OAO Raspadskaya

Consolidated financial statements

for the year ended 31 December 2009

OAO Raspadskaya

Consolidated financial statements

for the year ended 31 December 2009

Contents

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent Auditors' Report

To 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 statement of financial position as at December 31, 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 financial statements.

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 14, 2010

OAO Raspadskaya

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Notes	2009	2008
		US$000	*US$000*
Revenue			
Sale of goods		**483,831**	1,193,462
Other sales		**13,216**	6,935
	4	**497,047**	1,200,397
Cost of sales	5	**(241,996)**	(350,714)
Gross profit		**255,051**	849,683
Selling and distribution costs	5	**(11,434)**	(5,060)
General and administrative expenses	5	**(52,929)**	(67,233)
Social and social infrastructure maintenance expenses		**(5,396)**	(16,728)
Loss on disposal of property, plant and equipment		**(1,179)**	(2,757)
Foreign exchange losses		**(15,529)**	(63,352)
Other operating income		**1,553**	2,391
Other operating expenses		**(7,061)**	(11,968)
Operating profit		**163,076**	684,976
Dividend income		**12**	14
Interest income		**12,322**	12,813
Interest expense		**(25,307)**	(27,214)
Profit before income tax		**150,103**	670,589
Income tax expense	6	**(32,966)**	(139,472)
Profit for the year		**117,137**	531,117
Other comprehensive income:			
Effect of translation to presentation currency		**(28,083)**	(250,271)
Net gain/(loss) on available-for-sale financial assets		**1,411**	(2,553)
Income tax		**(274)**	633
		1,137	(1,920)
Other comprehensive loss for the year, net of tax		**(26,946)**	(252,191)
Total comprehensive income for the year		**90,191**	278,926
Profit for the year attributable to:			
Equity holders of the parent		**116,596**	530,798
Minority interests		**541**	319
		117,137	531,117
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		**89,775**	279,671
Minority interests		**416**	(745)
		90,191	278,926
Earnings per share: basic and diluted, for profit for the year attributable to the equity holders of the parent, US dollars (4.74 rubles and 16.22 rubles for the years ended 31 December 2009 and 2008, respectively)	14	**0.15**	0.68

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

OAO Raspadskaya

Consolidated statement of financial position

as at 31 December 2009

	Notes	2009	2008
		US$000	*US$000*
Assets			
Non-current assets			
Property, plant and equipment	7	**1,409,708**	1,360,953
Deferred tax asset	6	**2,108**	949
Other non-current assets	8	**35,958**	3,816
		1,447,774	1,365,718
Current assets			
Inventories	10	**44,274**	56,056
Trade and other receivables	11	**73,970**	63,270
Prepayments	11	**17,800**	8,106
Receivables from related parties	12	**73,385**	56,979
Income tax receivable		**3,406**	8,959
Other taxes recoverable	13	**11,136**	15,733
Short-term bank deposits	9	**149,953**	115,045
Cash and cash equivalents	9	**28,277**	71,555
		402,201	395,703
Total assets		**1,849,975**	1,761,421
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	14	**303**	303
Additional paid-in capital		**783,862**	783,862
Reserve capital		**7**	7
Accumulated profits		**662,605**	546,009
Unrealized gain on available-for-sale investments		**1,655**	518
Translation difference		**(179,485)**	(151,527)
		1,268,947	1,179,172
Minority interests		**5,735**	5,319
		1,274,682	1,184,491
Non-current liabilities			
Long-term loans	15	**303,343**	314,085
Deferred income tax liabilities	6	**140,496**	144,184
Post-employment benefits liabilities	16	**19,542**	17,522
Site restoration provision		**1,567**	1,466
		464,948	477,257
Current liabilities			
Trade and other payables	17	**43,410**	43,072
Advances from customers		**3,095**	3
Short-term loans and current portion of long-term loans	15	**28,384**	37,062
Payables to related parties	12	**1,274**	1,241
Income tax payable		**7,455**	293
Other taxes payable	18	**26,449**	9,735
Dividends payable		**278**	8,267
		110,345	99,673
Total equity and liabilities		**1,849,975**	1,761,421

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

OAO Raspadskaya

Consolidated cash flow statement

for the year ended 31 December 2009

	Notes	2009	2008
		US$000	*US$000*
Operating activities			
Profit for the year		**117,137**	531,117
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortization	7	**74,692**	121,622
Deferred income tax benefit	6	**(995)**	(51,989)
Loss on disposal of property, plant and equipment		**1,179**	2,757
Foreign exchange gains		**15,529**	63,352
Dividend income		**(12)**	(14)
Interest income		**(12,322)**	(12,813)
Interest expense		**25,307**	27,214
Employee benefits		**551**	1,546
Bad debt expense		**623**	110
		221,689	682,902
Changes in working capital:			
Inventories		**9,706**	(16,800)
Trade and other receivables		**(13,812)**	(50,176)
Prepayments		**(9,462)**	3,801
Receivables from / payables to related parties		**(17,127)**	(43,150)
Trade and other payables		**(5,317)**	12,872
Advances from customers		**2,949**	(1,550)
Taxes payable		**32,040**	(4,230)
Net cash flows from operating activities		**220,666**	583,669
Investing activities			
Purchases of property, plant and equipment	7	**(152,208)**	(283,987)
Bank deposits, including interest		**(57,066)**	(120,432)
Other investing activities, net		**626**	900
Net cash flows used in investing activities		**(208,648)**	(403,519)
Financing activities			
Proceeds from loans		**35,021**	51,924
Repayment of loans, including interest, net of government grants		**(78,005)**	(70,486)
Dividends paid		**(6,554)**	(157,834)
Net cash flows used in financing activities		**(49,538)**	(176,396)
Effect of foreign exchange rate changes on cash and cash equivalents		**(5,758)**	(14,510)
Net decrease in cash and cash equivalents		**(43,278)**	(10,756)
Cash and cash equivalents at the beginning of the year		**71,555**	82,311
Cash and cash equivalents at the end of the year		**28,277**	71,555
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		**23,636**	25,399
Interest received		**12,269**	13,097
Income taxes paid		**29,707**	212,570

