OAO Raspadskaya

Consolidated Financial Statements

Year ended 31 December 2007

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Contents

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Independent Auditor's Report

The Shareholders and Board of Directors
OAO Raspadskaya

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

Management's Responsibility for the Financial Statements

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

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from 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 auditors' 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Ernst & Young

Emphasis of Matter

We draw attention to Note 1 to the consolidated financial statements, which discloses a significant concentration of the Group's business with related parties.

Ernst & Young LLC

April 17, 2008

OAO Raspadskaya

Consolidated Income Statement

Year ended 31 December 2007

(In thousands of US dollars, except for per share information)

	Notes	2007	2006
Revenue			
Sale of goods		**$ 777,870**	$ 465,394
Rendering of services		**6,224**	6,696
	4	**784,094**	472,090
Cost of sales	5	**(356,448)**	(269,041)
Gross profit		**427,646**	203,049
Selling and distribution costs	5	**(17,248)**	(10,402)
General and administrative expenses	5	**(56,064)**	(39,391)
Social and social infrastructure maintenance expenses	5	**(10,776)**	(6,809)
Loss on disposal of property, plant and equipment		**(1,934)**	(1,591)
Foreign exchange gains		**20,125**	8,006
Other operating income		**1,046**	1,910
Other operating expenses		**(7,415)**	(4,377)
Operating profit		**355,380**	150,395
Dividend income		**20**	15
Interest income		**3,868**	1,077
Interest expense		**(30,235)**	(17,518)
Profit before tax		**329,033**	133,969
Income tax expense	7	**(88,790)**	(33,793)
Profit for the year		**$ 240,243**	$ 100,176
Attributable to:			
Equity holders of the parent		**$ 239,133**	$ 99,589
Minority interests		**1,110**	587
		$ 240,243	$ 100,176
Earnings per share:			
basic and diluted, for profit attributable to equity holders of the parent entity, US dollars (7.83 roubles for 2007 and 4.20 roubles for 2006)	14	**$ 0.31**	$ 0.15

The accompanying notes form an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated Balance Sheet

As at 31 December 2007

(In thousands of US dollars)

	Notes	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	8	**$ 1,479,207**	$ 1,354,116
Deferred tax asset	7	**2,919**	3,675
Other non-current assets		**6,585**	5,229
		1,488,711	1,363,020
Current assets			
Inventories	10	**50,758**	26,662
Trade and other receivables	11	**41,995**	30,869
Receivables from related parties	12	**25,319**	3,320
Income tax receivable		**4,726**	219
Other taxes recoverable	13	**31,906**	27,765
Short-term bank deposits		**–**	1,140
Cash and cash equivalents	9	**82,311**	49,219
		237,015	139,194
TOTAL ASSETS		**$ 1,725,726**	$ 1,502,214
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	**$ 303**	$ 304
Treasury shares	14	**–**	(1,131)
Additional paid-in capital		**783,862**	783,862
Reserve capital		**7**	7
Accumulated profits		**179,888**	39,796
Unrealised gain on available-for-sale investments		**2,438**	1,580
Translation difference		**97,680**	29,523
		1,064,178	853,941
Minority interests		**6,064**	4,290
		1,070,242	858,231
Non-current liabilities			
Long-term loans	15	**307,896**	28,934
Long-term loan to related parties	12	**–**	5,887
Deferred income tax liabilities	7	**225,521**	229,984
Post-employment benefits liabilities	16	**17,374**	16,012
Other long-term liabilities		**1,694**	1,490
		552,485	282,307
Current liabilities			
Trade and other payables	17	**37,016**	21,863
Short-term loans and current portion of long-term loans	15	**39,458**	323,351
Payables to related parties	12	**568**	1,141
Income tax payable		**11,774**	5,712
Other taxes payable	18	**11,420**	8,729
Finance lease liabilities		**47**	880
Dividends payable		**2,716**	–
		102,999	361,676
TOTAL EQUITY AND LIABILITIES		**$ 1,725,726**	$ 1,502,214

The accompanying notes form an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated Cash Flow Statement

For the year ended 31 December 2007

(In thousands of US dollars)

	Notes	2007	2006
Cash flows from operating activities			
Profit for the year		**$ 240,243**	$ 100,176
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortisation	8	**138,341**	68,336
Deferred income tax benefit	7	**(19,455)**	(11,141)
Loss on disposal of property, plant and equipment		**1,934**	1,591
Foreign exchange gains		**(20,125)**	(8,006)
Dividend income		**(20)**	(15)
Interest income		**(3,868)**	(1,077)
Interest expense		**30,235**	17,518
Employee benefits		**(1,261)**	5,628
Bad debt expense		**236**	183
		366,260	173,193
Changes in working capital:			
Inventories		**(21,195)**	(2,271)
Trade and other receivables		**(9,991)**	(3,980)
Receivables from / payables to related parties		**(20,601)**	6,442
Trade and other payables		**12,453**	(19,387)
Taxes payable		**1,068**	24,616
Net cash flows from operating activities		**327,994**	178,613
Cash flows from investing activities			
Purchases of property, plant and equipment		**(166,296)**	(100,768)
Purchases of subsidiaries from the Company's parent, net of cash acquired of $31,947		**–**	(274,986)
Short-term deposits at banks, including interest, net		**5,779**	85
Other investing activities, net		**337**	39
Net cash flows used in investing activities		**(160,180)**	(375,630)
Cash flows from financing activities			
Proceeds from issuance of share capital	14	**–**	1,316
Purchases of treasury shares	14	**–**	(1,182)
Proceeds from sale of treasury shares	14	**–**	19,967
Proceeds from loans		**322,132**	315,296
Repayment of loans, including interest		**(366,374)**	(73,930)
Dividends paid		**(95,195)**	(46,275)
Payments under finance leases, including interest		**(15)**	(221)
Net cash flows from/(used in) financing activities		**(139,452)**	214,971
Effect of foreign exchange rate changes on cash and cash equivalents		**4,730**	4,319
Net increase in cash and cash equivalents		**33,092**	22,273
Cash and cash equivalents at beginning of period		**49,219**	26,946
Cash and cash equivalents at end of period		**$ 82,311**	$ 49,219
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		**$ 26,250**	$ 14,516
Interest received		**4,027**	954
Income taxes paid		**50,883**	53,395

The accompanying notes form an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated Statement of Changes in Equity

