Finance lease liabilities	522	612	87	87	155	283
	11,315	12,595	2,839	2,356	5,107	2,293

(C) MARKET RISK

(i) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than RUR. The currency giving rise to this risk is primarily USD and EUR. Management does not hedge the Group's exposure to foreign currency risk.

The Group has the following assets and liabilities denominated in foreign currency:

	2007		2006	
	USD	EUR	USD	EUR
Mln RUR				
Cash and cash equivalents	417	1	18	2
Current loans and borrowings	(326)	(206)	-	-
Non-current loans and borrowings	(313)	(1,208)	(403)	(468)
Receivables	51	-	44	-
Payables	(313)	(379)	(459)	(145)
	(484)	**(1,792)**	**(800)**	**(611)**

The following exchange rates were applied at the respective balance sheet dates:

	2007	2006
RUR		
USD 1 equals	24.5452	26.3311
EUR 1 equals	35.9395	34.6965

A 10% strengthening (weakening) of RUR against the US dollar and Euro based on the Group's exposure at the balance sheet date would have increased (decreased) equity and net profit for the year by RUR 52 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

(ii) Interest rate risk

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

	2007	2006
Mln RUR		
Fixed		
Promissory notes held to maturity	226	206
Loans to bank customers and credit institutions	592	410
Bank customer accounts	(104)	(106)
Bank loans	(6,902)	(4,701)
Finance lease	(522)	(196)
Balance 31 December	**(6,710)**	**(4,387)**
Variable		
Bank loans	(3,891)	(915)
Balance 31 December	**(3,891)**	**(915)**

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

Fair value sensitivity analysis for fixed rate instruments

The Group does not recognise any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect equity or net profit for the year.

Cash flow sensitivity analysis for variable rate instruments

A decrease (increase) of one percentage point in interest rates based on the Group's exposure at the balance sheet date for 2007 would have increased (decreased) profit for the year by mln RUR 18. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(iii) Fair values

The Group estimates the fair value of its financial assets and liabilities not to be materially different from their current values. For receivables and payables with a remaining useful life of less than one year their notional amount is deemed to reflect their fair value. For loans and borrowings and all other financial instruments fair value is determined based on discounted future principal and interest cash flows.

The interest rates used to discount estimated cash flows, where applicable, are based on the market rates of instruments with similar market risk exposure:

Loans and borrowings	8%-11%
Lease obligations	17%-19%

(iv) Capital risk management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital. Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

(D) OTHER

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

24. COMMITMENTS

As at 31 December 2007 the Group had entered into contracts to purchase property, plant and equipment for RUR 2,331 million.

25. CONTINGENCIES

(A) OWNERSHIP OF COAL RESERVES ACQUIRED THROUGH BUSINESS COMBINATION

In 2006 the Group acquired the mining businesses of mines Chertinskaya-Yuzhnaya and Novaya-2. Part of the value assigned to the mining assets within the fair value assessment at the date of acquisition related to the coal reserves for which the title of ownership was not obtained with reference to the appropriate mineral extraction license (refer note 10). Management believes that the mining license will be obtained within the period normally required to obtain similar licenses. However, the outcome could differ from this assessment and the effect of including these coal reserves in the fair value of the mining asset on acquisition is disclosed in note 10.

(B) ENVIRONMENTAL CONTINGENCIES

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

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

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

(C) BANKRUPTCY LAW

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

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

(D) TAXATION CONTINGENCIES

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

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

(E) INSURANCE

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

26. RELATED PARTY TRANSACTIONS

(A) CONTROL RELATIONSHIPS

As at the balance sheet date the Parent Company's ultimate controlling party was Mr. Andrei Dobrov. On 13 March Magnitogorsk Iron & Steel Works (MMK) purchased 50% of Onarbay Enterprises Limited controlling 9,500,000 (or 82.6%) of the shares of OAO Belon. Another 50% of Onarbay Enterprises Limited is controlled by Sapwood Investments Limited whose ultimate beneficiary is Mr. Dobrov (refer note 28). As a result, Mr. Dobrov and MMK effectively own 41.3% of shares of the Parent Company each, the residual 17.4% are held by various minority shareholders.