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

OAO Raspadskaya

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Attributable to the equity holders of the parent								
	Issued capital	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits**	**Unrealized gain on available-for-sale investments**	**Translation difference**	**Parent shareholders' equity**	**Minority interests**	**Total**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2007	303	783,862	7	179,888	2,438	97,680	1,064,178	6,064	1,070,242
Net profit				530,798			530,798	319	531,117
Other comprehensive income					(1,920)	(249,207)	(251,127)	(1,064)	(252,191)
Dividends declared *(Note 14)*	–	–	–	(164,677)	–	–	(164,677)	–	(164,677)
At 31 December 2008	**303**	**783,862**	**7**	**546,009**	**518**	**(151,527)**	**1,179,172**	**5,319**	**1,184,491**
Net profit	**–**	**–**	**–**	**116,596**	**–**	**–**	**116,596**	**541**	**117,137**
Other comprehensive income	**–**	**–**	**–**	**–**	**1,137**	**(27,958)**	**(26,821)**	**(125)**	**(26,946)**
At 31 December 2009	**303**	**783,862**	**7**	**662,605**	**1,655**	**(179,485)**	**1,268,947**	**5,735**	**1,274,682**

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

1. Corporate information

The consolidated financial statements of OAO Raspadskaya (the "Company") for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 14 April 2010.

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

The Company and its subsidiaries (the "Group") derive 97% of their revenues from sales of coking coal. Other sales include sales of other goods and rendering of transport-handling and other services.

In the years ended 31 December 2009 and 2008, 21% and 30%, 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:

Subsidiary	Ownership interest		Business activity
	2009	**2008**	
OAO MUK-96	**100%**	100%	Coal mining
ZAO Razrez Raspadskiy	**100%**	100%	Coal mining
ZAO Raspadskaya Koksovaya	**100%**	100%	Coal mine under construction
ZAO Raspadskaya Preparation Plant	**100%**	100%	Coal processing
OOO Raspadskiy Ugol	**100%**	100%	Coal trading
ZAO Raspadskaya Coal Company	**100%**	100%	Managing

All the above subsidiaries were located and incorporated in Russia. The Group consolidates eurobond vehicle – Raspadskaya Securities Limited, Special Purpose Entity registered in the Republic of Ireland.

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 net selling price and post-employment benefits measured at present value.

The consolidated financial statements are presented in US dollars (US$) and all values are rounded to the nearest thousand (US$000) except when otherwise indicated.

2. Significant accounting policies (continued)

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations and revision of existing standards as at 1 January 2009 as follows.

- Amendments to **IFRS 1** *First-time Adoption of International Financial Reporting Standards* and **IAS 27** *Consolidated Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.* The amendments to **IFRS 1** allow an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with **IAS 27** or using a deemed cost. The amendment to **IAS 27** requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statement of operations in the separate financial statements. The new requirements affect only separate financial statements and do not have any impact on the consolidated financial statements.
- Amendments to **IFRS 2** *Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009. An amendment to **IFRS 2** clarifies the definition of vesting conditions and prescribes the treatment for an award that is canceled. The amendment had no impact on the financial position or performance of the Group.
- Amendments to **IFRS 7** *Financial Instruments: Disclosures: Improving Disclosures about Financial Instruments* effective 1 January 2009. The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 9. The liquidity risk disclosures are not impacted by the amendments.
- **IFRS 8** *Operating segments* effective 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The adoption of this Standard had no effect on the financial position or performance of the Group. 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 Russia.
- **IAS 1** (revised) *Presentation of Financial Statements* effective 1 January 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.
- Amendments to **IAS 32** *Financial Instruments: Presentation* and **IAS 1** *Presentation of Financial Statements*; *Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009. The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments had no impact on the financial position or the performance of the Group.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

- **IFRIC 9** *Reassessment of Embedded Derivatives* and **IAS 39** *Financial Instruments: Recognition and Measurement*. The adoption of these amendments had no effect on the financial position or performance of the Group as the Group had no embedded derivatives.
- **IFRIC 13** *Customer Loyalty Programmes* effective 1 July 2008. The adoption of this Interpretation had no effect on the financial position or performance of the Group as the Group maintained no loyalty programs.
- **IFRIC 15** *Agreements for the Construction of Real Estate* effective 1 January 2009. The adoption of this Interpretation had no effect on the financial position or performance of the Group as the Group did not undertake the construction of real estate.
- **IFRIC 16** *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008. The adoption of this Interpretation had no effect on the financial position or performance of the Group as the Group had no hedges.
- In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments resulted in minor changes to accounting policies and did not have any impact on the financial position or performance of the Group.