(In thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits/ (losses)**	**Unrealised gain on investments available-for-sale**	**Translation difference**	**Parent shareholders' equity**	**Minority interests**	**Total equity**
At 31 December 2006	**$ 304**	**$ (1,131)**	**$ 783,862**	**$ 7**	**$ 39,796**	**$ 1,580**	**$ 29,523**	**$ 853,941**	**$ 4,290**	**$ 858,231**
Net gains on available-for-sale financial investments, net of income tax	**–**	**–**	**–**	**–**	**–**	**858**	**–**	**858**	**–**	**858**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	–	**68,157**	**68,157**	**664**	**68,821**
Total income and expense for the year recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**858**	**68,157**	**69,015**	**664**	**69,679**
Profit for the year	**–**	**–**	**–**	**–**	**239,133**	**–**	**–**	**239,133**	**1,110**	**240,243**
Total income and expense for the year	**–**	**–**	**–**	**–**	**239,133**	**858**	**68,157**	**308,148**	**1,774**	**309,922**
Retirement of treasury shares *(Note 14)*	**(1)**	**1,131**	**–**	**–**	**(1,130)**	**–**	**–**	**–**	**–**	**–**
Dividends declared *(Note 14)*	**–**	**–**	**–**	**–**	**(97,911)**	**–**	**–**	**(97,911)**	**–**	**(97,911)**
At 31 December 2007	**$ 303**	**$ –**	**$ 783,862**	**$ 7**	**$ 179,888**	**$ 2,438**	**$ 97,680**	**$ 1,064,178**	**$ 6,064**	**$ 1,070,242**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

(In thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits/ (losses)**	**Unrealised gain on investments available-for-sale**	**Translation difference**	**Parent shareholders' equity**	**Minority interests**	**Total equity**
At 31 December 2005	$ 259	$ (6,627)	$ 1,402	$ 7	$ (13,518)	$ 650	$ 8,535	$ (9,292)	$ 3,684	$ (5,608)
Net gains on available-for-sale financial investments, net of income tax	–	–	–	–	–	930	–	930	–	930
Foreign currency translation	–	–	–	–	–	–	20,988	20,988	19	21,007
Total income and expense for the year recognised directly in equity	–	–	–	–	–	930	20,988	21,918	19	21,937
Profit for the year	–	–	–	–	99,589	–	–	99,589	587	100,176
Total income and expense for the year	–	–	–	–	99,589	930	20,988	121,507	606	122,113
Issue of share capital, net of transaction costs *(Note 14)*	45	–	769,171	–	–	–	–	769,216	–	769,216
Purchase of treasury shares *(Note 14)*	–	(1,182)	–	–	–	–	–	(1,182)	–	(1,182)
Sale of treasury shares *(Note 14)*	–	6,678	13,289	–	–	–	–	19,967	–	19,967
Dividends declared *(Note 14)*	–	–	–	–	(46,275)	–	–	(46,275)	–	(46,275)
At 31 December 2006	$ 304	$ (1,131)	$ 783,862	$ 7	$ 39,796	$ 1,580	$ 29,523	$ 853,941	$ 4,290	$ 858,231

The accompanying notes form an integral part of these consolidated financial statements.

(In thousands of US dollars, unless specified otherwise)

1. Corporate Information

The consolidated financial statements of OAO Raspadskaya (the "Company") for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 17 April 2008.

The Company is an open joint-stock company ("OAO") registered under the law of the Russian Federation. The Company commenced operations in 1973. The registered office of the Company is 106, Mira Street, Mezhdurechensk, the Kemerovo region, the Russian Federation. The Company's controlling shareholder is Corber Enterprises Limited (Cyprus) ("Corber"), a 50/50 joint venture set up by Mastercroft Mining Limited, a subsidiary of Evraz Group S.A. (Luxembourg), and Adroliv Investments Limited (Cyprus) ("Adroliv").

The Company and its subsidiaries (the "Group") derive approximately 99% of their revenues from sales of coal and coal concentrate. Other revenue sources include transport-handling services and other non-production revenues.

In the years ended 31 December 2007 and 2006, approximately 25% and 18%, respectively, of the Group's revenues were generated in transactions with related parties. For detailed information related to such activities refer to Note 12.

The major subsidiaries included in the consolidated financial statements of the Company were as follows at 31 December:

	Ownership interest,%			
Subsidiary	**2007**	**2006**	**Business activity**	**Country of incorporation**
OAO MUK-96	100.00	100.00	Coal mining	Russian Federation
ZAO Razrez Raspadskiy	100.00	100.00	Coal mining	Russian Federation
OOO Raspadskiy Ugol	100.00	100.00	Coal trading	Russian Federation
ZAO Raspadskaya Coal Company	100.00	100.00	Managing	Russian Federation
ZAO Raspadskaya Preparation Plant	100.00	100.00	Coal processing	Russian Federation
ZAO Raspadskaya Koksovaya	100.00	100.00	Coal mine under construction	Russian Federation

As further described in Note 6, during the year ended 31 December 2006, the Group acquired from its parent the following businesses in two separate transactions: i) the acquisition of OOO Raspadskiy Ugol ("Raspadskiy Ugol"), ZAO Raspadskaya Coal Company ("Raspadskaya Coal Company"), ZAO Raspadskaya Preparation Plant ("Raspadskaya Preparation Plant") and ZAO Raspadskaya Koksovaya ("Raspadskaya Koksovaya"); and ii) the acquisition of OAO MUK-96 ("MUK-96") and ZAO Razrez Raspadskiy ("Razrez Raspadskiy"), which was originally acquired during the period by the Company's parent.

1. Corporate Information (continued)

As the above businesses were acquired from the Company's parent, they have been accounted for in these consolidated financial statements using the pooling of interests method. As such, the financial statements, including corresponding figures, have been presented as if the transfers of controlling interests in the subsidiaries had occurred at the beginning of the earliest period presented, or, if later, on the date of the acquisition of the subsidiary by the Company's parent. The assets and liabilities of the transferred subsidiaries were recorded in these financial statements at the carrying amounts in Corber's consolidated financial statements. The difference between the carrying amount of net assets and the purchase consideration was accounted for in these consolidated financial statements as an adjustment to equity.

2. Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available for sale investments and assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits measured at present value.

Certain reclassifications have been made to the prior years financial statements to conform to the current year presentation.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards and interpretations mandatory for financial years beginning on or after 1 January 2007.

The changes in accounting policies result from adoption of the following new or amended standards and interpretations:

- IFRS 7 "Financial instruments: Disclosures";
- IAS 1 (amended) "Presentation of Financial Statements";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment".

The principal effects of these changes in policies are discussed below.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included in the financial statements (Notes 11 and 21).

IAS 1 "Presentation of Financial Statements"

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 21.

IFRIC 10 "Interim Financial Reporting and Impairment"

This interpretation requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The interpretation had no impact on the financial position or performance of the Group during 2007.

