OAO Raspadskaya

Consolidated financial statements

for the years ended 31 December 2011, 2010 and 2009

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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

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 of
OAO Raspadskaya

We have audited the accompanying consolidated financial statements of OAO Raspadskaya and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2011, 2010 and 2009 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the three years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, 2010 and 2009 and its financial performance and its cash flows for each of the three 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

29 March 2012

OAO Raspadskaya

Consolidated statements of comprehensive income

	Notes	Year ended 31 December 2011	2010	2009
		US$000	*US$000*	*US$000*
Revenue				
Sales of goods		**707,970**	686,343	483,831
Other sales		**18,131**	19,263	13,216
	5	**726,101**	705,606	497,047
Cost of sales		**(358,805)**	(325,008)	(263,176)
Gross profit		**367,296**	380,598	233,871
Selling and distribution costs		**(4,543)**	(3,504)	(2,583)
General and administrative expenses		**(60,879)**	(52,026)	(40,600)
Social expenses		**(9,117)**	(5,867)	(5,396)
Loss on disposal of property, plant and equipment		**(7,057)**	(44,100)	(1,179)
Foreign exchange (losses)/gains		**(10,754)**	1,826	(15,529)
Other operating income		**9,512**	5,075	1,553
Other operating expenses		**(95,926)**	(92,653)	(7,061)
Operating profit		**188,532**	189,349	163,076
Dividend income		**23**	3	12
Interest income		**16,865**	16,519	12,322
Interest expense		**(28,132)**	(26,500)	(25,307)
Gain from a bargain purchase of subsidiary	4	**–**	104,735	–
Profit before income tax		**177,288**	284,106	150,103
Income tax expense	7	**(41,571)**	(39,788)	(32,966)
Profit for the year		**135,717**	244,318	117,137
Other comprehensive income:				
Effect of translation to presentation currency		**(78,094)**	(15,072)	(28,083)
Net (loss)/gain on available-for-sale financial assets		**(697)**	507	1,411
Income tax		**126**	(104)	(274)
		(571)	403	1,137
Other comprehensive loss for the year, net of tax		**(78,665)**	(14,669)	(26,946)
Total comprehensive income for the year		**57,052**	229,649	90,191
Profit/(loss) for the year attributable to:				
Equity holders of the parent		**135,439**	244,754	116,596
Non-controlling interests		**278**	(436)	541
		135,717	244,318	117,137
Total comprehensive income/(loss) attributable to:				
Equity holders of the parent		**57,001**	230,127	89,775
Non-controlling interests		**51**	(478)	416
		57,052	229,649	90,191
Earnings per share: basic and diluted, for profit for the year attributable to the equity holders of the parent, *US dollars* (5.10 rubles, 9.34 rubles and 4.74 rubles for the years ended 31 December 2011, 2010 and 2009, respectively)	15	**0.17**	0.31	0.15

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

OAO Raspadskaya

Consolidated statements of financial position

	Notes	31 December 2011	2010	2009
		US$000	*US$000*	*US$000*
Assets				
Non-current assets				
Property, plant and equipment	8	**1,461,779**	1,529,894	1,409,708
Deferred tax asset	7	**49,206**	22,553	2,108
Other non-current assets	9	**5,258**	5,718	35,958
		1,516,243	1,558,165	1,447,774
Current assets				
Inventories	11	**84,046**	77,199	44,274
Trade and other receivables	12	**60,033**	47,329	73,970
Prepayments	12	**4,614**	12,749	17,800
Receivables from related parties	13	**39,785**	32,621	73,385
Income tax receivable		**2,763**	7,806	3,406
Other taxes recoverable	14	**10,361**	15,866	11,136
Short-term bank deposits	10	**80,179**	158,384	149,953
Cash and cash equivalents	10	**180,100**	164,628	28,277
		461,881	516,582	402,201
Total assets		**1,978,124**	2,074,747	1,849,975
Equity and liabilities				
Equity attributable to equity holders of the parent				
Issued capital	15	**303**	303	303
Additional paid-in capital		**784,139**	783,862	783,862
Reserve capital	15	**7**	7	7
Accumulated profits		**543,859**	907,359	662,605
Unrealized gain on available-for-sale investments		**1,487**	2,058	1,655
Translation difference		**(272,382)**	(194,515)	(179,485)
		1,057,413	1,499,074	1,268,947
Non-controlling interests		**4,486**	5,257	5,735
		1,061,899	1,504,331	1,274,682
Non-current liabilities				
Long-term loans	16	**1,243**	302,387	303,320
Deferred income tax liabilities	7	**136,242**	151,862	140,496
Post-employment benefits liabilities	17	**23,045**	22,200	19,542
Site restoration provision	18	**9,937**	11,703	1,567
		170,467	488,152	464,925
Current liabilities				
Trade and other payables	19	**45,863**	41,088	43,410
Advances from customers		**49**	19	3,095
Short-term loans and current portion of long-term loans	16	**304,027**	8,216	28,407
Payables to related parties	13	**2,262**	2,504	1,274
Income tax payable		**4,324**	4,855	7,455
Other taxes payable	20	**25,337**	25,404	26,449
Share buyback liability	15	**363,771**		
Dividends payable		**125**	178	278
		745,758	82,264	110,368
Total equity and liabilities		**1,978,124**	2,074,747	1,849,975

