OAO Raspadskaya

Consolidated Financial Statements

Year ended 31 December 2006

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Contents

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Independent Auditors' 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, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 of December 31, 2006, and its financial performance and its cash flows for the years 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 13, 2007

OAO Raspadskaya

Consolidated Income Statement

Year Ended 31 December 2006

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

	Notes	2006	2005
Revenue			
Sale of goods		**$ 465,394**	$ 534,291
Rendering of services		**6,696**	14,600
	4	**472,090**	548,891
Cost of sales	5	**(260,208)**	(315,422)
Gross profit		**211,882**	233,469
Selling and distribution costs	5	**(19,235)**	(5,255)
General and administrative expenses	5	**(39,391)**	(25,587)
Social and social infrastructure maintenance expenses	5	**(6,809)**	(7,118)
Loss on disposal of property, plant and equipment		**(1,591)**	(1,188)
Foreign exchange gains		**8,006**	113
Other operating income		**1,910**	2,827
Other operating expenses		**(4,377)**	(12,466)
Dividend income		**15**	93
Interest income		**1,077**	3,294
Interest expense		**(17,518)**	(5,665)
Profit before tax		**133,969**	182,517
Income tax expense	7	**(33,793)**	(49,909)
Profit for the year		**$ 100,176**	$ 132,608
Attributable to:			
Equity holders of the parent entity		**$ 99,589**	$ 132,148
Minority interests		**587**	460
		$ 100,176	$ 132,608
Earnings per share:			
Profit for the year attributable to equity holders of the parent entity, basic and diluted, US dollars (4.20 rubles for 2006 and 8.30 rubles for 2005)	14	**$ 0.15**	$ 0.29

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated Balance Sheet

At 31 December 2006

(In thousands of US dollars)

	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	8	**$ 1,354,116**	$ 289,258
Deferred tax asset	7	**3,675**	501
Other non-current assets		**5,229**	2,081
		1,363,020	291,840
Current assets			
Inventories	9	**26,662**	18,552
Trade and other receivables	10	**30,869**	23,932
Receivables from related parties	11	**3,320**	11,856
Income tax receivable		**219**	274
Other taxes recoverable	12	**27,765**	47,004
Short-term bank deposits		**1,140**	105
Cash and cash equivalents	13	**49,219**	26,946
		139,194	128,669
Total assets		**$ 1,502,214**	$ 420,509
EQUITY AND LIABILITIES			
Equity			
Parent shareholders' equity			
Issued capital	14	**$ 304**	$ 259
Treasury shares	14	**(1,131)**	(6,627)
Additional paid-in capital	14	**783,862**	1,402
Reserve capital	14	**7**	7
Accumulated profits/(losses)		**39,796**	(13,518)
Unrealised gain on available-for-sale investments		**1,580**	650
Translation difference		**29,523**	8,535
		853,941	(9,292)
Minority interests		**4,290**	3,684
		858,231	(5,608)
Non-current liabilities			
Long-term loans	15	**28,934**	17,326
Long-term loan to related parties	11	**5,887**	–
Deferred income tax liabilities	7	**229,984**	12,685
Post-employment benefits	16	**16,012**	8,219
Other long-term liabilities		**1,490**	70
		282,307	38,300
Current liabilities			
Trade and other payables	17	**21,863**	11,794
Short-term loans and current portion of long-term loans	15	**323,351**	46,387
Payables to related parties	11	**1,141**	317,091
Income tax payable	18	**5,712**	1,125
Other taxes payable	18	**8,729**	11,420
Current portion of other long-term liabilities		**880**	–
		361,676	387,817
Total equity and liabilities		**$ 1,502,214**	$ 420,509

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated Cash Flow Statement

Year Ended 31 December 2006

(In thousands of US dollars)