IFRIC 9 "Reassessment of Embedded Derivatives"

This interpretation clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent 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. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 8 "Operating Segments" (effective from 1 January 2009);
- IAS 23 (revised) "Borrowing Costs" (effective from 1 January 2009);
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1 January 2008);
- IFRS 3 (revised) "Business Combinations" (effective from 1 July 2009);
- IAS 27 (revised) "Consolidated Financial Statements" (effective from 1 July 2009);
- IAS 1 (revised) "Presentation of Financial Statements" (effective from 1 January 2009);
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 (revised) "Presentation of Financial Statements" – Puttable instruments and obligations arising on liquidation (effective from 1 January 2009).

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's result of operations and financial position in the period of initial application.

Foreign Currency Transactions

The presentation currency of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Company and its subsidiaries is the Russian rouble (the "rouble"). As at the reporting date, the assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

Transactions in foreign currencies in the Group and each subsidiary are initially recorded in the functional currency at the rate ruling at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated income statement.

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries except for subsidiaries acquired in transactions involving the entities under common control by the Group which are accounted for using the pooling of interests method (Note 1).

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented in the consolidated balance sheet within equity, separately from the parent’s shareholders’ equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in these consolidated financial statements.

Property, Plant and Equipment

The Group’s property, plant and equipment, except for the items acquired prior to 1 January 2003, are stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met. The items of property, plant and equipment acquired prior to 1 January 2003 were accounted for at deemed cost being their fair value at 1 January 2003 less subsequent accumulated depreciation and any impairment in value.

The Group’s property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalised site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each balance sheet date management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset’s fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Land and assets under construction are not depreciated. Depreciation on other classes of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year-end. The table below presents the useful lives of items of property, plant and equipment.

	Useful lives (years)	Weighted average useful life (years)
Buildings and constructions	10-60	30
Machinery and equipment	2-25	6
Transport and motor vehicles	4-32	6
Other Assets	3-9	4

The Group determines the depreciable amount separately for each significant part of an item of property, plant and equipment.

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of-production method based upon proved and probable mineral reserves.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

2. Significant Accounting Policies (continued)

Leases (continued)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Financial Assets

The Group classified its investments into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity and available-for-sale. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the management has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2. Significant Accounting Policies (continued)

Financial Assets (continued)

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date the asset is delivered by/to the counterparty.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Trade and Other Receivables

Accounts receivable, which generally are short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

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

2. Significant Accounting Policies (continued)

Value Added Tax

The Russian tax legislation permits settlement of value added tax (“VAT”) on a net basis.

VAT is payable upon invoicing and delivery of goods, performance of work or rendering of services, as well as upon collection of prepayments from customers. VAT on purchases, even if related accounts payable have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and Cash Equivalents

Cash and cash equivalents, mainly denominated in roubles, comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of the treasury shares.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on 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 authorised for issue.

Borrowings

Borrowings are initially recognised at the fair value of consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

2. Significant Accounting Policies (continued)

Trade and Other Payables

Accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Government Grants

Government grants are recognised at their fair value, where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset and are recognised as a deduction from depreciation expense over the life of the asset.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for site restoration costs are capitalised in mining assets within property, plant and equipment.

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 24%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Post-Employment Benefits

The Group companies provide pensions and other benefits to their employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. The excess of cumulative actuarial gains or losses over the 10% of the higher of defined benefit obligation and the fair value of plan assets are recognised over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly.

The Group includes current service cost, past service cost and net actuarial gains and losses recognised in the year in cost of sales and general and administrative expenses captions, and interest cost on benefit obligation in interest expense caption of the consolidated income statement.

Other Costs

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

2. Significant Accounting Policies (continued)

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

Rendering of Services

Revenue is recognised when services are rendered. The Group’s revenues from rendering of services include transportation, operating rent and other services.

Interest

Interest is recognised using the effective interest method.

Dividends

Revenue is recognised when the Group’s right to receive the payment is established.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2. Significant Accounting Policies (continued)

Deferred Income Tax (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Significant Accounting Judgments and Estimates

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets. No impairment losses were recognised or reversed in the years ended 31 December 2007 and 2006.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss. In the years ended 31 December 2007 and 2006, there were no changes to the estimated remaining useful lives of items of property, plant and equipment.

3. Significant Accounting Judgments and Estimates (continued)

Estimation Uncertainty (continued)

Mineral Reserves

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortisation charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

The relative degree of uncertainty can be conveyed by placing reserves into one of the principal classifications, either proved and probable reserves or measured and indicated resources. Proved and probable reserves are more than certain to be recovered than measured and indicated resources. Estimates of proved and probable reserves are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, engineering and production data; availability of new data; or changes in underlying assumptions. Proved and probable reserves are used to calculate the unit of production rates for depreciation, depletion and amortisation. The Group has included in proved and probable reserves those quantities that are expected to be extracted during the next 20 years assuming that certain licences will be renewed in 2014. An increase in the Group's license periods and increase in reported proved and probable reserves would generally lead to lower depreciation, depletion and amortisation charge and could materially affect earnings. A reduction in proved and probable reserves will increase depreciation, depletion and amortisation charge, reduce income and could also result in an immediate impairment of mining assets. Given the relatively small number of producing mines and open pit operations, it is possible that any changes in reserve estimates, year on year, could significantly affect prospective charges for depreciation, depletion and amortisation.

Site Restoration Provisions

The Group review site restoration provisions at each balance sheet date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. As of 31 December 2007 and 2006, site restoration provisions that are included in other long-term liabilities were $1,685 and $1,447, respectively.

3. Significant Accounting Judgments and Estimates (continued)

Estimation Uncertainty (continued)

Post-Employment Benefits

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels etc.).

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of 31 December 2007 and 2006, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $1,150 and $843, respectively (Note 11).

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2007 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(In thousands of US dollars, unless specified otherwise)

3. Significant Accounting Judgments and Estimates (continued)

Estimation Uncertainty (continued)

Deferred Income Tax Assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

4. Segment Information

The Group operates as a vertically integrated business and reports its activities as a single business segment. All of the Group's assets are located and capital expenditures incurred in the Russian Federation.

A distribution of the Group's revenues by geographical area based on the location of the customers for the years ended 31 December was as follows:

	2007	2006
Russia	**$ 554,171**	$ 380,794
Ukraine	**105,721**	60,438
Romania	**76,793**	14,563
Hungary	**17,177**	10,970
Japan	**12,982**	–
Bulgaria	**9,118**	4,908
Korea	**2,715**	–
Slovakia	**2,833**	417
China	**2,584**	–
	$ 784,094	$ 472,090

5. Expenses

The following expenses were included in cost of sales, selling and distribution costs, general and administrative expenses for the years ended 31 December:

	2007	2006
Cost of inventories recognised as expense	**$ 49,676**	$ 118,882
Staff cost, including social security taxes	**108,607**	90,119
Depreciation, depletion and amortisation	**135,624**	68,336

6. Acquisitions

Subsidiaries Acquired by the Group from the Company's Parent

In June 2006, the Company acquired the controlling interests in Raspadskiy Ugol, Raspadskaya Coal Company, Raspadskaya Preparation Plant and Raspadskaya Koksovaya from Corber, the Company's parent, for total cash consideration of 8,311,420,457 Russian roubles ($306,933, at the exchange rate as of the date of the transaction).