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

OAO Raspadskaya

Consolidated cash flow statements

	Notes	2011	2010	2009
		Year ended 31 December		
		US$000	US$000	US$000
Operating activities				
Profit for the year		**135,717**	244,318	117,137
Adjustments to reconcile net profit to net cash flows from operating activities:				
Depreciation, depletion and amortization	6	**124,952**	110,563	74,692
Deferred income tax benefit	7	**(38,622)**	(31,636)	(995)
Loss on disposal of property, plant and equipment		**7,057**	44,100	1,179
Foreign exchange losses/(gains)		**10,754**	(1,826)	15,529
Dividend income		**(23)**	(3)	(12)
Interest income		**(16,865)**	(16,519)	(12,322)
Interest expense		**28,132**	26,500	25,307
Reversal of the value of assets written off in prior periods		**(3,969)**	–	–
Gain from a bargain purchase of subsidiary	4	**–**	(104,735)	–
Net employee benefit		**(1,260)**	(179)	551
Change in bad debt allowance		**(95)**	(815)	623
		245,778	269,768	221,689
Changes in working capital:				
Inventories		**(12,018)**	(33,380)	9,706
Trade and other receivables		**(16,696)**	29,292	(13,812)
Prepayments		**7,910**	4,886	(9,462)
Receivables from / payables to related parties		**(9,875)**	42,872	(17,127)
Trade and other payables		**6,294**	8,055	(4,362)
Advances from customers		**33**	(3,062)	2,949
Taxes payable, net of taxes receivable		**11,286**	(10,526)	32,040
Net cash flows from operating activities		**232,712**	307,905	221,621
Investing activities				
Purchases of property, plant and equipment		**(144,437)**	(137,570)	(153,163)
Bank deposits, including interest		**99,655**	37,499	(57,066)
Purchase of subsidiary, net of cash acquired	4	**–**	(34,021)	–
Other investing activities, net		**631**	5,346	626
Net cash flows used in investing activities		**(44,151)**	(128,746)	(209,603)
Financing activities				
Proceeds from loans		**812**	4,929	35,021
Repayment of loans, including interest, net of government grants		**(29,426)**	(47,723)	(78,005)
Purchase of non-controlling interest in subsidiary		**(545)**	–	–
Dividends paid		**(135,217)**	(98)	(6,554)
Net cash flows used in financing activities		**(164,376)**	(42,892)	(49,538)
Effect of foreign exchange rate changes on cash and cash equivalents		**(8,713)**	84	(5,758)
Net increase/(decrease) in cash and cash equivalents		**15,472**	136,351	(43,278)
Cash and cash equivalents at the beginning of the year		**164,628**	28,277	71,555
Cash and cash equivalents at the end of the year		**180,100**	164,628	28,277
Supplementary cash flow information:				
Cash flows during the year:				
Interest paid		**23,012**	22,994	23,636
Interest received		**16,495**	14,424	12,269
Income tax paid		**91,341**	81,902	29,707

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

OAO Raspadskaya

Consolidated statements of changes in equity

for the years ended 31 December 2011, 2010 and 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	Non-controlling interests	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
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/(loss)	–	–	–	–	1,137	(27,958)	(26,821)	(125)	(26,946)
Total comprehensive income/(loss)	–	–	–	116,596	1,137	(27,958)	89,775	416	90,191
At 31 December 2009	303	783,862	7	662,605	1,655	(179,485)	1,268,947	5,735	1,274,682
Net profit	–	–	–	244,754	–	–	244,754	(436)	244,318
Other comprehensive income/(loss)	–	–	–	–	403	(15,030)	(14,627)	(42)	(14,669)
Total comprehensive income/(loss)	–	–	–	244,754	403	(15,030)	230,127	(478)	229,649
At 31 December 2010	**303**	**783,862**	**7**	**907,359**	**2,058**	**(194,515)**	**1,499,074**	**5,257**	**1,504,331**
Net profit	**–**	**–**	**–**	**135,439**	**–**	**–**	**135,439**	**278**	**135,717**
Other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(571)**	**(77,867)**	**(78,438)**	**(227)**	**(78,665)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**135,439**	**(571)**	**(77,867)**	**57,001**	**51**	**57,052**
Buyback of shares (Note 15)	**–**	**–**	**–**	**(363,771)**	**–**	**–**	**(363,771)**	**–**	**(363,771)**
Acquisition of non-controlling interest in subsidiary	**–**	**277**	**–**	**–**	**–**	**–**	**277**	**(822)**	**(545)**
Dividends paid (Note 15)	**–**	**–**	**–**	**(135,168)**	**–**	**–**	**(135,168)**	**–**	**(135,168)**
At 31 December 2011	**303**	**784,139**	**7**	**543,859**	**1,487**	**(272,382)**	**1,057,413**	**4,486**	**1,061,899**

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

1. Corporate information

The consolidated financial statements of OAO Raspadskaya (the "Company") for the years ended 31 December 2011, 2010 and 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 29 March 2012.

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 Plc (UK) ("Evraz"). Corber owns 80% of the Company's shares. The Company's shares are traded on the Russian stock exchange RTS-MICEX.

The Company and its subsidiaries (the "Group") derive 98% of their revenues from sales of coking coal. Other revenue sources include sales of other goods, transport-handling and other services.

In the years ended 31 December 2011, 2010 and 2009, 29%, 28% and 21%, respectively, of the Group's revenues were generated in transactions with related parties. For detailed information on such activities refer to Note 13.

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

	Ownership interest			
	2011	**2010**	**2009**	**Business activity**
OAO MUK-96	**100%**	100%	100%	Coal mining
ZAO Razrez Raspadskiy	**100%**	100%	100%	Coal mining
ZAO Raspadskaya-Koksovaya	**100%**	100%	100%	Coal mining
ZAO Koksovaya	**–**	100%	–	Coal mining
ZAO Raspadskaya Preparation Plant	**100%**	100%	100%	Coal processing
OOO Raspadskiy Ugol	**100%**	100%	100%	Coal trading
ZAO Raspadskaya Coal Company	**100%**	100%	100%	Managing

The Group operates as a vertically integrated business and reports its activities as a single business segment. All of the Group's subsidiaries and assets are located and incorporated in Russia. The Group consolidates a Eurobond vehicle – Raspadskaya Securities Limited, Special Purpose Entity registered in the Republic of Ireland.

On 1 February 2011, ZAO Koksovaya was merged with ZAO Raspadskaya-Koksovaya.

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 measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits measured at present value.

Certain reclassifications have been made to the financial statements for the years ended 31 December 2010 and 2009 to conform to the current period presentation.

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

2. Significant accounting policies (continued)

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Group continues its reconstruction of Raspadskaya mine and expects to improve its financial position and results in 2012. At 31 December 2011 current liabilities exceeded current assets by US$283,877,000, which relates to accrual of a liability in respect of shares buyback programme (Note 15). In addition, current liabilities include loan participation notes in the amount of US$300,000,000 maturing in May 2012. Notes 15 and 23 disclose sources of liquidity covering these liabilities.

Accordingly, management believes the Group has adequate resources to continue in operational existence for the foreseeable future.