	Notes	2006	2005
Cash flows from operating activities			
Profit for the year		**$ 100,176**	$ 132,608
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation, depletion and amortisation	8	**68,336**	30,785
Deferred income tax benefit	7	**(11,141)**	(1,575)
Loss on disposal of property, plant and equipment		**1,591**	1,188
Foreign exchange gains		**(8,006)**	(113)
Dividend income		**(15)**	(93)
Interest income		**(1,077)**	(3,294)
Interest expense		**17,518**	5,665
Employee benefits		**5,628**	5,729
Bad debt expense		**183**	765
		173,193	171,665
Changes in working capital:			
Inventories		**(2,271)**	(6,335)
Trade and other receivables		**(3,980)**	(2,722)
Receivables from / payables to related parties		**6,442**	15,334
Trade and other payables		**(19,387)**	(7,774)
Taxes payable		**24,616**	(15,585)
Net cash flows from operating activities		**178,613**	154,583
Cash flows from investing activities			
Purchases of property, plant and equipment		**(100,768)**	(104,732)
Purchases of subsidiaries from the Company's parent, net of cash acquired of $31,947	6	**(274,986)**	–
Short-term deposits at banks, including interest, net		**85**	11,100
Other investing activities		**39**	1,440
Net cash flows used in investing activities		**(375,630)**	(92,192)
Cash flows from financing activities			
Proceeds from issuance of share capital	14	**1,316**	–
Purchases of treasury shares	14	**(1,182)**	(1,048)
Proceeds from sale of treasury shares	14	**19,967**	–
Proceeds from loans and promissory notes		**315,296**	52,529
Repayment of loans and promissory notes, including interest		**(73,930)**	(36,459)
Dividends paid		**(46,275)**	(97,156)
Payments under finance leases, including interest		**(221)**	–
Net cash flows from/(used in) financing activities		**214,971**	(82,134)
Effect of foreign exchange rate changes on cash and cash equivalents		**4,319**	(1,411)
Net increase/(decrease) in cash and cash equivalents		**22,273**	(21,154)
Cash and cash equivalents at beginning of period		**26,946**	48,100
Cash and cash equivalents at end of period		**$ 49,219**	$ 26,946
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		**$ 14,516**	$ 5,801
Income taxes paid		**53,395**	59,105

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated Statement of Changes in Equity

Year Ended 31 December 2006

(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 assets, net of income tax of $616	**–**	**–**	**–**	**–**	**–**	**930**	**–**	**930**	**–**	**930**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**		**20,988**	**20,988**	**19**	**21,007**
Total income and expense for the year recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**930**	**20,988**	**21,918**	**19**	**21,937**
Profit for the year	**–**	**–**	**–**	**–**	**99,589**	**–**	**–**	**99,589**	**587**	**100,176**
Total income and expense for the year	**–**	**–**	**–**	**–**	**99,589**	**930**	**20,988**	**121,507**	**606**	**122,113**
Issue of share capital, net of transaction costs *(Note 14)*	**45**	**–**	**769,171**	**–**	**–**	**–**	**–**	**769,216**	**–**	**769,216**
Purchase of treasury shares *(Note 14)*	**–**	**(1,182)**	**–**	**–**	**–**	**–**	**–**	**(1,182)**	**–**	**(1,182)**
Sale of treasury shares *(Note 14)*	**–**	**6,678**	**13,289**	**–**	**–**	**–**	**–**	**19,967**	**–**	**19,967**
Dividends declared *(Note 14)*	**–**	**–**	**–**	**–**	**(46,275)**	**–**	**–**	**(46,275)**	**–**	**(46,275)**
At 31 December 2006	**$ 304**	**$ (1,131)**	**$ 783,862**	**$ 7**	**$ 39,796**	**$ 1,580**	**$ 29,523**	**$ 853,941**	**$ 4,290**	**$858,231**

The accompanying notes on pages 6 to 38 are an integral part of these consolidated financial statements.

Consolidated Statements 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 2004	$ 256	$ (5,579)	$ 1,338	$ 7	$ (48,267)	$ –	$ 6,978	$ (45,267)	$ 3,681	$ (41,586)
Net gains on available-for-sale financial assets	–	–	–	–	–	650	–	650	–	650
Foreign currency translation	–	–	–	–	–	–	1,557	1,557	(134)	1,423
Total income and expense for the year recognised directly in equity	–	–	–	–	–	650	1,557	2,207	(134)	2,073
Profit for the year	–	–	–	–	132,148	–	–	132,148	460	132,608
Total income and expense for the year	–	–	–	–	132,148	650	1,557	134,355	326	134,681
Issue of share capital, net of transaction costs (*Note 14*)	3	–	–	–	–	–	–	3	–	3
Purchase of treasury shares *(Note 14)*	–	(1,048)	–	–	–	–	–	(1,048)	–	(1,048)
Acquisition of minority interests in existing subsidiaries	–	–	64	–	–	–	–	64	(323)	(259)
Dividends declared *(Note 14)*	–	–	–	–	(97,399)	–	–	(97,399)	–	(97,399)
At 31 December 2005	$ 259	$ (6,627)	$ 1,402	$ 7	$ (13,518)	$ 650	$ 8,535	$ (9,292)	$ 3,684	$ (5,608)

The accompanying notes on pages 6 to 38 are 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 2006 were authorised for issue in accordance with a resolution of the Board of Directors on 13 April 2007.