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

- **IFRS 2** (revised) *Share-based Payment – Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- **IFRS 3** (revised) *Business Combinations* effective 1 July 2009
- **IFRS 9** *Financial Instruments* effective 1 January 2013
- **IAS 24** (revised) *Related Party Disclosures* effective 1 January 2011
- **IAS 27** (revised) *Consolidated and Separate Financial Statements* effective 1 July 2009
- **IAS 32** (amended) *Financial Instruments: Presentation* effective 1 February 2010
- **IAS 39** (amended) *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- **IFRIC 14/IAS 19** (amended) *Prepayments of a Minimum Funding Requirement* effective 1 January 2011
- **IFRIC 17** *Distributions of Non-Cash Assets to Owners* effective 1 July 2009
- **IFRIC 18** *Transfer of Assets from Customers* effective 1 July 2009
- **IFRIC 19** *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results 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 ruble (the "ruble"). 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 end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to equity as a separate component.

2. Significant accounting policies (continued)

Foreign currency transactions (continued)

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 into rubles at the exchange rate ruling at the end of the reporting period. All resulting differences are taken to the consolidated statement of comprehensive income.

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 when control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized 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.

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 end of the reporting period 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 statement of financial position within equity, separately from the parent 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.

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalized 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 reporting 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 costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an impairment loss in the statement of comprehensive income. An impairment loss recognized 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.

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 sets out the useful lives of items of property, plant and equipment.

	Useful lives (years)	**Weighted average useful life (years)**
Buildings and constructions	10 – 60	24
Machinery and equipment	2 – 25	8
Transport and motor vehicles	4 – 32	5
Other assets	2 – 9	2

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

Depletion of mining assets including capitalized 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 capitalized, and the replaced assets are derecognized.

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 capitalized 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 charges 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 recognized as an expense in the statement of comprehensive income 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 recognized 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 recognized 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 amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization 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 amortized 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 end of the reporting period 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 recognized as a separate component of equity until the investment is derecognized 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 statement of comprehensive income. Reversals of impairment losses in respect of equity instruments are not recognized in the statement of comprehensive income. 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 recognized in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the end of the reporting period. 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 recognized on the settlement date i.e. the date the asset is delivered by/to the counterparty.

2. Significant accounting policies (continued)

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing 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 realizable 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 recognized 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.

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 end of the reporting period, 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 rubles, 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 recognized 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 recognized in statement of comprehensive income on the purchase, sale, issue or cancellation of the treasury shares.

2. Significant accounting policies (continued)

Equity (continued)

Dividends

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

Borrowings

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

Since 1 January 2008 borrowing costs relating to qualifying assets are capitalized (Note 7).

Accounts payable

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 recognized 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 recognized 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 statement of financial position by deducting the grant in arriving at the carrying amount of the asset and are recognized as a deduction from depreciation expense over the life of the asset.

Provisions

Provisions are recognized 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 recognized 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 recognized as an interest expense.

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

2. Significant accounting policies (continued)

Employee benefits

Social and pension contributions

Defined contributions are made by the Group to the Russian 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.

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 recognized in the statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognized 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 recognized as income or expense when the cumulative unrecognized 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 recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized 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 recognized immediately. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized 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 recognized 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 statement of comprehensive income.

Other costs

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

Revenue

Revenue is recognized 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.

2. Significant accounting policies (continued)

Revenue (continued)

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

Sale of goods

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

Interest

Interest is recognized using the effective interest method.

Dividends

Revenue is recognized 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 tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

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.

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

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 of uncertainty

The key assumptions concerning the future and other key sources of estimation of uncertainty at the end of the reporting period, 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 recognized or reversed in the years ended 31 December 2009 and 2008.

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 expense for the period. In the year ended 31 December 2008, there were no changes to the estimated remaining useful lives of items of property, plant and equipment. In the year ended 31 December 2009, following an independent valuation, the useful lives were reviewed, changed, and necessary adjustments were made. The change resulted in a decrease in depreciation expense by US$28,165,000 as compared to the amount that would have been charged had no change in estimate occurred.

Mineral reserves

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortization 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 amortization. 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 the future. An increase in the Group's license periods and increase in reported proved and probable reserves would generally lead to lower depreciation, depletion and amortization charge and could materially affect earnings. A reduction in proved and probable reserves will increase depreciation, depletion and amortization 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 amortization.

3. Significant accounting judgments and estimates (continued)

Estimation of uncertainty (continued)

Site restoration provision

The Group reviews site restoration provision at each end of the reporting period, and adjusts it 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 end of the reporting period. 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 at 31 December 2009 and 2008, site restoration provision that is included in other long-term liabilities was US$1,567,000 and US$1,466,000, respectively.

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 at 31 December 2009 and 2008, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of US$1,674,000 and US$1,050,000, 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. More details are provided in Note 19.

Deferred income tax assets

Deferred tax assets are reviewed at each reporting 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 utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization 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 utilization of deferred tax assets must be reduced, this reduction will be recognized in the statement of comprehensive income.

4. Revenue

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 Russia.