Changes in accounting policies

In the preparation of the consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements for year ended 31 December 2010, except for the adoption of the revision of the existing standards:

New/revised standards and interpretations adopted in 2011

- Amendment to IAS 24 *Related Party Disclosures*

The amendment clarifies the definitions of a related party. The amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- Amendment to IAS 32 *Financial Instruments: Presentation*

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity`s non-derivative equity instruments, to acquire a fixed number of the entity`s own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Gains and losses are recognized immediately in profit or loss. The adoption of this interpretation had no effect on the financial position or performance of the Group.

- Amendments to IFRIC 14 / IAS 19 *Prepayments of a Minimum Funding Requirement*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension asset. The amendment to the interpretation had no effect on the financial position or performance of the Group.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

New/revised standards and interpretations adopted in 2011 (continued)

- Amendments to standards following May 2010 “Improvements to IFRS” project

The third omnibus of amendments to IFRS was issued primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments did not have significant impact on the financial statements of the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group’s financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

- IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

- IAS 19 *Employee Benefits* (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group had made a voluntary change in accounting policy to recognize actuarial gains and losses in other comprehensive income in the current period. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- IAS 27 *Separate Financial Statements* (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities*

The amendments to IAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. The amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014.

- *IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial liabilities*

These disclosures would provide users with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity’s financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and US GAAP.

- IFRS 7 *Financial Instruments: Disclosure*s *– Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group’s financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

Standards issued but not yet effective (continued)

In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

- IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012.

- IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- IFRS 12 *Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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.

Amended IAS 19 Employee Benefits introduced recognition of actuarial gains and losses in other comprehensive income in the period they occur. This amendment is required to be applied retrospectively. At 31 December 2011, the Group had US$21,909,000 actuarial losses (Note 17), they will increase the Group's liabilities under defined benefit plans.

2. Significant accounting policies (continued)

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.

Transactions in foreign currencies in the Group 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

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets.

Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

2. Significant accounting policies (continued)

Basis of consolidation (continued)

Acquisition of subsidiaries (continued)

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Increases in ownership interests in subsidiaries

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

Property, plant and equipment

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

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

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

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 following table 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	21
Machinery and equipment	2 – 25	5
Transport and motor vehicles	4 – 32	5
Other assets	2 – 9	4

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.

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.

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.

2. Significant accounting policies (continued)

Financial assets

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

Financial assets 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”. Financial assets which are included in this category are subsequently carried at fair value; gains or losses on such financial assets 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 financial assets are carried at amortized cost using the effective interest method.

Financial 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 financial investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale financial investments are measured at fair value with gains or losses being recognized as a separate component of other comprehensive income 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 other comprehensive income is included in the profit or loss. 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.

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.

2. Significant accounting policies (continued)

Financial assets (continued)

Trade and other receivables (continued)

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.

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.

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 initial maturity of no more than 90 days.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares 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.

Financial liabilities

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.

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.

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, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

2. Significant accounting policies (continued)

Employee benefits (continued)

Post-employment benefits

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

The liability 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.

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

2. Significant accounting policies (continued)

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 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 tax is 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 uncertainty

The key assumptions concerning the future and other key sources of estimation 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 2011, 2010 and 2009.

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. More detailed information on estimations of useful lives of property, plant and equipment is provided in Note 8.

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 depletion. 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 licenses 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 depletion charge and could materially affect earnings. A reduction in proved and probable reserves will increase depletion 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 depletion.

3. Significant accounting judgments and estimates (continued)

Estimation 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.

More detailed information on estimations of mineral reserves and site restoration provision is provided in Notes 8 and 18, respectively.

Fair values of assets and liabilities acquired in business combinations

The Group recognizes separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a 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.

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.). More details on post-employment benefits are provided in Note 17.

Allowances for doubtful accounts

The Group makes allowances 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 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. More detailed information on allowances for doubtful accounts is provided in Note 12.

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 on current taxes are provided in Note 21.

3. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

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. Business combination

On 28 April 2010, the Group acquired a 100% ownership interest in ZAO Koksovaya, an coking coal mine located in Mezhdurechensk, from Evraz, for a cash consideration of 1,162,492,000 rubles (US$40,000,000 at the exchange rate of the Bank of Russia as at the date of the transaction). As a result, the financial position and the results of operations of ZAO Koksovaya were included in the Group's consolidated financial statements beginning 28 April 2010. ZAO Koksovaya owns the license for Tomusinskaya 5-6 coking coal deposit. Under the deal, in May 2010 we signed a 10-year contract for delivery of a part of coal produced by Koksovaya and Raspadskaya-Koksovaya mines to Evraz at market price and in accordance with existing commercial practice.

Fair values of identifiable assets, liabilities and contingent liabilities of ZAO Koksovaya

	28 April 2010
	US$000
Mineral reserve	**15,479**
Other property, plant and equipment	**144,711**
Property, plant and equipment (Note 8)	**160,190**
Receivables	**3,761**
Cash and cash equivalents	**5,979**
Total assets	**169,930**
Deferred income tax liabilities	**24,537**
Post-employment benefits liabilities	**492**
Current liabilities	**166**
Total liabilities	**25,195**
Net assets	**144,735**
Fair value of consideration transferred	**40,000**
Gain from a bargain purchase of subsidiary	**104,735**

The amount of fair values of net identifiable assets exceeds the fair value of consideration transferred. The Group reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and the consideration transferred. After the review, the Group decided that the procedures and resulting measures were appropriate. As a result, the Group recognized gain on a bargain purchase of subsidiary in the year ended 31 December 2010. Management believes that this transaction resulted in gain due to the ability of the Group to extract the coal reserves of ZAO Koksovaya using existing mining facilities of ZAO Raspadskaya-Koksovaya without any significant additional capital expenditures.

4. Business combination (continued)

Cash flow on the acquisition

	US$000
Net cash acquired with the subsidiary	**5,979**
Cash paid	**(40,000)**
Net cash outflow	**(34,021)**

For the period 28 April to 31 December 2010, ZAO Koksovaya reported net profit amounting to US$4,478,000.

As the acquired subsidiary did not prepare financial statements in accordance with IFRS before the business combination, it is impracticable to determine revenues and net profit of the combined entity for the year ended 31 December 2010 assuming that the business combination had occurred on 1 January 2010.