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 direct 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 2006 and 2005, approximately 18% and 30%, respectively, of the Group’s revenues were generated from transactions with related parties. In addition, a significant part of the Group’s purchases was made in transactions with related parties. For detailed information related to such activities refer to Note 11.

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

Subsidiary	Ownership interest,% 2006	Ownership interest,% 2005	Business activity	Country of incorporation
OAO MUK-96 (“MUK-96”)	100.00	–	Coal mine	Russian Federation
ZAO Razrez Raspadsky	100.00	–	Coal mine	Russian Federation
OOO Raspadskiy Ugol	100.00	100.00	Coal trading	Russian Federation
ZAO Raspadskaya Coal Company	100.00	100.00	Management services	Russian Federation
ZAO Raspadskaya Preparation Plant	100.00	100.00	Coal processing factory	Russian Federation
ZAO Raspadskaya Koksovaya	100.00	100.00	Coal mine	Russian Federation
OOO Raspadskaya-Joy	100.00	100.00	Mining services	Russian Federation
OOO Puteets	100.00	100.00	Railway maintenance	Russian Federation
OAO OShPU	95.12	95.12	Mining engineering and construction	Russian Federation
OAO TPTU	58.59	58.59	Transportation	Russian Federation
OOO Montazhnik Raspadskoy	51.00	51.00	Mining equipment maintenance	Russian Federation

1. Corporate Information (continued)

As further described in Note 6, during the year ended December 31, 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 Raspadsky ("Razrez Raspadsky"), which was originally acquired during the period by the Company's parent.

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 amount 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.

Working Capital Deficit

In 2006, the Group acquired controlling interests in Raspadskiy Ugol, Raspadskaya Coal Company, Raspadskaya Preparation Plant, and Raspadskaya Koksovaya from the Company's parent. These acquisitions were financed with a short-term bridge bank loan with an intention to re-finance it with a permanent financing. The short-term loan matures on 30 June 2007. As a result as of 31 December 2006 the Group had a working capital deficit. The Group plans to re-finance the short-term bridge bank loan on a long-term basis prior to 30 June 2007.

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 the historical cost convention, except as disclosed in the accounting policies below. For example, property, plant and equipment at the date of transition to IFRS were accounted for at deemed cost. Other exceptions include available-for-sale investments measured at fair value and post-employment benefits measured at present value.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

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 2006.

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

- IFRS 6 “Exploration for and Evaluation of Mineral Resources”;
- IAS 19 (amended 2005) “Employee benefits”;
- IAS 21 (amended 2005) “The Effects of Changes in Foreign Exchange Rates”;
- IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”
- IFRIC 4 “Determining whether an Arrangement contains a Lease”;
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”.

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

IFRS 6 “Exploration for and Evaluation of Mineral Resources”

The IASB issued IFRS 6 “Exploration for and Evaluation of Mineral Resources” in 2004 and amended the Standard in June 2005. IFRS 6 permits an entity to develop an accounting policy for exploration and evaluation of assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8. Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the standard. This includes continuing to use recognition and measurement practices that are part of those accounting policies. IFRS 6 requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying value of the assets may exceed their recoverable amount. IFRS 6 varies the recognition of impairment from that in IAS 36 but measures the impairment in accordance with that Standard once the impairment is identified.

IAS 19 (amended 2005) “Employee benefits”

As of 1 January 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending 31 December 2006 and 31 December 2005 but has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement"

The amendments to IAS 39 in 2005

- required to include financial guarantee contracts issued;
- permitted the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

These amendments did not have an effect on the Group's financial statements.

IFRIC 4 "Determining whether an Arrangement Contains a Lease"

IFRIC 4 provides guidance for determining whether arrangements are, or contain, leases that should be accounted for in accordance with IAS 17, if the arrangements comprise a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. The adoption of this IFRIC Interpretation as of 1 January 2006 has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

Amended IAS 21 and IFRIC 5 did not have impact on the financial statements.