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

	2009	**2008**
	US$000	*US$000*
Russia	**361,829**	947,248
Ukraine	**84,845**	219,490
China	**21,043**	–
Republic of Korea	**12,843**	–
Japan	**11,115**	–
Hungary	**5,372**	16,875
Romania	**–**	15,132
Bulgaria	**–**	1,652
	497,047	1,200,397

Revenues from our major customers were as follows for the years ended 31 December:

	2009		**2008**	
	Amount	**Portion of revenue**	**Amount**	**Portion of revenue**
	US$000		*US$000*	
Evraz	**103,595**	**21%**	353,979	30%
MMK	**68,106**	**14%**	278,110	23%
NLMK (including Altay-Koks)	**64,558**	**13%**	207,802	17%
Kemerovo-Koks	**63,570**	**13%**	99,506	8%
Mechel	**48,351**	**10%**	34,126	3%
	348,180	**71%**	973,523	81%

5. Expenses

	2009	**2008**
	US$000	*US$000*
Cost of inventories recognized as expense	**50,348**	58,146
Staff cost, including social security taxes	**92,961**	121,938
Depreciation, depletion and amortization	**74,692**	121,622

6. Income taxes

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

	2009	**2008**
	US$000	*US$000*
Current income tax:		
Current income tax charge	**(33,961)**	(191,461)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**995**	16,752
Relating to changes in tax rates or the imposition of new taxes	**–**	35,237
Income tax expense	**(32,966)**	(139,472)

6. Income taxes (continued)

Russia was the only tax jurisdiction in which the Group's income was subject to taxation. In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate is effective from 1 January 2009.

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

	2009	**2008**
	US$000	*US$000*
Profit before income tax	**150,103**	670,589
Tax at Russian statutory income tax rate (20% for 2009 and 24% for 2008)	**(30,021)**	(160,941)
Tax on dividends distributed by the Group's subsidiaries to the parent company	**–**	(283)
Adjustments in respect of previous years	**1,364**	(5,231)
Deferred tax benefit relating to the change in tax rate	**–**	35,237
Effect of non-deductible expenses and other non-temporary differences	**(4,309)**	(8,254)
Income tax expense	**(32,966)**	(139,472)

Movement in deferred income tax assets and liabilities

	At 31 December 2009	**Change recognized in statement of comprehen-sive income**	**Change recognized in statement of changes in equity**	**Translation difference**	**At 31 December 2008**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Deferred income tax liabilities:					
Property, plant and equipment	**141,895**	**(709)**	**–**	**(4,228)**	**146,832**
Investments	**414**	**–**	**274**	**10**	**130**
Inventory	**208**	**138**	**–**	**4**	**66**
Other	**422**	**(175)**	**–**	**(25)**	**622**
	142,939	**(746)**	**274**	**(4,239)**	**147,650**
Deferred income tax assets:					
Accrued liabilities	**2,040**	**681**	**–**	**(6)**	**1,365**
Loss carry forward	**308**	**172**	**–**	**4**	**132**
Other	**2,203**	**(604)**	**–**	**(111)**	**2,918**
	4,551	**249**	**–**	**(113)**	**4,415**
Total deferred income tax asset/(liability)	**(138,388)**	**995**	**(274)**	**4,126**	**(143,235)**
Represented by the following:					
Net deferred income tax asset	**2,108**	**1,130**	**–**	**29**	**949**
Net deferred income tax liability	**140,496**	**135**	**274**	**(4,097)**	**144,184**

6. Income taxes (continued)

	At 31 December 2008	Change recognized in statement of comprehen-sive income	Change recognized in statement of changes in equity	Translation difference	At 31 December 2007
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Deferred income tax liabilities:					
Property, plant and equipment	146,832	(50,596)	–	(27,510)	224,938
Investments	130	–	(633)	(7)	770
Inventory	66	(746)	–	8	804
Other	622	(506)	–	(109)	1,237
	147,650	(51,848)	(633)	(27,618)	227,749
Deferred income tax assets:					
Accrued liabilities	1,365	(694)	–	(250)	2,309
Loss carry forward	132	111	–	(29)	50
Other	2,918	724	–	(594)	2,788
	4,415	141	–	(873)	5,147
Total deferred income tax asset/(liability)	(143,235)	51,989	633	26,745	(222,602)
Represented by the following:					
Net deferred income tax asset	949	(1,833)	–	(137)	2,919
Net deferred income tax liability	144,184	(53,822)	(633)	(26,882)	225,521

The current tax rate for dividend income in Russia ranges from 0% to 9%, depending on certain conditions. The Group expects that distribution of earnings by subsidiaries to the Company will be taxed at 0%. As such, deferred income taxes have not been provided for such undistributed earnings of US$505,006,000.

7. Property, plant and equipment

	2009	**2008**
At 31 December:	*US$000*	*US$000*
Cost:		
Land	**58**	60
Mining assets	**1,023,699**	1,021,649
Buildings and constructions	**109,482**	87,196
Machinery and equipment	**512,959**	367,399
Transport and motor vehicles	**32,573**	33,186
Other assets	**9,803**	7,941
Assets under construction	**204,499**	262,396
	1,893,073	1,779,827
Accumulated depreciation, depletion and amortization:		
Mining assets	**(211,722)**	(172,489)
Buildings and constructions	**(13,598)**	(10,055)
Machinery and equipment	**(236,595)**	(219,444)
Transport and motor vehicles	**(14,326)**	(11,251)
Other assets	**(5,714)**	(4,048)
	(481,955)	(417,287)
Government grants:		
Mining assets, net	**(1,214)**	(1,314)
Machinery and equipment, net	**(96)**	(160)
Other assets, net	**(100)**	(113)
	(1,410)	(1,587)
	1,409,708	1,360,953

7. Property, plant and equipment (continued)

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$3,439,000 and US$21,207,000 as at 31 December 2009 and 2008, respectively.