5. Revenue

Distribution of the Group's revenue by country

	2011		**2010**		**2009**	
	Amount	**Portion of revenue**	**Amount**	**Portion of revenue**	**Amount**	**Portion of revenue**
	US$000		*US$000*		*US$000*	
Russia	**720,592**	**99%**	536,109	76%	361,829	73%
Ukraine	**5,509**	**1%**	37,572	5%	84,845	17%
China	**–**	**–**	73,383	10%	21,043	4%
Republic of Korea	**–**	**–**	58,542	9%	12,843	3%
Japan	**–**	**–**	–	–	11,115	2%
Hungary	**–**	**–**	–	–	5,372	1%
	726,101	**100%**	705,606	100%	497,047	100%

Revenues from the Group's major customers

	2011		**2010**		**2009**	
	Amount	**Portion of revenue**	**Amount**	**Portion of revenue**	**Amount**	**Portion of revenue**
	US$000		*US$000*		*US$000*	
Evraz	**202,478**	**28%**	191,597	27%	103,595	21%
MMK	**181,199**	**25%**	89,250	13%	68,106	14%
Kemerovo-Koks	**156,694**	**22%**	136,081	19%	63,570	13%
NLMK	**76,001**	**10%**	66,838	9%	64,558	13%
Mechel	**50,064**	**7%**	37,538	5%	48,351	10%
CITIC Metal	**–**	**–**	57,501	8%	9,596	2%
Daewoo	**–**	**–**	40,511	6%	1,246	0%
Alchevskkoks	**–**	**–**	–	–	28,695	6%
	666,436	**92%**	619,316	87%	387,717	79%

6. Expenses

	2011	**2010**	**2009**
	US$000	*US$000*	*US$000*
Cost of inventories recognized as expense	**102,390**	68,807	50,348
Staff cost, including payroll taxes	**175,039**	129,058	92,961
Depreciation, depletion and amortization	**124,952**	110,563	74,692

7. Income tax

Major components of income tax expense

	2011	2010	2009
	US$000	*US$000*	*US$000*
Current income tax:			
Current income tax charge	**(79,218)**	(73,746)	(35,389)
Adjustments in respect of income tax of prior years	**(975)**	2,322	1,428
Deferred income tax:			
Relating to origination and reversal of temporary differences	**38,622**	31,636	995
Income tax expense	**(41,571)**	(39,788)	(32,966)

Russia was the only tax jurisdiction in which the Group's income was subject to taxation.

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 set out in the following table:

	2011	2010	2009
	US$000	*US$000*	*US$000*
Profit before income tax	**177,288**	284,106	150,103
Tax at the Russian statutory income tax rate of 20%	**(35,458)**	(56,821)	(30,021)
Adjustments in respect of previous years	**(975)**	2,322	1,428
Effect of the difference in tax rates	**372**	(237)	(64)
Effect of non-taxable income	**–**	20,947	–
Effect of non-deductible expenses and other non-temporary differences	**(5,510)**	(5,999)	(4,309)
Income tax expense	**(41,571)**	(39,788)	(32,966)

Movement in deferred income tax assets and liabilities

	At 31 December 2011	**Change recognized as income tax expense**	**Change recognized in other comprehensive income**	**Translation difference**	**At 31 December 2010**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Deferred income tax liabilities:					
Property, plant and equipment	**137,577**	**(6,811)**	**–**	**(7,518)**	**151,906**
Investments	**372**	**–**	**(126)**	**(16)**	**514**
Inventory	**550**	**279**	**–**	**(41)**	**312**
Other	**4,003**	**2,212**	**–**	**(304)**	**2,095**
	142,502	**(4,320)**	**(126)**	**(7,879)**	**154,827**
Deferred income tax assets:					
Accrued liabilities	**3,054**	**(621)**	**–**	**(150)**	**3,825**
Loss carry forward	**49,931**	**36,039**	**–**	**(4,105)**	**17,997**
Other	**2,481**	**(1,116)**	**–**	**(99)**	**3,696**
	55,466	**34,302**	**–**	**(4,354)**	**25,518**
Total deferred income tax asset/(liability)	**(87,036)**	**38,622**	**126**	**3,525**	**(129,309)**
Represented by the following:					
Net deferred income tax asset	**49,206**	**30,393**	**126**	**(3,866)**	**22,553**
Net deferred income tax liability	**136,242**	**(8,229)**	**–**	**(7,391)**	**151,862**

7. Income tax (continued)

Movement in deferred income tax assets and liabilities (continued)

	At 31 December 2010	Change recognized as income tax expense	Change recognized in other comprehen-sive income	Change due to business combination	Translation difference	At 31 December 2009
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
Deferred income tax liabilities:						
Property, plant and equipment	151,906	(12,355)	–	24,545	(2,179)	141,895
Investments	514	–	104	–	(4)	414
Inventory	312	105	–	–	(1)	208
Other	2,095	1,683	–	–	(10)	422
	154,827	(10,567)	104	24,545	(2,194)	142,939
Deferred income tax assets:						
Accrued liabilities	3,825	1,799	–	8	(22)	2,040
Loss carry forward	17,997	17,754	–	–	(65)	308
Other	3,696	1,516	–	–	(23)	2,203
	25,518	21,069	–	8	(110)	4,551
Total deferred income tax asset/(liability)	(129,309)	31,636	(104)	(24,537)	2,084	(138,388)
Represented by the following:						
Net deferred income tax asset	22,553	20,534	–	–	(89)	2,108
Net deferred income tax liability	151,862	(11,102)	104	24,537	(2,173)	140,496

	At 31 December 2009	Change recognized as income tax expense	Change recognized in other comprehen-sive income	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

The current tax rate for dividend income in Russia ranges from 0% to 15%, depending on certain conditions. No deferred income tax on distribution of earnings has been provided as the Group does not plan to distribute earnings.