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 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments";
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"
- IFRIC 12 "Service Concessions Arrangements"

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

IFRS 8 "Operating Segments" sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. This standard must be applied for annual reporting periods that commence on or after 1 January 2009.

2. Significant Accounting Policies

Basis of Preparation (continued)

The amendment of IAS 1 "Presentation of Financial Statements – Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

IFRIC 9 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.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 addresses the issues whether the certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

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. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

IFRIC 8 and IFRIC 12 will have no impact on the financial statements.

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 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.

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 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.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries except for those acquired pursuant to a transaction between entities under common control (see Note 1). The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognised directly in the income statement.

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.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Increases in Ownership Interests in Subsidiaries

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 the accompanying 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.

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.

Land and assets under construction are not depreciated. Depreciation on other classes of property, plant and equipment except for mining assets (see below) 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

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The Group’s property, plant and equipment include mining assets, which consist of mine development and construction costs. 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.

Depletion of mining assets 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 fulfilment 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.

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.

2. Significant Accounting Policies (continued)

Investments

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets 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 financial assets at initial recognition. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income. During the period the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. During the period the Group did not hold any investments in this category.

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.

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. 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.

The fair value of investments that are actively traded in organised financial markets is determined by reference to 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.

2. Significant Accounting Policies (continued)

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.

Value Added Tax

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

Value Added Tax Payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

Starting from 2006, 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 they 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.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

2. Significant Accounting Policies (continued)

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 recognised as additional paid-in capital.

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.

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.

2. Significant Accounting Policies (continued)

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.

Employee Benefits

State Pension Scheme

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in staff costs in the income statement, however, separate disclosures are not provided as these costs are not material.

Post-Employment Benefits

The Group provides additional pensions and other post-employment benefits to its employees in accordance with collective bargaining agreements. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements.

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.

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

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.

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.

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.

Rendering of Services

Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

Dividends

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

2. Significant Accounting Policies (continued)

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 goodwill amortisation or 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 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 estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment losses were recognised or reversed in the years ended 31 December 2006 and 2005.

3. Significant Accounting Judgments and Estimates (continued)

Estimation Uncertainty (continued)

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the recoverable amount and ultimately the amount of any property, plant and equipment impairment.

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 2006 and 2005, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately nil and $504, respectively.

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.

3. Significant Accounting Judgments and Estimates (continued)

Estimation Uncertainty (continued)

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.

Fair Values of Assets and Liabilities Acquired in Business Combinations Accounted for Using the Purchase Method

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. More details are provided in Note 6.

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 2006 and 2005, site restoration provisions that are included in other non-current liabilities were $1,447 and nil, respectively.

3. Significant Accounting Judgments and Estimates (continued)

Estimation Uncertainty (continued)

Post-Employment Benefits

Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 16.

Recoverability of Accounts Receivable

Management maintains an allowance for doubtful accounts 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 aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2006 and 2005, allowances for doubtful accounts have been made in the amount of $836 and $591, respectively (Note 10).

Deferred Income Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used 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 an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss.

Operating Environment of the Group and Taxation

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.

(In thousands of US dollars, unless specified otherwise)

3. Significant Accounting Judgments and Estimates (continued)

Estimation Uncertainty (continued)

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. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

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:

	2006	2005
Russia	**$ 380,794**	$ 439,182
Ukraine	**60,438**	90,061
Romania	**14,563**	–
Hungary	**10,970**	19,558
Bulgaria	**4,908**	–
Slovakia	**417**	–
Kazakhstan	–	90
	$ 472,090	$ 548,891

5. Expenses

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

	2006	2005
Cost of inventories recognised as expense	**$ 118,882**	$ 205,484
Staff cost, including social security taxes	**90,119**	71,784
Depreciation, depletion and amortisation	**68,336**	30,785

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 rubles ($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.

The balances of amounts due to related parties as of December 31, 2006 and 2005 include liabilities in the amount of nil and $288,713, respectively, payable to Corber for transfers of ownership interests in Raspadskiy Ugol, Raspadskaya Coal Company, Raspadskaya Preparation Plant and Raspadskaya Koksovaya (Note 11).

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.

(In thousands of US dollars, unless specified otherwise)

6. Acquisitions (continued)

MUK Group Acquisition (continued)

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.