In 2009, the Group paid US$11,656,000 for the mining license for Raspadskaya-4 area. In addition, the Group paid US$3,000,000 for bidding on the mining license for Raspadskaya-3 area, whose acquisition was completed in 2010 (Note 21). The Group intends to estimate the resources under the two licenses in the near future. In 2008, the Group did not spend on mining licenses.

Movement in property, plant and equipment

	Land	Mining assets	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2008 cost, net of accumulated depreciation, depletion and government grants	**60**	**847,846**	**77,141**	**147,795**	**21,935**	**3,780**	**262,396**	**1,360,953**
Additions	**–**	**29,773**	**–**	**–**	**–**	**–**	**134,886**	**164,659**
Assets put into operation	**–**	**–**	**23,729**	**155,240**	**1,765**	**2,139**	**(182,873)**	**–**
Disposals	**–**	**–**	**(116)**	**(1,403)**	**(135)**	**(23)**	**(115)**	**(1,792)**
Reclassification	**–**	**–**	**(2)**	**478**	**(528)**	**2**	**50**	**–**
Depreciation & depletion charge	**–**	**(42,100)**	**(3,641)**	**(27,863)**	**(4,021)**	**(1,825)**	**–**	**(79,450)**
Amortization of government grants	**–**	**59**	**–**	**57**	**–**	**9**	**–**	**125**
Change in site restoration provision	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Translation difference	**(2)**	**(24,815)**	**(1,227)**	**1,964**	**(769)**	**(93)**	**(9,845)**	**(34,787)**
At 31 December 2009, cost, net of accumulated depreciation, depletion and government grants	**58**	**810,763**	**95,884**	**276,268**	**18,247**	**3,989**	**204,499**	**1,409,708**

	Land	Mining assets	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2007 cost, net of accumulated depreciation, depletion and government grants	63	1,023,135	76,945	140,972	23,126	4,744	210,222	1,479,207
Additions	–	34,954	–	–	–	–	250,620	285,574
Assets put into operation	9	–	19,931	104,292	9,891	1,699	(135,822)	–
Disposals	–	–	(215)	(2,359)	(1,263)	(14)	(110)	(3,961)
Reclassification	–	5,691	(23)	2,333	(466)	(135)	(7,400)	–
Depreciation & depletion charge	–	(49,641)	(3,739)	(63,710)	(4,812)	(2,190)	–	(124,092)
Amortization of government grants	–	63	–	802	–	17	–	882
Change in site restoration provision	–	(90)	–	–	–	–	–	(90)
Translation difference	(12)	(166,266)	(15,758)	(34,535)	(4,541)	(341)	(55,114)	(276,567)
At 31 December 2008, cost, net of accumulated depreciation, depletion and government grants	60	847,846	77,141	147,795	21,935	3,780	262,396	1,360,953

7. Property, plant and equipment (continued)

As at 31 December 2009 and 2008, the Group had production equipment with a carrying value of US$215,000 and US$nil, respectively, pledged to banks as collateral against loans to the Group (Note 14).

The amounts of borrowing costs capitalized were US$1,560,000 and US$989,000 in the years ended 31 December 2009 and 2008 respectively.

8. Other non-current assets

	2009	**2008**
	US$000	*US$000*
At 31 December:		
Available-for-sale investments:		
Quoted equity shares	**2,072**	651
Unquoted equity shares	**246**	253
	2,318	904
Long-term bank deposits	**31,242**	–
Loans to employees	**2,091**	2,118
Other non-current assets	**307**	794
	35,958	3,816

The above long-term deposits are represented by non-restricted deposits placed in Russian state banks.

9. Short-term bank deposits and cash and cash equivalents

Short-term bank deposits

	2009	**2008**
	US$000	*US$000*
At 31 December:		
Russian rubles	**83,348**	93,565
US dollars	**64,970**	21,480
Euro	**1,635**	–
	149,953	115,045

The above short-term deposits are represented by non-restricted deposits placed in Russian state banks and affiliates of international banks.

Cash and cash equivalents

	2009	**2008**
	US$000	*US$000*
At 31 December:		
Russian rubles	**19,338**	64,349
US dollars	**7,498**	7,206
Euro	**1,441**	–
	28,277	71,555

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

10. Inventories

	2009	2008
	US$000	*US$000*
At 31 December:		
Raw materials and spare parts (at cost)	**40,235**	47,674
Finished goods (at cost)	**4,039**	1,580
Finished goods (at net realizable value)	**–**	6,802
	44,274	56,056

11. Trade and other receivables and prepayments

	2009	2008
	US$000	*US$000*
At 31 December:		
Trade accounts receivable	**73,542**	62,021
Prepayments	**17,800**	8,106
Other receivables	**2,102**	2,299
	93,444	72,426
Allowance for doubtful accounts	**(1,674)**	(1,050)
	91,770	71,376

As at 31 December 2009 and 2008, receivables with nominal value of US$1,674,000 and US$1,050,000, respectively were doubtful and fully provided for.