8. Property, plant and equipment

	2011	2010	2009
At 31 December:	*US$000*	*US$000*	*US$000*
Cost:			
Land	**54**	57	58
Mining assets	**1,035,828**	1,073,706	1,022,079
Buildings and constructions	**125,515**	117,832	109,482
Machinery and equipment	**519,707**	484,553	512,496
Transport and motor vehicles	**70,518**	56,109	32,573
Other assets	**12,788**	12,231	9,596
Assets under construction	**225,608**	237,736	204,499
	1,990,018	1,982,224	1,890,783
Accumulated depreciation and depletion:			
Mining assets	**(210,077)**	(176,661)	(211,316)
Buildings and constructions	**(22,028)**	(18,375)	(13,598)
Machinery and equipment	**(265,094)**	(232,627)	(236,228)
Transport and motor vehicles	**(25,718)**	(18,871)	(14,326)
Other assets	**(5,322)**	(5,796)	(5,607)
	(528,239)	(452,330)	(481,075)
	1,461,779	1,529,894	1,409,708

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 2010, cost, net of accumulated depreciation, depletion and government grants	**57**	**897,045**	**99,457**	**251,926**	**37,238**	**6,435**	**237,736**	**1,529,894**
Additions	**–**	**21,599**	**–**	**–**	**–**	**–**	**130,597**	**152,196**
Assets put into operation	**–**	**–**	**15,521**	**86,238**	**21,776**	**2,939**	**(126,474)**	**–**
Reversal of the value of assets written off in prior periods	**–**	**–**	**7**	**3,616**	**–**	**–**	**–**	**3,623**
Disposals	**–**	**–**	**(127)**	**(5,806)**	**(780)**	**(335)**	**(616)**	**(7,664)**
Reclassification	**–**	**2,887**	**–**	**13**	**(12)**	**(1)**	**(2,887)**	**–**
Depreciation and depletion charge	**–**	**(46,987)**	**(5,168)**	**(66,724)**	**(10,520)**	**(2,005)**	**–**	**(131,404)**
Change in site restoration provision	**–**	**(3,129)**	**–**	**–**	**–**	**907**	**–**	**(2,222)**
Translation difference	**(3)**	**(45,664)**	**(6,203)**	**(14,650)**	**(2,902)**	**(474)**	**(12,748)**	**(82,644)**
At 31 December 2011, cost, net of accumulated depreciation, depletion and government grants	**54**	**825,751**	**103,487**	**254,613**	**44,800**	**7,466**	**225,608**	**1,461,779**

	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 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
Additions	–	16,025	–	–	–	–	115,720	131,745
Assets put into operation	–	–	5,534	61,121	21,650	1,005	(89,310)	–
Assets acquired in business combination	–	109,740	6,539	21,864	3,847	62	18,138	160,190
Disposals	–	–	(467)	(47,383)	(406)	(95)	(1,093)	(49,444)
Reclassification	–	8,050	(1,660)	(562)	332	2,258	(8,418)	–
Depreciation and depletion charge	–	(44,964)	(5,344)	(56,412)	(6,060)	(1,431)	–	(114,211)
Change in site restoration provision	–	8,641	–	–	–	688	664	9,993
Translation difference	(1)	(11,210)	(1,029)	(2,970)	(372)	(41)	(2,464)	(18,087)
At 31 December 2010, cost, net of accumulated depreciation, depletion and government grants	57	897,045	99,457	251,926	37,238	6,435	237,736	1,529,894

8. Property, plant and equipment (continued)

Movement in property, plant and equipment (continued)

	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	–	(42,041)	(3,641)	(27,806)	(4,021)	(1,816)	–	(79,325)
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

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$3,680,000, US$6,796,000 and US$3,439,000 as at 31 December 2011, 2010 and 2009 respectively.

The Group had production equipment with a carrying value of US$7,392,000, zero and US$215,000 pledged to banks as collateral against loans to the Group as at 31 December 2011, 2010 and 2009 respectively.

The amounts of borrowing costs capitalized were zero, US$375,000 and US$1,560,000 in the years ended 31 December 2011, 2010 and 2009 respectively.

On 31 December 2011, based on inspections conducted by management, a reversal of the value of some of the assets located in the disaster area and written off in 2010 was made. The corresponding amount of US$3,623,000 was included in other operating income in the statement of comprehensive income.

On 31 December 2011, following an independent valuation, the amounts of mineral reserve and future capital expenditures were changed, and necessary adjustments were made. The change resulted in a decrease in depletion expense by US$3,956,000 as compared to the amount that would have been charged in the financial statements for the year ended 31 December 2011 if the amounts of mineral reserve and future capital expenditures had not been changed.

On 31 December 2010, following an independent valuation, the amounts of mineral reserve and future capital expenditures were changed, and necessary adjustments were made. The change resulted in a decrease in depletion expense by US$2,669,000 as compared to the amount that would have been charged in the financial statements for the year ended 31 December 2010 if the amounts of mineral reserve and future capital expenditures had not been changed.

9. Other non-current assets

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Available-for-sale investments:			
Quoted equity shares	**1,862**	2,576	2,072
Unquoted equity shares	**231**	244	246
	2,093	2,820	2,318
Loans to employees	**2,466**	2,464	2,091
Long-term bank deposits	**–**	–	31,242
Other non-current assets	**699**	434	307
	5,258	5,718	35,958

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

Short-term bank deposits

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Russian rubles	**19,878**	18,046	83,348
US dollars	**60,301**	140,338	64,970
Euro	**–**	–	1,635
	80,179	158,384	149,953

The above short-term deposits are non-restricted deposits placed in Russian state banks and affiliates of international banks with initial maturity of more than 90 days.

Cash and cash equivalents

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Russian rubles	**112,955**	159,956	19,338
US dollars	**67,145**	2,499	7,498
Euro	**–**	2,173	1,441
	180,100	164,628	28,277

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

11. Inventories

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Raw materials and spare parts (at cost)	**74,259**	71,493	40,235
Finished goods (at cost)	**9,787**	5,706	4,039
	84,046	77,199	44,274

12. Trade and other receivables and prepayments

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Trade accounts receivable	**54,834**	39,496	73,542
Prepayments	**4,895**	12,798	17,800
Other receivables	**5,636**	8,633	2,102
	65,365	60,927	93,444
Allowance for doubtful accounts	**(718)**	(849)	(1,674)
	64,647	60,078	91,770

As at 31 December 2011, 2010 and 2009, receivables in the total amount of US$718,000, US$849,000 and US$1,674,000, respectively, were doubtful and fully provided for.