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 contributed 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:

	2006	2005
Current income tax expense	**$ (44,934)**	$ (51,484)
Deferred income tax benefit		
Relating to origination and reversal of temporary differences	**11,141**	1,575
Income tax expense	**$ (33,793)**	$ (49,909)

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:

	2006	2005
Profit before income tax	**$ 133,969**	$ 182,517
At Russian statutory income tax rate of 24%	**(32,153)**	(43,804)
Benefit arising from a previously unrecognised tax loss	**3,140**	–
Effect of non-deductible expenses and other non-temporary differences	**(4,780)**	(6,105)
Income tax expense reported in the consolidated income statement	**$ (33,793)**	$ (49,909)

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

	2006	Change recognised in income statement	Change recognised in equity statement	Change due to business combination	Translation difference	2005	Change recognised in income statement	Translation difference	2004
Deferred income tax liabilities:									
Property, plant and equipment	$ 229,164	$ (9,526)	$ –	$ 218,462	$ 6,396	$ 13,832	$ (1,752)	$ (549)	$ 16,133
Investments	616	–	616	–	–	–	–	–	–
Inventories	1,219	1,179	–	–	38	2	(168)	(5)	175
	230,999	(8,347)	616	218,462	6,434	13,834	(1,920)	(554)	16,308
Deferred income tax assets:									
Exploration expenses capitalised for tax purposes	279	(719)	–	–	63	935	(507)	(24)	1,466
Accrued liabilities	1,043	777	–	–	46	220	(382)	(14)	616
Loss carry forward	3,140	3,140	–	–	–	–	–	–	–
Other	228	(404)	–	–	137	495	544	(91)	42
	4,690	2,794	–	–	246	1,650	(345)	(129)	2,124
Total deferred income tax asset/(liability)	**$ (226,309)**	**$ 11,141**	**$ (616)**	**$ (218,462)**	**$ (6,188)**	**$ (12,184)**	**$ 1,575**	**$ 425**	**$ (14,184)**
Represented by the following:									
Net deferred income tax asset	$ 3,675	$ 3,012	$ –	$ –	$ 162	$ 501	$ 510	$ (9)	$ –
Net deferred income tax liability	229,984	(8,129)	616	218,462	6,350	12,685	(1,065)	(434)	14,184

(In thousands of US dollars, unless specified otherwise)

7. Income Taxes (continued)

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. Undistributed earnings in the subsidiaries were $132,411 and $33,786 as of 31 December 2006 and 2005, respectively. The current tax rate for dividend income in the Russian Federation is 9%.

As of 31 December 2006, the unused tax losses carry forward approximated to $13,083. The Group recognised deferred tax asset of $3,140 in respect of these unused tax losses. As of 31 December 2005, the unused tax losses carry forward approximated to $15,292, which tax effect of $3,670 was not recognized as it was not probable that sufficient taxable profit would be available to offset these losses.

8. Property, Plant and Equipment

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

	2006	**2005**
Cost:		
Land	**$ 49**	$ 41
Mining assets	**1,076,322**	119,718
Buildings and constructions	**73,636**	57,591
Machinery and equipment	**302,588**	158,885
Transport and motor vehicles	**25,424**	5,827
Other assets	**6,179**	2,003
Assets under construction	**98,913**	58,596
	1,583,111	402,661
Accumulated depreciation, depletion and amortisation:		
Mining assets	**(73,678)**	(40,059)
Buildings and constructions	**(5,291)**	(1,379)
Machinery and equipment	**(140,426)**	(67,096)
Transport and motor vehicles	**(5,875)**	(1,590)
Other assets	**(988)**	(399)
	(226,258)	(110,523)
Government grants:		
Machinery and equipment, net	**(2,737)**	(2,880)
	$ 1,354,116	$ 289,258

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $23,726 and $5,986 as of 31 December 2006 and 2005, respectively.