As the above businesses were acquired from the Company's parent, they have been accounted for in these consolidated financial statements using the pooling of interests method. As such, the financial statements, including corresponding figures, have been presented as if the transfers of controlling interests in the subsidiaries had occurred at the beginning of the earliest period presented. The assets and liabilities of the transferred subsidiaries were recorded in these financial statements at the carrying amount in Company's parent consolidated financial statements. The difference between the carrying amount of net assets and the purchase consideration was accounted for in these consolidated financial statements as a liability with a corresponding adjustment to opening equity.

MUK Group Acquisition

On 12 April 2006, Raspadskiy Ugol, a subsidiary of the Company, acquired 1% of the shares of Razrez Raspadsky from MUK-96, an entity under common control with Adroliv, one of the shareholders of the Company's parent, for cash consideration of $1,725.

On 31 May 2006, Corber acquired 100% of the shares in MUK-96 from Adroliv for consideration of $767,900, comprising the fair value of the shares issued by Corber to Adroliv. MUK-96 held 99% ownership in Razrez Raspadsky. MUK-96 and Razrez Raspadsky ("MUK Group") hold certain mineral licenses and are involved in coal mining activities. Since 31 May 2006, MUK-96 and Razrez Raspadsky were under common control with the Company.

On 14 September 2006, the Company issued 300,650,000 ordinary shares to Corber in exchange for 100% ownership interest in MUK Group. The shares issued by the Company amounted to $769,625 at fair value, which is the same value as the consideration exchanged by Corber when it acquired MUK Group on 31 May 2006.

As the exchange of the shares between the Company and its parent is a transaction under common control, it has been accounted for in these consolidated financial statements using the pooling of interests method. As such, the financial statements have been presented as if the transfers of controlling interests in MUK Group had occurred on the date of the acquisition of MUK Group by the Company's parent, which was 31 May 2006.

As at the date of the interim financial statements for the six-month period ended 30 June 2006 were authorized for issue, the acquisition of MUK Group was accounted for based on provisional values. At that date, the Group had not completed valuation of MUK Group's net assets in accordance with IFRS 3.

(In thousands of US dollars, unless specified otherwise)

6. Acquisitions (continued)

MUK Group Acquisition (continued)

By 31 December 2006, the Group finalised its purchase price allocation on the acquisition of MUK Group. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at 31 May 2006, which were as follows:

	Initial estimation of fair values	Final estimation of fair values
Mineral reserves	$ 887,612	$ 897,380
Other property, plant and equipment	77,630	77,630
Inventories	3,940	3,940
Accounts and notes receivable	12,936	12,936
Taxes receivable	3,900	3,900
Cash	33,672	33,672
Total assets	**1,019,690**	**1,029,458**
Non-current liabilities	17,938	17,938
Deferred income tax liabilities	208,062	218,462
Current liabilities	22,615	23,433
Total liabilities	**248,615**	**259,833**
Net assets	**$ 771,075**	**$ 769,625**
Shares issued, at fair value	769,350	767,900
Cash paid	1,725	1,725
Purchase consideration	**$ 771,075**	**$ 769,625**
Cash inflow on acquisition:		
Net cash acquired with the subsidiary	$ 33,672	$ 33,672
Cash paid	(1,725)	(1,725)
Net cash inflow	**$ 31,947**	**$ 31,947**

The carrying amounts for each class of acquired assets, liabilities and contingent liabilities determined in accordance with IFRS immediately before the acquisition are not disclosed because such disclosure is impracticable as MUK Group did not prepare historical IFRS financial statements prior to this business combination.

MUK Group's net income for the period from 1 June 2006 to 31 December 2006 was $9,200.

If the acquisition had occurred in the beginning of the year, revenues and net profit of the combined entity would have been $440,739 and $107,513, respectively.

(In thousands of US dollars, unless specified otherwise)

7. Income Taxes

Major components of income tax expense were as follows for the years ended 31 December:

	2007	2006
Current income tax	**$ (108,245)**	$ (44,934)
Current income tax charge		
Deferred income tax		
Relating to origination and reversal of temporary differences	**19,455**	11,141
Income tax expense	**$ (88,790)**	$ (33,793)

The Russian Federation was the only tax jurisdiction in which the Group's income was subject to taxation.

Reconciliation between the income tax expenses applicable to profit before income tax at the statutory tax rate to income tax expense at the Group's effective income tax rate is as follows for the years ended 31 December:

	2007	2006
Profit before income tax	**$ 329,033**	$ 133,969
At Russian statutory income tax rate of 24%	**(78,968)**	(32,153)
Adjustments in respect of previous years	**(3,184)**	3,140
Effect of non-deductible expenses and other non-temporary differences	**(6,638)**	(4,780)
Income tax expense	**$ (88,790)**	$ (33,793)

Deferred income tax assets and liabilities and their movements for the year ended 31 December 2007 were as follows:

	2007	**Change recognised in income statement**	**Change recognised in equity statement**	**Translation difference**	**2006**
Deferred income tax liabilities:					
Property, plant and equipment	$ 224,938	$ (20,045)	$ –	$ 15,819	$ 229,164
Investments	770	–	105	49	616
Inventory	804	(484)	–	69	1,219
Other	1,237	1,187	–	50	–
	227,749	(19,342)	105	15,987	230,999
Deferred income tax assets:					
Accrued liabilities	2,309	1,142	–	124	1,043
Loss carry forward	50	(3,184)	–	94	3,140
Other	2,788	2,155	–	126	507
	5,147	113	–	344	4,690
Total deferred income tax asset/(liability)	**$ (222,602)**	**$ 19,455**	**$ (105)**	**$ (15,643)**	**$ (226,309)**
Represented by the following:					
Net deferred income tax asset	$ 2,919	$ (983)	$ –	$ 227	$ 3,675
Net deferred income tax liability	$ 225,521	$ (20,438)	$ 105	$ 15,870	$ 229,984

(In thousands of US dollars, unless specified otherwise)

7. Income Taxes (continued)

Deferred income tax assets and liabilities and their movements for the year ended 31 December 2006 were as follows:

	2006	Change recognised in income statement	Change recognised in equity statement	Change due to business combination	Translation difference	2005
Deferred income tax liabilities:						
Property, plant and equipment	$ 229,164	$ (9,526)	$ –	$ 218,462	$ 6,396	$ 13,832
Investments	616	–	616	–	–	–
Other	1,219	1,179	–	–	38	2
	230,999	(8,347)	616	218,462	6,434	13,834
Deferred income tax assets:						
Accrued liabilities	1,043	777	–	–	46	220
Loss carry forward	3,140	3,140	–	–	–	–
Other	507	(1,123)	–	–	200	1,430
	4,690	2,794	–	–	246	1,650
Total deferred income tax asset/(liability)	**$ (226,309)**	**$ 11,141**	**$ (616)**	**$ (218,462)**	**$ (6,188)**	**$ (12,184)**
Represented by the following:						
Net deferred income tax asset	$ 3,675	$ 3,012	$ –	$ –	$ 162	$ 501
Net deferred income tax liability	$ 229,984	$ (8,129)	$ 616	$ 218,462	$ 6,350	$ 12,685

The recognition and reversals of temporary differences primarily relates to: i) depreciation and depletion of property, plant and equipment in excess of the depreciation and depletion for tax purposes; ii) fair value adjustments to property, plant and equipment acquired in a business combination; iii) accruals and provisions; and other temporary differences.