Movement in the allowance for doubtful accounts

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 1 January	**849**	1,674	1,050
Charge for the year	**706**	35	1,054
Amounts written off	**(799)**	(850)	(394)
Unused amounts reversed	**(1)**	–	(37)
Translation difference	**(37)**	(10)	1
At 31 December	**718**	849	1,674

13. Related party disclosures

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.

Transactions with related parties

	Sales to related parties			Purchases from related parties		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
Evraz ZSMK	**107,681**	–	–	**–**	–	–
TC EvrazHolding	**50,073**	156,966	50,031	**8,595**	10,686	10,557
Evraz NTMK	**39,214**	–	–	**–**	–	–
Southern Kuzbass	**6,040**	3,230	2,370	**–**	–	–
EvrazResource-Ukraine	**5,509**	34,367	37,687	**–**	–	–
RSPK	**391**	90	146	**4,410**	1,361	1,544
TH EvrazResource	**–**	–	15,854	**–**	–	–
Yuzhkuzbassugol	**–**	264	298	**5**	54,889	187
Sibirsky Spas	**10**	3	–	**1,118**	1,400	–
Other entities	**100**	1,275	32	**2,064**	3,382	2,131
	209,018	196,195	106,418	**16,192**	71,718	14,419

Amounts owed by/to related parties

	Amounts due from related parties			Amounts due to related parties		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December:						
Evraz ZSMK	**25,764**	–	–	**–**	–	–
TC EvrazHolding	**–**	32,169	52,005	**1,539**	1,420	579
Evraz NTMK	**11,656**	–	–	**–**	–	–
Southern Kuzbass	**629**	106	67	**–**	195	–
EvrazResource-Ukraine	**1,530**	79	20,993	**–**	–	–
RSPK	**98**	244	152	**316**	700	8
TH EvrazResource	**–**	–	80	**–**	–	–
Yuzhkuzbassugol	**–**	3	6	**1**	16	32
Sibirsky Spas	**105**	–	81	**109**	18	–
Other entities	**3**	20	1	**297**	155	655
	39,785	32,621	73,385	**2,262**	2,504	1,274

Evraz ZSMK (OAO EVRAZ United West-Siberian Iron and Steel Plant) is an entity under control of Evraz. In the year ended 31 December 2011, the Group sold to the entity raw coal and coal concentrate. These sales accounted for approx. 17% of the Group's total sales volumes of coal products.

TC EvrazHolding (OOO Trade Company EvrazHolding) is an entity under control of Evraz. In the years ended 31 December 2011, 2010 and 2009, the Group sold to the entity raw coal and coal concentrate and bought from it certain steel products. In February 2011 an agreement with TC EvrazHolding on purchasing coal products from the Group for ZSMK and NTMK was terminated and replaced with separate agreements with these two companies. In the years ended 31 December 2011, 2010 and 2009, the Group sold to the entity approx. 9%, 24% and 9% of the total sales volumes of coal products, respectively.

Evraz NTMK (OAO EVRAZ Nizhny Tagil Iron and Steel Plant) is an entity under control of Evraz. In the year ended 31 December 2011, the Group sold to the entity coal concentrate. These sales accounted for approx. 5% of the Group's total sales volumes of coal concentrate.

13. Related party disclosures (continued)

Southern Kuzbass (OAO Southern Kuzbass Coal Company), a Russian coal mining company controlled by OAO Mechel, is a minority shareholder of a subsidiary of the Group. The subsidiary renders transportation services to the Group and to Southern Kuzbass.

EvrazResource-Ukraine (OOO Trade House EvrazResource-Ukraine) is an entity under control of Evraz. In the years ended 31 December 2011, 2010 and 2009, the Group sold to the entity coal concentrate. These sales accounted for approx. 1%, 6% and 9% of the Group's total sales volumes of coal products in the years ended 31 December 2011, 2010 and 2009, respectively.

RSPK (OOO Raspadskaya Constructing Industrial Company) is an entity under control of the shareholders of Adroliv. The entity provides cleaning and renovating services to the Group.

TH EvrazResource (OOO Trade House EvrazResource) is an entity under control of Evraz. In the year ended 31 December 2009, the Group sold to the entity coal concentrate. These sales accounted for approx. 4% of the Group's total sales volumes of coal products.

Yuzhkuzbassugol (OAO Yuzhkuzbassugol Combined Coal Company) is an entity under control of Evraz. On 28 April 2010, the Group bought from it ZAO Koksovaya and certain items of property, plant and equipment related to the acquisition. Other transactions with the entity were insignificant.

Sibirsky Spas (ZAO Sibirsky Spas Insurance Company) is an entity under control of the shareholders of Adroliv. The entity provides insurance services to the Group.

As at 31 December 2011, 2010 and 2009, the Group had prepayments to related parties for property, plant and equipment in the amount of US$149,000, US$106,000 and US$5,000, respectively.

Compensation to key management personnel

Key management personnel totaled 9 people as at 31 December 2011, 2010 and 2009. Total compensation to key management personnel was included in general and administrative expenses in the statement of comprehensive income and consisted of the following:

	2011	2010	2009
	US$000	*US$000*	*US$000*
Short-term benefits:			
Salary	**3,565**	3,179	2,218
Bonus	**425**	–	2,100
Payroll taxes	**66**	52	82
	4,056	3,231	4,400

14. Other taxes recoverable

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Input VAT	**9,676**	15,057	10,582
Other taxes	**685**	809	554
	10,361	15,866	11,136

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 VAT and believes it is fully recoverable within one year.

15. Equity

Share capital

As at 31 December 2011, 2010 and 2009, 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 and 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.

Dividends

On 25 August 2011, shareholders of the Company decided to pay interim dividends for 2011 in the amount of 3,903,999,045 rubles (US$135,168,321 at the exchange rate as at 26 August 2011), which represents 5.00 rubles (US$0.17 at the exchange rate as at 26 August 2011) of dividends per share.

Shares buyback programme

On 15 November 2011, the Company made an offer to its shareholders to purchase 78,079,980 own shares, which represent 10% of the Company's share capital. The price for each share was set at 150 rubles. As a result, on 31 December 2011 the Group recognized a liability of US$363,771,000 which planned to be settled using its own cash.