(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	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At 31 December 2005 cost, net of accumulated depreciation and government grants	**$ 41**	**$ 56,212**	**$ 88,909**	**$ 4,237**	**$ 79,659**	**$ 1,604**	**$ 58,596**	**$ 289,258**
Additions	**–**	**–**	**–**	**–**	**23,730**	**388**	**82,919**	**107,037**
Assets acquired in business combination	**–**	**4,848**	**45,522**	**8,663**	**897,380**	**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	**–**	**(2,941)**	**(34,108)**	**(2,042)**	**(28,950)**	**(693)**	**–**	**(68,734)**
Amortisation of government grants	**–**	**–**	**398**	**–**	**–**	**–**	**–**	**398**
Change in site restoration provision	**–**	**–**	**–**	**–**	**1,285**	**–**	**–**	**1,285**
Translation difference	**3**	**5,370**	**10,108**	**798**	**29,540**	**91**	**6,414**	**52,324**
At 31 December 2006, cost, net of accumulated depreciation and government grants	**$ 49**	**$ 68,345**	**$ 159,425**	**$ 19,549**	**$ 1,002,644**	**$ 5,191**	**$ 98,913**	**$ 1,354,116**

The movement in property, plant and equipment for the year ended 31 December 2005 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At 31 December 2004, cost, net of accumulated depreciation and government grants	$ –	$ 12,687	$ 48,223	$ 3,829	$ 80,977	$ 400	$ 80,307	$ 226,423
Additions	–	–	–	–	12,975	–	91,928	104,903
Assets put into operation	41	46,750	61,078	1,679	–	1,496	(111,044)	–
Disposals	–	(1,180)	(220)	(447)	–	(49)	(41)	(1,937)
Depreciation and depletion charge	–	(817)	(17,941)	(677)	(11,358)	(207)	–	(31,000)
Amortisation of government grants	–	–	215	–	–	–	–	215
Translation difference	–	(1,228)	(2,446)	(147)	(2,935)	(36)	(2,554)	(9,346)
At 31 December 2005, cost, net of accumulated depreciation and government grants	$ 41	$ 56,212	$ 88,909	$ 4,237	$ 79,659	$ 1,604	$ 58,596	$ 289,258

As of 31 December 2006 and 2005, evaluation costs of assets for working under the licences are included in mining assets with carrying value of $11,633 and $3,892, respectively.

As of 31 December 2006 and 2005 certain items of production equipment with an approximate carrying value of $36,940 and $58,335, respectively, were pledged to banks as collateral against loans to the Group (Note 15).

9. Inventories

Inventories consisted of the following as of 31 December:

	2006	2005
Raw materials and spare parts (at cost)	**$ 20,242**	$ 11,960
Finished goods (at net realizable value)	**6,363**	–
Finished goods (at cost)	**57**	6,592
	$ 26,662	$ 18,552

(In thousands of US dollars, unless specified otherwise)

10. Trade and Other Receivables

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

	2006	2005
Trade accounts receivable	**$ 25,810**	$ 18,814
Prepayments	**4,021**	3,653
Other receivables	**1,874**	2,056
	31,705	24,523
Allowance for doubtful accounts	**(836)**	(591)
	$ 30,869	$ 23,932

11. 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.

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

	Amounts due from related parties		Amounts due to related parties	
	2006	2005	2006	2005
OOO Trade House Evrazresource	**$ 3,137**	$ 2,674	**$ –**	$ –
Razrez Raspadsky	**–**	7,181	**–**	21,016
ZAO Raspadskaya Financial Industrial Company	**–**	671	**98**	7,114
MUK-96	**–**	16	**–**	10
Other entities	**183**	1,314	**161**	238
Loans payable to related parties	**–**	–	**6,769**	–
Liabilities to Corber for transfers of ownership interests in subsidiaries	**–**	–	**–**	288,713
	$ 3,320	$ 11,856	**$ 7,028**	$ 317,091

Amounts due to related parties include non-current loan of $5,887 maturing on 31 December 2008 and bearing interest of 14% per annum.

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $5,134 and $1,286 as of 31 December 2006 and 2005 from related parties, respectively.

(In thousands of US dollars, unless specified otherwise)

11. Related Party Disclosures (continued)

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

	Sales to related parties		Purchases from related parties	
	2006	2005	**2006**	2005
OOO Trade House Evrazresource	**$ 80,408**	$ 146,879	**$ –**	$ –
Razrez Raspadsky	**792**	8,495	**37,749**	112,224
ZAO Raspadskaya Financial Industrial Company	**2,191**	4,144	**28,341**	64,492
MUK-96	**518**	3,536	**–**	108
Other entities	**452**	33	**1,816**	2,875
	$ 84,361	$ 163,087	**$ 67,906**	$ 179,699

OOO Trade House Evrazresource is an entity under common control with the Company's parent. During the years ended 31 December 2006 and 2005, the Group sold to the entity approximately 16% and 26% of sales volumes of coal and coal concentrate, respectively.