Deferred income taxes have not been provided for undistributed earnings of the Group's subsidiaries because management does not intend to distribute these earnings in the foreseeable future. The current tax rate for dividend income in the Russian Federation ranges from 0% to 9%, depending on certain conditions. The Group expects that distribution of earnings by subsidiaries to OAO Raspadskaya will be taxed at 0%.

(In thousands of US dollars, unless specified otherwise)

8. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of 31 December:

	2007	2006
Cost:		
Land	**$ 63**	$ 49
Mining assets	**1,181,396**	1,076,322
Buildings and constructions	**85,437**	73,636
Machinery and equipment	**346,967**	302,588
Transport and motor vehicles	**32,864**	25,424
Other assets	**8,020**	6,179
Assets under construction	**210,222**	98,913
	1,864,969	1,583,111
Accumulated depreciation, depletion and amortisation:		
Mining assets	**(156,323)**	(73,678)
Buildings and constructions	**(8,492)**	(5,291)
Machinery and equipment	**(205,613)**	(140,426)
Transport and motor vehicles	**(9,738)**	(5,875)
Other assets	**(2,808)**	(988)
	(382,974)	(226,258)
Government grants:		
Machinery and equipment, net	**(2,788)**	(2,737)
	$ 1,479,207	$ 1,354,116

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $40,777 and $23,726 as of 31 December 2007 and 2006, respectively.

The movement in property, plant and equipment for the year ended 31 December 2007 was as follows:

	Land	**Mining assets**	**Buildings and constructions**	**Machinery and equipment**	**Transport and motor vehicles**	**Other assets**	**Assets under construction**	**Total**
At 31 December 2006 cost, net of accumulated depreciation and government grants	**$ 49**	**$ 1,002,644**	**$ 68,345**	**$ 159,425**	**$ 19,549**	**$ 5,191**	**$ 98,913**	**$ 1,354,116**
Additions	**–**	**23,995**	**13**	**–**	**–**	**–**	**142,289**	**166,297**
Assets put into operation	**10**	**1,916**	**6,901**	**26,887**	**5,071**	**1,423**	**(42,208)**	**–**
Disposals	**–**	**–**	**(350)**	**(1,680)**	**(172)**	**(42)**	**(160)**	**(2,404)**
Reclassification	**–**	**–**	**–**	**(624)**	**624**	**–**	–	**–**
Depreciation & depletion charge	**–**	**(74,355)**	**(3,078)**	**(55,869)**	**(3,456)**	**(1,725)**	–	**(138,483)**
Amortisation of government grants	**–**	**–**	**–**	**142**	**–**	**–**	–	**142**
Change in site restoration provision	**–**	**–**	**–**	**–**	**–**	**–**	–	**–**
Translation difference	**4**	**70,873**	**5,114**	**10,285**	**1,510**	**365**	**11,388**	**99,539**
At 31 December 2007, cost, net of accumulated depreciation and government grants	**$ 63**	**$ 1,025,073**	**$ 76,945**	**$ 138,566**	**$ 23,126**	**$ 5,212**	**$ 210,222**	**$ 1,479,207**

(In thousands of US dollars, unless specified otherwise)

8. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended 31 December 2006 was as follows:

	Land	Mining assets	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
At 31 December 2005 cost, net of accumulated depreciation and government grants	$ 41	$ 79,659	$ 56,212	$ 88,909	$ 4,237	$ 1,604	$ 58,596	$ 289,258
Additions	–	23,730	–	–	–	388	82,919	107,037
Assets acquired in business combination	–	897,380	4,848	45,522	8,663	64	18,533	975,010
Assets put into operation	5	–	3,139	52,547	8,006	3,808	(67,505)	–
Disposals	–	–	(1,012)	(1,029)	(113)	(69)	(239)	(2,462)
Reclassification	–	–	2,729	(2,922)	–	(2)	195	–
Depreciation & depletion charge	–	(28,950)	(2,941)	(34,108)	(2,042)	(693)	–	(68,734)
Amortisation of government grants	–	–	–	398	–	–	–	398
Change in site restoration provision	–	1,285	–	–	–	–	–	1,285
Translation difference	3	29,540	5,370	10,108	798	91	6,414	52,324
At 31 December 2006, cost, net of accumulated depreciation and government grants	$ 49	$ 1,002,644	$ 68,345	$ 159,425	$ 19,549	$ 5,191	$ 98,913	$ 1,354,116

As of 31 December 2007 and 2006 certain items of production equipment with an approximate carrying value of $27,758 and $36,940, respectively, were pledged to banks as collateral against loans to the Group (Note 15).

9. Cash and cash equivalents

Cash and cash equivalents were denominated in the following currencies:

	2007	2006
Russian roubles	**$ 73,877**	$ 44,398
US dollars	**8,433**	4,821
Euro	**1**	–
	$ 82,311	$ 49,219

The above cash and cash equivalents mainly consist of cash at banks.

10. Inventories

Inventories consisted of the following as of 31 December:

	2007	2006
Raw materials and spare parts (at cost)	**$ 41,349**	$ 20,242
Finished goods (at cost)	**9,409**	57
Finished goods (at net realizable value)	**–**	6,363
	$ 50,758	$ 26,662

(In thousands of US dollars, unless specified otherwise)

11. Trade and Other Receivables

Trade and other receivables, mainly denominated in roubles, consisted of the following as of 31 December:

	2007	2006
Trade accounts receivable	**$ 25,901**	$ 25,810
Prepayments	**13,552**	4,028
Other receivables	**3,692**	1,874
	43,145	31,712
Allowance for doubtful accounts	**(1,150)**	(843)
	$ 41,995	$ 30,869

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 20.