Movement in the allowance for doubtful accounts

	2009	2008
	US$000	*US$000*
At 1 January	**1,050**	1,150
Charge for the year	**1,054**	393
Amounts written off	**(394)**	(272)
Unused amounts reversed	**(37)**	(15)
Translation difference	**1**	(206)
At 31 December	**1,674**	1,050

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.

12. Related party disclosures (continued)

Amounts owed by/to related parties

	Amounts due from related parties		Amounts due to related parties	
	2009	**2008**	**2009**	**2008**
	US$000	*US$000*	*US$000*	*US$000*
At 31 December:				
OOO Trade Company EvrazHolding	**52,005**	–	**579**	1,027
OOO EvrazResource Ukraine	**20,993**	3	**–**	–
OOO Trade House EvrazResource	**80**	56,438	**–**	–
OAO Yuzhny Kuzbass	**67**	212	**–**	18
OOO Raspadskaya Constructing Industrial Company	**152**	5	**8**	137
Greyridge Coal and Shipping	**–**	–	**–**	–
OAO Nakhodka Port	**–**	–	**546**	–
Other entities	**88**	321	**141**	59
	73,385	56,979	**1,274**	1,241

Assets under construction include prepayments to related parties - constructors and suppliers of property, plant and equipment in the amount of US$5,000 and US$1,082,000 as at 31 December 2009 and 2008, respectively.

Transactions with related parties

	Sales to related parties		Purchases from related parties	
	2009	**2008**	**2009**	**2008**
	US$000	*US$000*	*US$000*	*US$000*
OOO Trade Company EvrazHolding	**50,031**	**–**	**10,557**	**–**
OOO EvrazResource Ukraine	**37,687**	76,080	**–**	–
OOO Trade House EvrazResource	**15,854**	225,766	**–**	–
OAO Yuzhny Kuzbass	**2,370**	4,455	**–**	19
OOO Raspadskaya Constructing Industrial Company	**146**	1,617	**1,544**	10,358
Greyridge Coal and Shipping	**–**	51,804	**–**	–
OAO Nakhodka Port	**–**	–	**2,118**	–
Other entities	**330**	438	**200**	246
	106,418	360,160	**14,419**	10,623

OOO Trade Company EvrazHolding is an entity under control of Evraz. During 2009, the entity sold to the Group certain steel products and bought from the Group coal concentrate. During 2009 and 2008, the Group sold to the entity approximately 9% and 0% of sales volumes of coal concentrate, respectively.

OOO EvrazResource Ukraine is an entity under control of Evraz. During 2009 and 2008, the Group sold to the entity approximately 9% and 6% of sales volumes of coal concentrate, respectively.

OOO Trade House EvrazResource is an entity under control of Evraz. During 2009 and 2008, the Group sold to the entity approximately 4% and 18% of sales volumes of coal and coal concentrate, respectively.

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

OOO Raspadskaya Constructing Industrial Company is an entity under control of the shareholders of Adroliv. The entity provided construction services to the Group.

12. Related party disclosures (continued)

Greyridge Coal and Shipping is an entity under control of Evraz. During 2009 and 2008, the Group sold to the entity approximately 0% and 4% of sales volumes of coal concentrate, respectively.

OAO Nakhodka Port is an entity under control of Evraz. The entity rendered port services to the Group.

Compensation to key management personnel

Key management personnel totaled 9 people as at 31 December 2009 and 2008. Total compensation to key management personnel was included in general and administrative expenses in the statement of comprehensive income and consisted of the following in the years ended 31 December:

	2009	**2008**
	US$000	*US$000*
Short-term benefits:		
Salary	**2,218**	2,629
Bonus	**2,100**	228
Social security taxes	**82**	80
	4,400	2,937

13. Other taxes recoverable

	2009	**2008**
	US$000	*US$000*
At 31 December:		
Input VAT	**10,582**	15,225
Other taxes	**554**	508
	11,136	15,733

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.

14. Equity

Share capital

As at 31 December 2009 and 2008, the Company's issued and fully paid number of shares consisted of 780,799,809 ordinary shares with par value 0.004 rubles each; the authorized share capital consisted of 1,478,811,096 ordinary shares.

Reserve capital

According to the Russian law, the Group creates a reserve capital in the amount of 5% of share capital per 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.

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 is equal to the basic earnings per share.

14. Equity (continued)

Dividends declared and paid

	Date of declaration	Per share	Total
		rubles	*US$000*
Final for 2007	2 June 2008	3.75	123,344
Interim for 2008	24 December 2008	1.50	41,333
Final for 2008	2 June 2009	–	–

15. Loans and borrowings

Loans and borrowings by source

	2009	2008
	US$000	*US$000*
At 31 December:		
7.5% notes due 2012	**300,000**	300,000
Raiffeisenbank	**21,624**	11,255
BSGV	**8,495**	35,901
Other Russian banks	**23**	2,748
Interest payable	**2,590**	2,710
Unamortized debt issue costs	**(1,005)**	(1,467)
	331,727	351,147

On 17 May 2007 the Group issued loan participation notes amounting to US$300,000,000. The notes bear the 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 a financial ratio in respect of indebtedness and profitability.