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

(B) TRANSACTIONS WITH MANAGEMENT AND CLOSE FAMILY MEMBERS

(i) Management remuneration

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

	2007	2006
Mln RUR		
Salaries	107	75
Bonuses	22	47
Related social taxes	3	2

(ii) Other transactions

Loans to executive directors amounting to RUR 357 million (31 December 2006: RUR 437 million) are included in "trade and other receivables". The loans bear interest of 6% p.a.

During 2007 the Company has forgiven a loan to the General Director in the amount of RUR 100 million which is included in administrative expenses. On 4 April 2008, the Board of Directors approved further forgiving of the residual balance of RUR 357 million in two equal portions, first in May 2008, second in March 2009. The directors have decided that the amount to be forgiven will be recorded in the income statement in each respective financial year.

Deposits held by directors and key management in Group bank KB Belon as at 31 December 2007 amounted to RUR 97 million (31 December 2006: RUR 137 million).

(C) TRANSACTIONS WITH OTHER RELATED PARTIES

The Group had the following transaction and balances with related parties.

	2007	2007	2006	2006
Mln RUR	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Sales of goods	10	1	17	4
Sales of fixed assets	23	15	-	-
Purchases of raw materials and equipment	(1)	-	(2)	-
Purchases of services	(21)	(21)	(18)	(45)

27. SIGNIFICANT SUBSIDIARIES

		2007	2006
	Country of incorporation	Ownership/ voting	Ownership/ voting
OOO “Shakhta Chertinskaya-Koksovaya”	Russian Federation	100%	100%
OAO “Shakhta Novaya-2”	Russian Federation	100%	100%
OOO “Shakhta Chertinskaya-Yuzhnaya”	Russian Federation	100%	100%
ZAO “Shakhta Kostromovskaya”	Russian Federation	100%	100%
OOO “Razrez Novobachatsky”	Russian Federation	100%	100%
OAO “COF Belovskaya”	Russian Federation	100%	100%
OOO “Ugleobogashchenie”	Russian Federation	100%	100%
OOO “Shakhta Listvyazhnaya”	Russian Federation	100%	100%
OOO “OF Listvyazhnaya”	Russian Federation	100%	100%
OAO Belovopogruztrans	Russian Federation	99.96%	99.96%
OOO Belon-Geologiya	Russian Federation	51%	51%
OOO “LKZSM”	Russian Federation	100%	100%
ZAO “Mikrosfera”	Russian Federation	100%	51%
OOO “Belon-Metakon”	Russian Federation	100%	100%
OOO “Belon-Finance”	Russian Federation	100%	100%
OOO KB Belon	Russian Federation	99.79%	99.79%

28. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 13 March Magnitogorsk Iron & Steel Works (MMK) purchased 50% of Onarbay Enterprises Limited controlling 9,500,000 (or 82.6%) of the shares of OAO Belon.

On 4 April 2008, the Board of Directors recommended a dividend of RUR 17.18 per share totalling RUR 198 million (refer note 18(C)) and approved forgiving of the residual balance of loan given to the General Director in the amount of RUR 357 million (refer notes 15 and 26(B)i).

On 15 April Onarbay Enterprises Limited sent an offer to minority shareholders for the buyback of 2,000,000 shares (or 17.4%) of OAO Belon.

CONVENIENCE TRANSLATION

In addition to presenting the consolidated financial statements in RUR, supplementary information in USD has been presented for the convenience of users of the financial statements. Below are presented consolidated income statement, consolidated balances sheet, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 31 December 2007 translated from roubles to USD at the closing exchange rate at 31 December 2007 of RUR 24.5462 to USD 1.

(D) CONSOLIDATED INCOME STATEMENT

	2007	Restated 2006
Mln USD		
Revenue	**552**	**425**
Cost of sales	(418)	(337)
Gross profit	**135**	**88**
Distribution expenses	(43)	(48)
Administrative expenses	(19)	(12)
Taxes, other than on profit	(7)	(6)
Net income from bank lending operations	3	1
Other operating expenses	(15)	(12)
Operating profit	**52**	**11**
Negative goodwill	-	54
Financial income	4	3
Financial expenses	(16)	(11)
Share of profits in associates		1
Profit before tax	**40**	**58**
Income tax expense	(13)	(7)
Net profit for the year	**27**	**51**
Basic and diluted earnings per share (RUR per share)	2.33	4.77