As at 31 December 2007 and 2006, receivables with nominal value of $1,150 and $843, respectively were doubtful and fully provided for. Movements in the allowance for doubtful accounts in years ended 31 December were as follows:

	2007	2006
At 1 January	**$ 843**	$ 902
Charge for the year	**501**	444
Amounts written off	**(176)**	(389)
Unused amounts reversed	**(88)**	(194)
Translation difference	**70**	80
At 31 December	**$ 1,150**	$ 843

12. Related Party Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(In thousands of US dollars, unless specified otherwise)

12. Related Party Disclosures (continued)

Amounts owed by/to related parties were as follows as of 31 December:

	Amounts due from related parties		Amounts due to related parties	
	2007	**2006**	**2007**	**2006**
OOO Trade House Evrazresource	**$ 9,520**	$ 3,137	**$ –**	$ –
OAO Yuzhny Kuzbass	**490**	160	**29**	–
Greyridge Coal and Shipping	**14,651**	–	**–**	–
Other entities	**658**	23	**539**	259
Loan payable to related parties including interest	**–**	–	**–**	6,769
	$ 25,319	$ 3,320	**$ 568**	$ 7,028

Assets under construction include prepayments to related parties - constructors and suppliers of property, plant and equipment in the amount of $4,173 and $4,351 as of 31 December 2007 and 2006, respectively.

Transactions with related parties were as follows in the years ended 31 December:

	Sales to related parties		Purchases from related parties	
	2007	**2006**	**2007**	**2006**
OOO Trade House Evrazresource	**$ 153,086**	$ 80,408	**$ –**	$ –
OAO Yuzhny Kuzbass	**4,734**	2,606	**169**	35
ZAO Raspadskaya Financial Industrial Company	**–**	2,191	**19**	28,341
Razrez Raspadsky	**–**	792	**–**	37,749
MUK-96	**–**	518	**–**	–
OOO Raspadskaya Constructing Industrial Company	**59**	11	**2,456**	3,197
Greyridge Coal and Shipping	**38,177**	–	**–**	–
Other entities	**134**	452	**2,520**	1,816
	$ 196,190	$ 86,978	**$ 5,164**	$ 71,138

OOO Trade House Evrazresource ("Evrazresource") is an entity under control of one of major ultimate shareholders of the Company. During the years ended 31 December 2007 and 2006, the Group sold to Evrazresource approximately 18% and 16% of sales volumes of coal and coal concentrate, respectively.

OAO Yuzhny Kuzbass ("Yuzhny Kuzbass"), a Russian coal mining company, is a minority shareholder of OAO TPTU, the subsidiary of the Group. Yuzhny Kuzbass exercises a significant influence over that subsidiary. OAO TPTU sells transportation services to Yuzhny Kuzbass.

ZAO Raspadskaya Financial Industrial Company ("RFPK") is an entity under control of one of the major ultimate shareholders of the Company. RFPK sold coal concentrate to the Group and operated as the Group's sales agent. Commencing 1 June 2006, the Group ceased its trading activities with RFPK.

(In thousands of US dollars, unless specified otherwise)

12. Related Party Disclosures (continued)

Prior to the acquisition of MUK Group on 31 May 2006, Razrez Raspadsky was an entity under control of one of the major ultimate shareholders of the Company. The Group purchased mining and coal processing services from Razrez Raspadsky.

Prior to the acquisition of MUK Group on 31 May 2006, MUK-96 was an entity under control of one of the major ultimate shareholders of the Company. MUK-96 purchased coal and coal concentrate from the Group.

OOO Raspadskaya Constructing Industrial Company ("RSPK") is an entity under control of one of the major ultimate shareholders of the Company. RSPK provided construction and catering services to the Group.

Greyridge Coal and Shipping is an entity under control of one of the major ultimate shareholders of the Company. During the year ended 31 December 2007 the Group sold to the entity approximately 4% of sales volumes of coal concentrate.

Compensation to Key Management Personnel

Key management personnel totalled 9 persons as at 31 December 2007 and 2006. Total compensation to key management personnel was included in general and administrative expenses in the accompanying income statement and consisted of the following in the years ended 31 December:

	2007	2006
Short-term benefits:		
Salary	**$ 2,163**	$ 2,039
Bonus	**797**	837
Social security taxes	**104**	95
	$ 3,064	$ 2,971

13. Other Taxes Recoverable

Taxes recoverable were denominated in roubles and consisted of the following as of 31 December:

	2007	2006
Input VAT	**$ 31,769**	$ 27,446
Other taxes	**137**	319
	$ 31,906	$ 27,765

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

(In thousands of US dollars, unless specified otherwise)

14. Equity

Total number of outstanding shares comprises:

	Issued ordinary shares	**Treasury shares**	**Outstanding ordinary shares**	**Issued capital**	**Treasury shares**
At 31 December 2005	**479,999,537**	**25,280,557**	**454,718,980**	**$ 259**	**$ (6,627)**
Issue of shares	301,988,713	–	301,988,713	45	–
Purchase of treasury shares	–	1,278,442	(1,278,442)	–	(1,182)
Sale of treasury shares	–	(25,370,558)	25,370,558	–	6,678
At 31 December 2006	**781,988,250**	**1,188,441**	**780,799,809**	**304**	**(1,131)**
Retirement of treasury shares	**–**	(1,188,441)	–	**(1)**	**1,131**
At 31 December 2007	**780,799,809**	**–**	**780,799,809**	**$ 303**	**$ –**

As of 31 December 2007 and 2006, the Company’s authorised share capital consisted of 1,478,811,096 and 1,479,999,537 ordinary shares with par value 0.004 roubles each, respectively.

On 15 June 2007, general shareholders' meeting approved retirement of 1,188,441 treasury shares.

At the Shareholders’ Extraordinary Meeting on 20 March 2006, shareholders approved re-registration of the Company as an open joint-stock company under the law of the Russian Federation. On the same date, the Company’s ordinary shares were split in the ratio of one thousand for one share resulting in split of 480,000 ordinary shares with par value of 4 roubles each into 479,999,537 ordinary shares with par value of 0.004 roubles each.

On 14 September 2006, the Company issued 301,988,713 ordinary shares with par value 0.004 roubles each, of which 300,650,000 shares were issued to the Company’s parent in exchange for the shares in MUK Group (Note 6) and 1,338,713 shares were subscribed by the non-controlling shareholders for a cash consideration of $1,316. As a result, $45 and $769,171 were recorded as issued capital and additional paid-in capital, respectively.

In the years ended 31 December 2006, the Group repurchased 1,278,442 ordinary shares, for $1,182. In the year ended 31 December 2006, the Group sold 25,370,558 treasury shares to the Company’s parent for $19,967. The difference between cost of these shares and sale price amounting to $13,289 was recorded as additional paid-in capital.

Reserve Capital

According to the Russian Law, the Group creates a reserve capital in the amount of 5% of share capital per the Russian statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The reserve capital can be used only for covering losses as well as for redemption of the Company’s bonds and purchase of own shares if there are no other sources of financing.