On 31 January 2012 the Company completed collection of applications from its shareholders willing to sell the shares. As a result, 78,079,980 shares are currently being bought back on a pro rata basis. The signing of relevant share purchase agreements under the buyback will be completed by the Group on 2 April 2012.

16. Loans and borrowings

Loans and borrowings by source

	2011	**2010**	**2009**
	US$000	*US$000*	*US$000*
At 31 December:			
7.5% notes due 2012	**299,846**	299,420	298,995
Raiffeisenbank	**–**	3,990	21,624
BSGV	**–**	–	8,495
Other Russian banks	**2,923**	4,684	23
Interest payable	**2,501**	2,509	2,590
	305,270	310,603	331,727

On 17 May 2007 the Group issued loan participation notes amounting to US$300,000,000. The notes bear an 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.

16. Loans and borrowings (continued)

Average annual interest rates

	2011	2010	2009
US dollars	**7.5%**	7.5%	7.2%
Euro	**4.7%**	3.1%	3.9%

Loans and borrowings by currency

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
US dollars	**302,346**	301,920	310,007
Euro	**2,901**	8,659	21,695
Russian rubles	**23**	24	25
	305,270	310,603	331,727

Loans and borrowings by period of repayment

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Not more than one year	**304,027**	8,216	28,407
After one year but not more than two years	**1,243**	301,115	4,325
After two years but not more than five years	**–**	1,272	298,995
	305,270	310,603	331,727

17. Employee benefits

In accordance with collective bargaining agreements, the Group provides to its employees lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of remuneration and amount of pension payment under the collective bargaining agreements. The Group funds the benefits when the amounts of benefits fall due for payment.

Defined contribution plans represent payments made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

Defined Contribution Plans

The Group's expenses under defined contribution plans were as follows:

	2011	2010	2009
	US$000	*US$000*	*US$000*
Expense under defined contribution plans	**48,111**	27,671	19,202

Defined Benefit Plans

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

	2011	2010	2009
Discount rate	**8.0%**	8.0%	8.0%
Future benefits increases	**8.0%**	8.0%	8.0%
Future salary increases	**8.0%**	8.0%	8.0%

The Group's defined benefit plan is unfunded.

17. Employee benefits (continued)

The components of net benefit expense recognized in the consolidated statement of comprehensive income for the years ended 31 December 2011, 2010 and 2009 and amounts recognized in the consolidated statement of financial position as at 31 December 2011, 2010 and 2009 for the defined benefit plan were as follows:

Net benefit expense (recognized in cost of sales and general and administrative expenses)

	2011	2010	2009
	US$000	*US$000*	*US$000*
Current service cost	**2,352**	1,287	1,025
Interest cost on benefit obligation	**3,485**	2,526	1,852
Net actuarial gain/(loss) recognized in the year	**(1,311)**	112	511
Past service cost	**216**	47	–
	4,742	3,972	3,388

Net benefit liability

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Benefit obligation	**44,424**	41,825	26,102
Unrecognized net actuarial losses	**(21,909)**	(20,240)	(6,560)
Unrecognized past service cost	**530**	615	–
	23,045	22,200	19,542

Movement in benefit obligation

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 1 January	**41,825**	26,102	23,498
Change due to business combination	**–**	492	–
Benefit expense	**5,837**	3,813	2,877
Past service cost	**248**	(567)	–
Benefits paid	**(2,517)**	(1,625)	(984)
Actuarial losses on obligation	**1,702**	13,890	1,231
Translation difference	**(2,671)**	(280)	(520)
At 31 December	**44,424**	41,825	26,102

The following table is a summary of the present value of the benefit obligation and experience adjustments for the current year and previous four annual periods.

	2011	2010	2009	2008	2007
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December:					
Defined benefit obligation	**(44,424)**	(41,825)	(26,102)	(23,498)	(31,160)
Deficit	**(44,424)**	(41,825)	(26,102)	(23,498)	(31,160)
Experience adjustments on plan liabilities	**(1,911)**	(12,859)	(1,334)	(3,722)	7,516

18. Site restoration provision

Site restoration costs

Under the Russian law, mining companies have obligations to restore mining sites. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate of 8%, 8% and 10% for the years ended 31 December 2011, 2010 and 2009, respectively.

Movement in site restoration provision

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 1 January	**11,703**	1,567	1,466
Charge for the year	**971**	156	136
Change in provision	**(2,221)**	9,993	–
Translation difference	**(516)**	(13)	(35)
At 31 December	**9,937**	11,703	1,567

19. Trade and other payables

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
Trade accounts payable	**29,844**	25,041	27,176
Accrued payroll	**5,605**	6,536	9,077
Other payables	**10,414**	9,511	7,157
	45,863	41,088	43,410

20. Other taxes payable

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
VAT	**16,487**	17,661	19,163
Other taxes	**8,850**	7,743	7,286
	25,337	25,404	26,449

21. Commitments and contingencies

Operating environment of the Group

The Group is one of the biggest coking coal producers in Russia. 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 on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be some uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

21. Commitments and contingencies (continued)

Operating environment of the Group (continued)

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not determinable now.

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 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, fines and penalties 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.

On 30 December 2011 the Russian Ministry of Finance issued an interpretation of certain provisions of the Tax Code which states that special purpose entities set up in Ireland to issue Eurobonds are not eligible for the benefits of the double tax treaty between Ireland and Russia. If this view were to be enforced by the Russian tax authorities and applied to other structured entities set up for issuing bonds from any foreign jurisdiction, the Group could face claims to pay a fine at 20% of tax not withheld on interest paid on Eurobonds for the period from 2009 to 2011, late payment interest and potentially a tax which should have been withheld at the rate of 20% from that interest. Subsequently, the ministry announced its plans to introduce legislation to clarify this issue. If such legislation is adopted as proposed by the ministry, this tax contingency will be eliminated for 2011 and for prior periods. No withholding taxes or fines have been accrued in these financial statements. Management believes that the Group's tax position with respect to Eurobonds is sustainable and that the resolution of this contingency will not have a material effect on the consolidated financial statements of the Group.

Contractual commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US$16,008,000 as at 31 December 2011.

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 2012 the Group plans to spend US$6,370,000 under these 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 the Group's financial position or results of operations. Under the Plan on environmental protection for the years 2011-2015 authorized by management, the Group expects to spend US$31,105,000 in 2012.