Average annual interest rates

	2009		2008	
	Short-term	Long-term	Short-term	Long-term
Russian rubles	**–**	**–**	n/a	8.0%
US dollars	**–**	**7.2%**	8.7%	7.3%
Euro	**–**	**3.9%**	7.2%	6.3%

Loans and borrowings by currency

	2009	2008
	US$000	*US$000*
At 31 December:		
Russian rubles	**25**	25
US dollars	**311,012**	341,331
Euro	**21,695**	11,258
Unamortized debt issue costs	**(1,005)**	(1,467)
	331,727	351,147

Loans and borrowings by period of repayment

	2009	2008
	US$000	*US$000*
At 31 December:		
Not more than one year	**28,407**	37,085
After one year but not more than two years	**4,325**	14,122
After two years but not more than five years	**300,000**	301,407
Unamortized debt issue costs	**(1,005)**	(1,467)
	331,727	351,147

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 non-profit organizations, which provide 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 recognized in the consolidated statement of comprehensive income for the years ended 31 December 2009 and 2008 and amounts recognized in the statement of financial position as at 31 December 2009 and 2008 for the post-employment benefits were as follows:

Net benefit expense

	2009	**2008**
	US$000	*US$000*
Current service cost	**1,025**	1,338
Interest cost on benefit obligation	**1,852**	2,070
Net actuarial loss recognized in the year	**511**	1,333
Past service cost	**–**	378
	3,388	5,119

In the years ended 31 December 2009 and 2008, the Group reassessed benefits provided to retired employees and, consequently, reconsidered certain of these benefits to create a constructive obligation.

Net benefit liability

	2009	**2008**
	US$000	*US$000*
At 31 December:		
Benefit obligation	**26,102**	23,498
Unrecognized net actuarial losses	**(6,560)**	(5,976)
	19,542	17,522

Movement in benefit obligation

	2009	**2008**
	US$000	*US$000*
At 1 January	**23,498**	31,160
Benefit expense	**3,388**	5,119
Benefits paid	**(984)**	(1,564)
Actuarial losses on obligation	**720**	(6,551)
Translation difference	**(520)**	(4,666)
At 31 December	**26,102**	23,498

Post-employment benefits disclosures

	2009	**2008**	**2007**	**2006**	**2005**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December:					
Defined benefit obligation	**(26,102)**	(23,498)	(31,160)	(22,239)	(8,624)
Deficit	**(26,102)**	(23,498)	(31,160)	(22,239)	(8,624)
Experience adjustments on plan liabilities	**(1,334)**	(3,722)	7,516	5,406	221

16. Post-employment benefits

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

	2009	2008
Discount rate	**10.0%**	8.5%
Future benefits increases	**8.0%**	6.0%

17. Trade and other payables

	2009	2008
	US$000	*US$000*
At 31 December:		
Trade accounts payable	**27,176**	32,531
Accrued payroll	**9,077**	4,641
Other payables	**7,157**	5,900
	43,410	43,072

18. Other taxes payable

	2009	2008
	US$000	*US$000*
At 31 December:		
VAT	**19,163**	4,574
Other taxes	**7,286**	5,161
	26,449	9,735

19. Commitments and contingencies

Operating environment of the Group

The Group is one of the biggest coking coal producers in Russia. Russia is considered as developing market with higher economic and political risks. The Russian economy is characterized by relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of the country. The country continues to implement economic reforms and the development of legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The developing economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

The Group sells its coal concentrate and raw coal to metallurgical companies, all of which have reported lower customer demand due to the slowing global economy. In addition to the slackening demand by the end customers, some of the Group's customers are experiencing difficulty in obtaining credit, which has further reduced their purchases from the Group even beyond that resulting from the decline in their sales. The duration of the difficulties and the recovery of these companies will have a significant impact on the Group.

19. Commitments and contingencies (continued)

The worldwide financial crisis may result in a further reduction of the available credit facilities as well as substantially higher interest rates. The reduced cash from operations and the reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures. These factors may also negatively impact the Group's ability to make acquisitions.

While the stabilization measures aimed at providing liquidity and supporting debt refinancing have been introduced by the government, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. The unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Taxation

The 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 Russia suggest that the tax authorities are taking a more assertive position in their 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.

Management believes that its interpretations of the relevant legislation are appropriate and that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Possible liabilities, which were identified by management at the end of the reporting period as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to $1,923,000.

Contractual commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US$52,953,000 as at 31 December 2009.

Social commitments

The Group is involved in a number of social programs aimed to support education, health care and social infrastructure development in the towns where the Group's assets are located. In 2010, the Group plans to spend US$8,188,000 under these programs, including US$nil contributions to post-employment benefit programs.

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 2010 and 2011, the Group expects to spend US$29,413,000 under the Plan on environmental protection authorized by management.

19. Commitments and contingencies (continued)

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 rubles 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:

	2009	**2008**
	US$000	*US$000*
At 31 December:		
Financial instruments	**33,560**	904
Long-term receivables	**2,115**	2,176
Trade and other receivables	**73,970**	63,270
Receivables from related parties	**73,385**	56,979
Short-term investments, cash and cash equivalents	**178,230**	186,600
	361,260	309,929

The ageing analysis of trade and other receivables as at 31 December is presented below:

	2009		**2008**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
	US$000	*US$000*	*US$000*	*US$000*
Not past due	**95,735**	**303**	17,990	214
Past due				
less than six months	**54,607**	**706**	104,605	58
over six months	**801**	**664**	880	778
	151,143	**1,673**	123,475	1,050

Since 1 January 2009, due payment period was increased from 30 to 60 days.