(In thousands of US dollars, unless specified otherwise)

14. Equity (continued)

Earnings per Share

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal to basic earnings per share:

	Year ended 31 December 2007	2006
Weighted average number of ordinary shares in issue	**780,799,809**	645,145,669
Profit for the year attributable to equity holders of the parent	**$ 239,133**	$ 99,589
Basic and diluted earnings per share, US dollars (7.83 roubles for 2007 and 4.20 roubles for 2006)	**$ 0.31**	$ 0.15

The weighted average number of ordinary shares for the year ended 31 December 2006 included the effect of the share split on 20 March 2006. As the share split occurred without a corresponding change in the Group's resources, the shares after the split were deemed outstanding from the beginning of the earliest period presented.

The weighted average number of ordinary shares for the year ended 31 December 2006 included the effect of the 300,650,000 ordinary shares which were issued by the Company on 14 September 2006 in connection with the Company's acquisition of MUK Group (Note 6). As the acquisition of MUK Group is a transaction under common control accounted for using the pooling of interests method, the increase in the Group's resources was effected on 31 May 2006. As a result, shares issued on 14 September 2006 were treated as shares outstanding from 31 May 2006.

Dividends Declared

On 7 December 2007, shareholders of the Company approved distribution of interim dividends for 2007 in the amount of 975,999,761 roubles ($39,755 at the exchange rate as of the date of transaction), which represents 1.25 roubles of dividends per share.

On 15 June 2007, shareholders of the Company approved distribution of dividends in respect of 2006 financial results in the amount of 1,514,751,629 roubles ($58,156 at the exchange rate as of the date of transaction), which represents 1.94 roubles of dividends per share.

In the year ended 31 December 2006, certain subsidiaries of the Group, accounted for under the pooling of interests method, declared dividends in the amount of $46,275 payable to the Company's parent.

(In thousands of US dollars, unless specified otherwise)

15. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of 31 December:

	2007	**2006**
7.50 per cent notes due 2012	**$ 300,000**	$ –
Natixis Banques Populaires	**–**	300,000
Russian banks	**44,121**	49,167
Ministry of Finance of the Russian Federation	**428**	1,283
BSGV	**2,511**	1,561
Interest payable	**2,568**	1,404
Unamortised debt issue costs	**(2,274)**	(1,130)
	$ 347,354	$ 352,285

On 17 May 2007 the Group issued loan participation notes amounting to $300,000. The note bear interest of 7.5% per annum payable semi-annually and mature on 22 May 2012. The terms and conditions of the notes provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

As of 31 December 2007 and 2006, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $19,799 and $300,905, respectively, and long-term loans and borrowings in the amount of $327,261 and $51,106, respectively, including the current portion of long-term liabilities of $17,119 and $22,172, respectively.

In 2007, average annual interest rates were 8.2%, 8.7% and 8.1% for short-term loans denominated in roubles, Euros and US dollars, and 9.9%, and 7.1% for long-term loans denominated in roubles and Euros, respectively.

In 2006, average annual interest rates were 7.4% and 6.5% for short-term loans denominated in roubles and US dollars, and 9.8%, 7.0% and 6.2% for long-term loans denominated in roubles, US dollars and Euro, respectively.

The liabilities are denominated in the following currencies as of 31 December:

	2007	**2006**
Roubles	**$ 35,184**	$ 49,240
US dollars	**305,055**	302,614
Euros	**9,389**	1,561
Unamortised debt issue costs	**(2,274)**	(1,130)
	$ 347,354	$ 352,285

(In thousands of US dollars, unless specified otherwise)

15. Loans and Borrowings (continued)

The liabilities are contractually repayable after the balance sheet date as follows as of 31 December:

	2007	2006
Less than one year	**$ 39,486**	$ 324,481
Between one year and two years	**10,142**	28,934
Between two years and five years	**300,000**	–
Unamortised debt issue costs	**(2,274)**	(1,130)
	$ 347,354	$ 352,285

16. Post-Employment Benefits

In accordance with collective bargaining agreements, the Group provides to its employees lump-sum amounts payable at the retirement date. In addition, the Group pays benevolent contributions to *Pensioner Raspadskoy*, a non-profit organisation, which provides regular lifetime pension payments to the Group's employees.

The post-employment benefits, provided by the Group, depend on years of service, level of compensation, and amount of pension payment under the collective bargaining agreements.

The components of net benefit expense recognised in the consolidated income statement for the years ended 31 December 2007 and 2006 and amounts recognised in the consolidated balance sheet as of 31 December 2007 and 2006 for the post-employment benefits are as follows:

Net Benefit Expense

	2007	2006
Current service cost	**$ 997**	$ 608
Interest cost on benefit obligation	**1,450**	594
Net actuarial loss recognised in the year	**517**	–
Past service cost	**(135)**	5,020
Net benefit expense	**$ 2,829**	$ 6,222

During the years ended 31 December 2007 and 2006, the Group reassessed benefits provided to retired employees and, consequently, reconsidered certain of these benefits to create a constructive obligation. Expense of $5,020 for the year 31 December 2006 relating to past service cost and resulting from the change in the estimate was immediately recognised in the consolidated income statements.

(In thousands of US dollars, unless specified otherwise)

16. Post-Employment Benefits (continued)

Benefit Liability

	2007	2006
Benefit obligation	**$ 31,160**	$ 22,239
Unrecognised net actuarial losses	**(13,786)**	(6,227)
Benefit liability	**$ 17,374**	$ 16,012

Movements in Benefit Obligation

	2007	2006
At January 1	**$ 22,239**	$ 8,624
Benefit expense	**2,829**	6,222
Change in liability due to business combination	**–**	904
Benefits paid	**(1,659)**	(1,275)
Actuarial losses on obligation	**5,839**	6,559
Translation difference	**1,912**	1,205
At 31 December	**$ 31,160**	$ 22,239

	2007	2006
Defined benefit obligation	**$ (31,160)**	$ (22,239)
Plan assets	**–**	–
Deficit	**$ (31,160)**	$ (22,239)
Experience adjustments on plan liabilities	**$ 7,516**	$ 5,406

The principal assumptions used in determining pension obligations for the Group’s plan are shown below:

	2007	2006
Discount rate	**6.75%**	6.75%
Future benefits increases	**5.00%**	5.00%

17. Trade and Other Payables

Trade and other payables were mainly denominated in roubles and consisted of the following as of 31 December:

	2007	2006
Trade accounts payable	**$ 19,688**	$ 11,250
Accrued payroll	**9,267**	7,046
Other payables	**8,061**	3,567
	$ 37,016	$ 21,863

(In thousands of US dollars, unless specified otherwise)

18. Other Taxes Payable

Taxes payable were denominated in roubles and consisted of the following as of 31 December:

	2007	2006
VAT payable	**$ 3,972**	$ 2,935
Other taxes	**7,448**	5,794
	$ 11,420	$ 8,729

19. Commitments and Contingencies

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

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 are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

As at 31 December 2007 management believes that its interpretations of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.