(E) CONSOLIDATED BALANCE SHEET

	2007	Restated 2006
Mln USD		
ASSETS		
Non-current assets		
Property, plant and equipment	776	540
Intangible assets	1	-
Investments in associates	-	3
Investments in joint ventures	1	1
Other investments	9	2
Deferred tax assets	1	2
Other non-current assets	-	-
	789	**549**
Current assets	-	-
Other investments	26	25
Inventories	127	70
Trade and other receivables	82	87
Cash and cash equivalents	33	16
	269	**197**
Total assets	**1,058**	**746**
EQUITY AND LIABILITIES		
Equity		
Share capital	2	2
Share premium	57	57
Retained earnings	325	302
Total equity attributable to shareholders of the Parent company	**384**	**360**
Non-current liabilities		
Bank customer accounts	4	4
Loans and borrowings	273	161
Deferred tax liabilities	54	55
Provisions	5	4
Other payables	-	3
	337	**228**
Current liabilities	-	-
Bank customer accounts	19	12
Loans and borrowings	188	99
Trade and other payables	131	47
	337	**158**
Total equity and liabilities	**1,058**	**746**

(F) CONSOLIDATED STATEMENT OF CASH FLOWS

	2007	Restated 2006
Mln USD		
OPERATING ACTIVITIES		
Net profit for the year	**27**	**51**
Adjustments for:		
Depreciation	41	34
Loss on disposal of property, plant and equipment	2	5
Share of profits in associates	-	(1)
Negative goodwill	-	(54)
Interest expense	16	10
Interest income	(2)	(2)
Income tax expense	13	7
Operating profit before changes in working capital and provisions	**97**	**51**
Increase in inventories	(54)	(26)
Decrease/(increase) in trade and other receivables	4	(8)
Decrease/(increase) in other non-current assets	-	()
Increase in loans to bank customers and credit institutions	(7)	(6)
Increase in bank customer accounts	7	3
Increase/(decrease) in trade and other payables	71	(10)
Increase in provisions	2	1
Cash flows from operations before income taxes and interest paid	**120**	**6**
Income taxes paid	(12)	(8)
Interest paid	(40)	(22)
Cash flows from/ (utilised by) operating activities	**67**	**(23)**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	6	1
Interest received	2	2
Net increase in investments	1	14
Development expenditure	(75)	(34)
Acquisition of property, plant and equipment	(166)	(115)
Acquisition of subsidiaries, net of cash acquired	-	(21)
Acquisition of intangible assets	(1)	-
Acquisition of minorities	-	-
Cash flows utilised by investing activities	**(232)**	**(153)**
FINANCING ACTIVITIES		
Shares issued	-	57
Proceeds from borrowings	442	526
Repayment of borrowings	(250)	(413)
Payment of finance lease liabilities	(6)	(4)
Dividends paid	(3)	(14)
Cash flows from financing activities	**182**	**153**
Net increase/ (decrease) in cash and cash equivalents	**18**	**(23)**
Cash and cash equivalents at beginning of year	16	39
Cash and cash equivalents at end of year	**33**	**16**

(G) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Parent Company				
Mln USD	Share capital	Share premium	Retained earnings	Total	Total equity
Balance at 1 January 2006 as previously reported	**1**	**-**	**264**	**265**	**265**
Impact of change in accounting policy	-	-			
Balance at 1 January 2006 (restated)	**1**	**-**	**264**	**265**	**265**
Net profit for the year (restated)	-	-	51	51	51
Total recognised income and expenses for the year	-	-	51	51	51
Shares issued	-	57	-	57	57
Dividends to shareholders	-	-	(14)	(14)	(14)
Balance at 31 December 2006 (restated)	**2**	**57**	**302**	**360**	**360**
Balance at 1 January 2007	**2**	**57**	**302**	**360**	**360**
Net profit for the year	-	-	27	27	27
Total recognised income and expenses for the year	-	-	27	27	27
Acquisition of minorities	-	-	-	-	-
Dividends to shareholders	-	-	(3)	(3)	(3)
Balance at 31 December 2007	**2**	**57**	**325**	**384**	**384**

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