Prior to the acquisition of MUK Group on 31 May 2006, Razrez Raspadsky was an entity under control of a shareholder of the Company's parent. The Group purchased mining and coal processing services from Razrez Raspadsky.

ZAO Raspadskaya Financial Industrial Company ("RFPK") is an entity under control of shareholder of the Company's parent. RFPK sold coal concentrate to the Group and operated as the Group's sales agent.

Prior to the acquisition of MUK Group on 31 May 2006, MUK-96 was an entity under control of shareholder of the Company's parent. MUK-96 purchased coal and coal concentrate from the Group.

Compensation to Key Management Personnel

Key management personnel totalled 9 and 7 persons as at 31 December 2006 and 2005, respectively. 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:

	2006	**2005**
Short-term benefits:		
Salary	**$ 2,039**	$ 1,675
Bonus	**560**	110
Social security taxes	**95**	63
	$ 2,694	$ 1,848

(In thousands of US dollars, unless specified otherwise)

12. Other Taxes Recoverable

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

		2006		2005
Input VAT	**$**	**27,446**	$	37,391
Other taxes		**319**		9,613
	$	**27,765**	$	47,004

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.

13. Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies as of 31 December:

		2006		2005
Russian rubles	**$**	**44,398**	$	26,929
US dollars		**4,821**		17
	$	**49,219**	$	26,946

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

14. Equity

Total number of outstanding shares comprises:

	Number of outstanding ordinary shares	Number of treasury shares	Issued capital	Treasury shares
At 31 December 2004	459,719,537	19,319,000	$ 256	$ 5,579
Issue of shares	20,280,000	–	3	–
Purchase of treasury shares	–	5,961,557	–	1,048
At 31 December 2005	**479,999,537**	**25,280,557**	**259**	**6,627**
Issue of shares	**301,988,713**	**–**	**45**	**–**
Purchase of treasury shares	**–**	**1,278,442**	**–**	**1,182**
Sale of treasury shares	**–**	**(25,370,558)**	**–**	**(6,678)**
At 31 December 2006	**781,988,250**	**1,188,441**	**$ 304**	**$ 1,131**

14. Equity (continued)

As of 31 December 2006 and 2005, the Company's authorised and issued share capital consisted of 781,988,250 and 479,999,537 ordinary shares with par value 0.004 rubles each, respectively. All authorised shares have been issued and fully paid.

At the Shareholders' Extraordinary Meeting on 20 March 2006, shareholders' approval was obtained to amend a type of the Company from closed joint-stock company into an open joint-stock company. 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 rubles each into 479,999,537 ordinary shares with par value of 0.004 rubles each.

On 14 September 2006, the Company issued 301,988,713 ordinary shares with par value 0.004 rubles 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 and 2005, the Group repurchased 1,278,442 and 5,961,557 ordinary shares, for $1,182 and $1,048, respectively. 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.

Additional paid-in capital

As of 31 December 2006 and 2005, the Company's additional paid in capital was $783,862 and $1,402, respectively.

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.

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.

(In thousands of US dollars, unless specified otherwise)

14. Equity (continued)

Earnings per Share (continued)

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

	Year ended 31 December			
		2006		**2005**
Weighted average number of ordinary shares in issue		**645,145,669**		450,476,994
Profit for the year attributable to equity holders of the parent	**$**	**99,589**	$	132,148
Basic and diluted earnings per share, US dollars (4.20 rubles for 2006 and 8.30 rubles for 2005)	**$**	**0.15**	$	0.29

The weighted average number of ordinary shares for the years ended 31 December 2006 and 2005 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

In the years ended 31 December 2006 and 2005, certain subsidiaries of the Group, accounted for under the pooling of interests method, declared dividends in the amount of $46,275 and $64,067 respectively, payable directly to the Company's parent.

On 30 September 2005, shareholders of the Company approved distribution of dividends in respect of 2005 financial results in the amount of 949,920,000 rubles ($33,332 at the exchange rate as of the date of transaction), which after the effect of the share split represents 1.979 rubles of dividends per share.