Contractual Commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works for an approximate amount of $18,860 as of 31 December 2007.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group’s assets are located. In 2008, the Group plans to spend $14,582 under these programmes.

(In thousands of US dollars, unless specified otherwise)

19. Commitments and Contingencies (continued)

Environmental Protection

The Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations. During the next four years, the Group expects to spend $38,723 under the Plan on Environmental Protection for the years 2008-2011 authorized by management.

Insurance Policies

The Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

20. Financial risks management objectives and policies

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable. To manage credit risk related to cash, the Group maintains its available cash, mainly in Russian Roubles in reputable Russian affiliates of international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a limited number of customers, to whom the Group sells on credit terms. The Group developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

	2007	2006
Investments	**$ 3,516**	$ 2,727
Trade and other receivables	**41,998**	30,872
Loans receivable	**2,715**	1,745
Receivables from related parties	**25,319**	3,320
Short-term investments, cash and cash equivalents	**82,311**	50,359
	$ 155,859	$ 89,023

(In thousands of US dollars, unless specified otherwise)

20. Financial risks management objectives and policies (continued)

Credit Risk (continued)

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties is presented in the table below.

	2007		2006	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Not past due	**$ 68,537**	**$ –**	$ 34,944	$ –
Past due	**2,645**	**1,150**	1,836	843
less than six months	**1,407**	**–**	203	–
over six months	**1,238**	**1,150**	1,633	843
	$ 71,182	**$ 1,150**	$ 36,780	$ 843

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure 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 Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares a detailed financial plan on a monthly basis which ensures that the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities for a period of 30 days.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments.

Year ended 31 December 2007

	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Total**
Long-term debt, including current portion	**$ 16,601**	**$ 9,624**	**$ 298,762**	**$ 324,987**
Short-term debt, including interest	**22,367**	**–**	**–**	**22,367**
Trade and other payables	**37,063**	**–**	**–**	**37,063**
Payables to related parties	**568**	**–**	**–**	**568**
Taxes payable	**23,194**	**–**	**–**	**23,194**
Dividends payable	**2,716**	**–**	**–**	**2,716**
	$ 102,509	**$ 9,624**	**$ 298,762**	**$ 410,895**

(In thousands of US dollars, unless specified otherwise)

20. Financial risks management objectives and policies (continued)

Liquidity Risk (continued)

Year ended 31 December 2006

	Less than 1 year	1 to 2 years	2 to 5 years	Total
Long-term debt, including current portion	$ 22,172	$ 34,821	$ –	$ 56,993
Short-term debt, including interest	302,062	–	–	302,061
Trade and other payables	22,743	–	–	22,743
Payables to related parties	1,141	–	–	1,141
Taxes payable	14,441	–	–	14,441
	$ 331,027	$ 34,821	$ –	$ 359,960

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are Euros and US dollars.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

	2007	2006
USD/RUR	**$ (271,968)**	$ (292,872)
EUR/RUR	**4,600**	3,181
GBP/RUR	**1,989**	–

Sensitivity Analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating a reasonably possible change the Group assessed the volatility of foreign exchange rates during the three years preceding the balance sheet dates.

	2007		2006	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%		%	
USD/RUR	**(5.80)**	**$ 15,744**	(6.10)	$ 17,865
	4.20	**(11,423)**	4.50	(13,179)
EUR/RUR	**(5.45)**	**(251)**	(7.00)	(223)
	3.25	**150**	4.70	149
GBP/RUR	**(4.40)**	**(87)**	(4.80)	–
	4.40	**87**	4.80	–

(In thousands of US dollars, unless specified otherwise)

20. Financial risks management objectives and policies (continued)

Interest Rate Risk

The Group incurs interest rate risk on loans and borrowings. The Group borrows on both a fixed and variable rate basis. The table below summarises the Group's outstanding interest-bearing debt as of 31 December:

	2007	2006
Fixed-rate debt	**$ 341,970**	$ 58,778
Variable-rate debt	**2,816**	298,870
	$ 344,786	$ 357,648

Cash Flow Sensitivity Analysis for Variable Rate Instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2007		2006	
	Basis points	**Effect on PBT**	**Basis points**	**Effect on PBT**
Liabilities denominated in US dollars				
Decrease in LIBOR	**(125)**	**(26)**	(100)	(2,989)
Increase in LIBOR	**75**	**16**	50	1,494
Liabilities denominated in Euros				
Decrease in EURIBOR	**(150)**	**(11)**	(50)	–
Increase in EURIBOR	**75**	**5**	150	–

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value. The Group includes equity attributable to the equity holders of the parent entity less the net unrealized gains on available-for-sale investments. There were no changes in the objectives, policies and processes during 2007.

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments and purchase of treasure shares.

(In thousands of US dollars, unless specified otherwise)

20. Financial risks management objectives and policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 30%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash, cash equivalents and short-term bank deposits. Capital includes convertible preference shares, equity attributable to the equity holders of the parent less the net unrealized gains reserve.

	2007	2006
Interest bearing loans and borrowings	**$ 347,401**	$ 359,934
Trade and other payables	**37,016**	21,863
Less cash, cash equivalents and short-term bank deposits	**(82,311)**	(50,359)
Net debt	**302,106**	331,438
Equity attributable to the equity holders of the parent entity	**1,064,178**	853,941
Net unrealised gains on investments available for sale	**(2,438)**	(1,580)
Total capital	**1,061,740**	852,361
Total Capital and net debt	**$ 1,363,846**	$ 1,183,799
Gearing ratio	**22%**	28%

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, short-term and long-term loans payable approximate their fair value. Only 7.5 per cent notes due in 2012 with carrying amount $297,726 differ from their fair value of $296,038.

21. Subsequent events

Commitments on Purchases of Property, Plant and Equipment

Subsequent to 31 December 2007, the Group signed bank letters of credit relating to the Group's commitments on purchases of property, plant and equipment, which include the following:

	Amount	Currency	Interest rate
BSGV	29,328,490	USD	Libor + 2.2%
Raiffeisenbank	24,117,450	EUR	EURibor + 2.2%

Proposed Dividends

On 17 April 2008, the Board of Directors of the Company, decided to recommend to shareholders of the Company to approve distribution of final dividends for 2007 in the amount of 2,927,999,284 roubles ($124,871 at the exchange rate as of 17 April 2008), which represents 3.75 roubles (0.16 U.S. dollars at the exchange rate as of 17 April 2008) of dividends per share.