20. Financial risks management objectives and policies (continued)

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 the 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 summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments.

	Less than 1 year	1 to 2 years	2 to 5 years	Total
At 31 December 2009:	*US$000*	*US$000*	*US$000*	*US$000*
Fixed-rate debt				
Loans and borrowings				
Principal	**23**	**–**	**300,000**	**300,023**
Interest	**22,501**	**22,500**	**11,250**	**56,251**
	22,524	**22,500**	**311,250**	**356,274**
Variable-rate debt				
Loans and borrowings				
Principal	**25,794**	**4,325**	**–**	**30,119**
Interest	**728**	**35**	**–**	**763**
	26,522	**4,360**	**–**	**30,882**
Non-interest bearing debt				
Trade and other payables	**43,410**	**–**	**–**	**43,410**
Payables to related parties	**1,274**	**–**	**–**	**1,274**
Dividends payable	**278**	**–**	**–**	**278**
	44,962	**–**	**–**	**44,962**
	94,008	**26,860**	**311,250**	**432,118**

20. Financial risks management objectives and policies (continued)

	Less than 1 year	1 to 2 years	2 to 5 years	Total
At 31 December 2008:	*US$000*	*US$000*	*US$000*	*US$000*
Fixed-rate debt				
Loans and borrowings				
Principal	2,748	–	300,000	302,748
Interest	22,502	22,500	33,750	78,752
	25,250	22,500	333,750	381,500
Variable-rate debt				
Loans and borrowings				
Principal	31,627	14,122	1,407	47,156
Interest	1,200	283	15	1,498
	32,827	14,405	1,422	48,654
Non-interest bearing debt				
Trade and other payables	43,072	–	–	43,072
Payables to related parties	1,241	–	–	1,241
Dividends payable	8,267	–	–	8,267
	52,580	–	–	52,580
	110,657	36,905	335,172	482,734

Currency risk

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

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:

	2009	2008
	US$000	*US$000*
USD/RUB	**(208,974)**	(320,460)
EUR/RUB	**(25,355)**	(11,258)

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 end of the reporting periods.

	2009		2008	
	Change in exchange rate	Effect on profit before tax	Change in exchange rate	Effect on profit before tax
		US$000		*US$000*
USD/RUB	**(15.65)**	**32,704**	(8.98)	28,777
	15.65	**(32,704)**	8.98	(28,777)
EUR/RUB	**(12.18)**	**3,088**	(8.63)	972
	12.18	**(3,088)**	8.63	(972)

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 fixed and variable rate basis. The table below summarizes the Group's outstanding interest-bearing debt:

	2009	2008
	US$000	*US$000*
At 31 December:		
Fixed-rate debt	**299,018**	301,281
Variable-rate debt	**30,119**	47,156
	329,137	348,437

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 by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2009		2008	
	Change in interest rate	Effect on profit before tax	Change in interest rate	Effect on profit before tax
	basis points	*US$000*	*basis points*	*US$000*
Liabilities denominated in US dollars				
Decrease in LIBOR	**(25)**	**(21)**	(55)	(197)
Increase in LIBOR	**100**	**85**	55	197
Liabilities denominated in euro				
Decrease in EURIBOR	**(25)**	**(54)**	(30)	(34)
Increase in EURIBOR	**100**	**216**	30	34

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. There were no changes in the objectives, policies and processes of the Group's capital management during 2009.

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

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 at a level not exceeding 25%. The Group includes within net debt interest bearing loans and borrowings less cash, cash equivalents and short-term bank deposits. Capital includes equity attributable to the equity holders of the parent less the net unrealized gains on available-for-sale investments

20. Financial risks management objectives and policies (continued)

The computation of the gearing ratios for the years ended 31 December is set out below:

	2009	2008
	US$000	*US$000*
Interest bearing loans and borrowings	**331,727**	351,147
Less:		
Cash, cash equivalents and bank deposits	**(209,472)**	(186,600)
Net debt	**122,255**	164,547
Equity attributable to the equity holders of the parent	**1,268,947**	1,179,161
Less:		
Net unrealized gains on investments available for sale	**(1,655)**	(518)
Total capital	**1,267,292**	1,178,643
Total capital and net debt	**1,389,547**	1,343,190
Gearing ratio	**9%**	12%

Fair value of financial instruments

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, variable rate short-term and variable rate long-term loans payable approximate their fair value. Fair value of 7.5% notes due in 2012 with carrying amount US$298,995,000 is determined by reference to published price quotations in an active market and approximates to US$301,680,000.

21. Subsequent events

Proposed dividends

On 14 April 2010, the Board of Directors of the Company decided to recommend to the shareholders of the Company to approve distribution of final dividends for 2009 in the amount of 3,903,999,045 rubles (US$134,484,317 at the exchange rate as at 14 April 2010), which represents 5.00 rubles (US$0.17 at the exchange rate as at 14 April 2010) of dividends per share.

Acquisition of mining license

In January 2010, the Group spent US$317,000 to finalize the acquisition of the Raspadskaya-3 area mining license.