21. Commitments and contingencies (continued)

Insurance policies

The Group maintains obligatory insurance policies required by the Russian law. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

FAS's decision on infringement of antimonopoly legislation by the Company

On 10 November 2011, as a consequence of the investigation on the Group's abuse of coking coal market, the Federal Antimonopoly Service of Russia ("FAS") imposed a penalty in the amount of 90,493,978 rubles (approx. US$3,006,115 at the exchange rate as at 10 November 2011) for the infringement of antimonopoly legislation in the coking coal market by the Group. Shortly before, the FAS demanded the Company to develop a document on its trading policy in respect of coking coal concentrate sales. Management expects that FAS will approve this document. The Group did not record a provision in respect of the possible penalty, as management believes that the claim is without merit and intends to defend this position in court.

22. 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 assets 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 major Russian state banks and reputable Russian affiliates of international 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 has 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 in the following table:

	2011	**2010**	**2009**
	US$000	*US$000*	*US$000*
At 31 December:			
Financial instruments	**2,093**	2,820	33,560
Long-term receivables	**2,466**	2,731	2,115
Trade and other receivables	**60,033**	47,329	73,970
Receivables from related parties	**39,785**	32,621	73,385
Short-term investments, cash and cash equivalents	**260,279**	323,012	178,230
	364,656	408,513	361,260

Ageing analysis of trade and other receivables

	2011		**2010**		**2009**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December:						
Not past due	**101,669**	**–**	75,949	27	95,736	304
Past due:						
not more than 6 months	**120**	**–**	4,315	2	54,607	706
more than 6 months	**932**	**437**	3,217	771	801	664
	102,721	**437**	83,481	800	151,144	1,674

22. 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 are non-derivative financial instruments.

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

	Not more than 1 year	1 to 2 years	Total
	US$000	*US$000*	*US$000*
At 31 December 2011:			
Fixed-rate debt			
Loans and borrowings			
Principal	**300,022**	**–**	**300,022**
Interest	**11,251**	**–**	**11,251**
	311,273	**–**	**311,273**
Variable-rate debt			
Loans and borrowings			
Principal	**1,658**	**1,243**	**2,901**
Interest	**146**	**47**	**193**
	1,804	**1,290**	**3,094**
Non-interest bearing debt			
Trade and other payables	**45,863**	**–**	**45,863**
Payables to related parties	**2,262**	**–**	**2,262**
Dividends payable	**125**	**–**	**125**
	48,250	**–**	**48,250**
	361,327	**1,290**	**362,617**

	Not more than 1 year	1 to 2 years	2 to 5 years	Total
	US$000	*US$000*	*US$000*	*US$000*
At 31 December 2010:				
Fixed-rate debt				
Loans and borrowings				
Principal	23	300,000	–	300,023
Interest	22,501	11,250	–	33,751
	22,524	311,250	–	333,774
Variable-rate debt				
Loans and borrowings				
Principal	5,685	1,695	1,271	8,651
Interest	252	220	125	597
	5,937	1,915	1,396	9,248
Non-interest bearing debt				
Trade and other payables	41,088	–	–	41,088
Payables to related parties	2,504	–	–	2,504
Dividends payable	178	–	–	178
	43,770	–	–	43,770
	72,231	313,165	1,396	386,792

22. Financial risks management objectives and policies (continued)

Liquidity risk (continued)

	Not more than 1 year	1 to 2 years	2 to 5 years	Total
	US$000	*US$000*	*US$000*	*US$000*
At 31 December 2009:				
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

Currency risk

The Group is exposed to currency risk on sales, purchases, deposits 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 is set out in the following table:

	2011	2010	2009
	US$000	*US$000*	*US$000*
At 31 December:			
USD/RUB	**(173,657)**	(161,808)	(208,974)
EUR/RUB	**(6,953)**	(17,211)	(25,355)
GBP/RUB	**–**	69	–

22. Financial risks management objectives and policies (continued)

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 period:

	2011		**2010**		**2009**	
	Change in exchange rate	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**
		US$000		*US$000*		*US$000*
USD/RUB	**(12.50)**	**21,707**	(8.90)	14,401	(14.80)	30,928
	12.50	**(21,707)**	8.90	(14,401)	14.80	(30,928)
EUR/RUB	**(11.77)**	**818**	(11.05)	1,902	(14.00)	3,550
	11.77	**(818)**	11.05	(1,902)	14.00	(3,550)
GBP/RUB	**13.69**	**–**	(9.65)	(7)	(17.40)	–
	(13.69)	**–**	9.65	7	17.40	–

Interest rate risk

The Group incurs interest rate risk on loans and borrowings. The Group borrows on both fixed and variable rate basis.

The following table summarizes the Group's outstanding interest-bearing debt:

	2011	**2010**	**2009**
	US$000	*US$000*	*US$000*
At 31 December:			
Fixed-rate debt	**299,868**	299,443	299,018
Variable-rate debt	**2,901**	8,651	30,119
	302,769	308,094	329,137

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 in the following table. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2011		**2010**		**2009**	
	Change in exchange rate	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**
	basis points	*US$000*	*basis points*	*US$000*	*basis points*	*US$000*
Liabilities denominated in US dollars						
Decrease in LIBOR	**(15)**	**–**	(25)	–	(25)	(21)
Increase in LIBOR	**15**	**–**	100	–	100	85
Liabilities denominated in euro						
Decrease in EURIBOR	**(15)**	**(4)**	(25)	(22)	(25)	(54)
Increase in EURIBOR	**15**	**4**	100	87	100	216

22. Financial risks management objectives and policies (continued)

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 shareholder wealth. There were no changes in the objectives, policies and processes of the Group's capital management during 2011.

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

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$299,846,000 is determined by reference to published price quotations in an active market and amounts to US$300,825,000.

23. Events after the reporting period

Loan from Raiffeisenbank

In the first quarter of 2012, to finance its operating activities, the Group signed a loan agreement with Raiffeisenbank for US$150,000,000 bearing market interest and maturing on 7 February 2014.

Credit line from Sberbank

In the first quarter of 2012, to repay its loan participation notes, the Group opened a US$300,000,000 two-year credit line at Sberbank. As of the date of authorisation of these financial statements for issue, no borrowings were made under this facility.