(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:

	2006	2005
Natixis Banques Populaires	**$ 298,870**	$ –
Russian banks	**49,167**	61,416
Ministry of Finance of the Russian Federation	**1,283**	2,138
BSGV	**1,561**	–
Interest payable	**1,404**	159
	$ 352,285	$ 63,713

As of 31 December 2006 and 2005, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $299,775 and $17,292, respectively, and long-term loans and borrowings in the amount of $51,106 and $46,262, respectively, including the current portion of long-term liabilities of $22,172 and $28,936, respectively.

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

In 2005, average annual interest rates were 10.9% for short-term loans denominated in rubles, and 11.7% and 9.0% for long-term loans denominated in rubles and US dollars, respectively.

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

	2006	2005
Rubles	**$ 49,240**	$ 61,510
US dollars	**301,484**	2,203
Euro	**1,561**	–
	$ 352,285	$ 63,713

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

	2006	2005
Less than one year	**$ 323,351**	$ 46,387
Between one year and two years	**28,934**	16,898
Between two years and five years	**–**	428
	$ 352,285	$ 63,713

(In thousands of US dollars, unless specified otherwise)

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 2006 and 2005 and amounts recognised in the consolidated balance sheet as of 31 December 2006 and 2005 for the post-employment benefits are as follows:

Net Benefit Expense (recognised in cost of sales and general and administrative expenses)

	2006	2005
Current service cost	**$ 608**	$ 335
Interest cost on benefit obligation	**594**	289
Net actuarial loss recognised in the year	**–**	33
Past service cost	**5,020**	5,361
Net benefit expense	**$ 6,222**	$ 6,018

During the years ended December 31, 2006 and 2005, the Group reassessed benefits provided to retired employees and, consequently, reconsidered certain of these benefits to create a constructive obligation. Expense of $5,020 and $5,361, respectively, relating to past service cost and resulting from the change in the estimate was immediately recognised in the consolidated income statements for the year ended 31 December 2006 and 2005.

Benefit Liability

	2006	**2005**
Benefit obligation	**$ 22,239**	$ 8,624
Unrecognised net actuarial losses	**(6,227)**	(405)
Benefit liability	**$ 16,012**	$ 8,219

Movements in Benefit Obligation

	2006	**2005**
At January 1	**$ 8,624**	$ 2,931
Benefit expense	**6,222**	6,018
Change in liability due to business combination	**904**	–
Benefits paid	**(1,275)**	(529)
Actuarial losses on obligation	**6,559**	405
Translation difference	**1,205**	(201)
At 31 December	**$ 22,239**	$ 8,624

(In thousands of US dollars, unless specified otherwise)

16. Post-Employment Benefits (continued)

Movements in Benefit Obligation (continued)

		2006		2005
Defined benefit obligation	**$**	**(22,239)**	$	(8,624)
Plan assets		**–**		–
Deficit	**$**	**(22,239)**	$	(8,624)
Experience adjustments on plan liabilities	**$**	**5,406**	$	221

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

	2006	2005
Discount rate	**6.75%**	8.00%
Future benefits increases	**5.00%**	6.50%

17. Trade and Other Payables

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

		2006		2005
Trade accounts payable	**$**	**11,250**	$	7,658
Accrued payroll		**7,046**		3,389
Other payables		**3,567**		747
	$	**21,863**	$	11,794

18. Taxes Payable

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

		2006		2005
VAT payable	**$**	**2,935**	$	8,324
Income tax		**5,712**		1,125
Other taxes		**5,794**		3,096
	$	**14,441**	$	12,545

19. Commitments and Contingencies

Contractual Commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works for an approximate amount of $53,079 as of 31 December 2006.

(In thousands of US dollars, unless specified otherwise)

19. Commitments and Contingencies (continued)

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 2007, the Group plans to spend $8,815 under these programmes.

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.

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

Foreign Exchange Risk

The Group exports production and attracts substantial amount of borrowings denominated in US dollars or in Euros. The Group does not have arrangements to mitigate foreign exchange risks of the Group's operations.

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 December 31, 2006:

Fixed-rate debt	$ 58,778
Variable-rate debt	298,870
	$ 357,648

The Group's outstanding variable-rate debt matures on 30 June 2007. Interest rate for variable-rate debt is reset on a monthly basis.

20. Financial Risks (continued)

Credit Risk

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

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

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 receivable and payable and promissory notes approximate their fair value.