OAO Raspadskaya

Consolidated financial statements

for the year ended 31 December 2008

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Contents

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Independent Auditor's Report

The Shareholders and Board of Directors OAO Raspadskaya

We have audited the accompanying consolidated financial statements of OAO Raspadskaya and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2008 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Ernst & Young LLC

April 14, 2008

OAO Raspadskaya

Consolidated income statement

for the year ended 31 December 2008

	Notes	2008 US$000	2007 US$000
Revenue			
Sale of goods		**1,193,462**	777,870
Rendering of services		**6,935**	6,224
	4	**1,200,397**	784,094
Cost of sales	5	**(350,714)**	(356,448)
Gross profit		**849,683**	427,646
Selling and distribution costs	5	**(5,060)**	(17,248)
General and administrative expenses	5	**(67,233)**	(56,064)
Social and social infrastructure maintenance expenses		**(16,728)**	(10,776)
Loss on disposal of property, plant and equipment		**(2,757)**	(1,934)
Foreign exchange gains/(losses)		**(63,352)**	20,125
Other operating income		**2,391**	1,046
Other operating expenses		**(11,968)**	(7,415)
Operating profit		**684,976**	355,380
Dividend income		**14**	20
Interest income		**12,813**	3,868
Interest expense		**(27,214)**	(30,235)
Profit before income tax		**670,589**	329,033
Income tax expense	6	**(139,472)**	(88,790)
Profit for the year		**531,117**	240,243
Attributable to:			
Equity holders of the parent		**530,798**	239,133
Minority interests		**319**	1,110
		531,117	240,243
Earnings per share: basic and diluted, for profit attributable to the equity holders of the parent, US dollars (16.22 rubles for 2008 and 7.83 rubles for 2007)	13	**0.68**	0.31

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

OAO Raspadskaya

Consolidated balance sheet

as at 31 December 2008

	Notes	2008 US$000	2007 US$000
Assets			
Non-current assets			
Property, plant and equipment	7	**1,360,953**	1,479,207
Deferred tax asset	6	**949**	2,919
Other non-current assets		**3,816**	6,585
		1,365,718	1,488,711
Current assets			
Inventories	9	**56,056**	50,758
Trade and other receivables	10	**71,376**	41,995
Receivables from related parties	11	**56,979**	25,319
Income tax receivable		**8,959**	4,726
Other taxes recoverable	12	**15,733**	31,906
Short-term bank deposits	8	**115,045**	–
Cash and cash equivalents	8	**71,555**	82,311
		395,703	237,015
Total assets		**1,761,421**	1,725,726
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	13	**303**	303
Additional paid-in capital		**783,862**	783,862
Reserve capital		**7**	7
Accumulated profits		**546,009**	179,888
Unrealized gain on available-for-sale investments		**518**	2,438
Translation difference		**(151,527)**	97,680
		1,179,172	1,064,178
Minority interests		**5,319**	6,064
		1,184,491	1,070,242
Non-current liabilities			
Long-term loans	14	**314,085**	307,896
Deferred income tax liabilities	6	**144,184**	225,521
Post-employment benefits liabilities	15	**17,522**	17,374
Other long-term liabilities		**1,466**	1,694
		477,257	552,485
Current liabilities			
Trade and other payables	16	**43,075**	37,016
Short-term loans and current portion of long-term loans	14	**37,062**	39,458
Payables to related parties	11	**1,241**	568
Income tax payable		**293**	11,774
Other taxes payable	17	**9,735**	11,420
Finance lease liabilities		**–**	47
Dividends payable		**8,267**	2,716
		99,673	102,999
Total equity and liabilities		**1,761,421**	1,725,726

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

OAO Raspadskaya

Consolidated cash flow statement

for the year ended 31 December 2008

	Notes	2008 US$000	2007 US$000
Cash flows from operating activities			
Profit for the year		**531,117**	240,243
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortization	7	**123,210**	138,341
Deferred income tax benefit	6	**(51,989)**	(19,455)
Loss on disposal of property, plant and equipment		**2,757**	1,934
Foreign exchange gains		**63,352**	(20,125)
Dividend income		**(14)**	(20)
Interest income		**(12,813)**	(3,868)
Interest expense		**27,214**	30,235
Employee benefits		**1,546**	(1,261)
Bad debt expense		**110**	236
		684,490	366,260
Changes in working capital:			
Inventories		**(16,800)**	(21,195)
Trade and other receivables		**(46,375)**	(9,991)
Receivables from / payables to related parties		**(43,150)**	(20,601)
Trade and other payables		**11,322**	12,453
Taxes payable		**(4,230)**	1,068
Net cash flows from operating activities		**585,257**	327,994
Cash flows from investing activities			
Purchases of property, plant and equipment	7	**(285,575)**	(166,296)
Short-term deposits at banks, including interest, net		**(120,432)**	5,779
Other investing activities, net		**900**	337
Net cash flows used in investing activities		**(405,107)**	(160,180)
Cash flows from financing activities			
Proceeds from loans		**51,924**	322,132
Repayment of loans, including interest, net of government grants		**(70,486)**	(366,374)
Dividends paid		**(157,834)**	(95,195)
Payments under finance leases, including interest		**–**	(15)
Net cash flows from/(used in) financing activities		**(176,396)**	(139,452)
Effect of foreign exchange rate changes on cash and cash equivalents		**(14,510)**	4,730
Net increase in cash and cash equivalents		**(10,756)**	33,092
Cash and cash equivalents at the beginning of the year		**82,311**	49,219
Cash and cash equivalents at the end of the year		**71,555**	82,311
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		**25,399**	26,250
Interest received		**13,097**	4,027
Income taxes paid		**212,570**	106,042

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

OAO Raspadskaya

Consolidated statement of changes in equity

for the year ended 31 December 2008

	Attributable to the equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Accumulated profits**	**Unrealized gain on available-for-sale investments**	**Translation difference**	**Parent shareholders' equity**	**Minority interests**	**Total**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2006	304	(1,131)	783,862	7	39,796	1,580	29,523	853,941	4,290	858,231
Net gains on available-for-sale financial investments, net of income tax	–	–	–	–	–	858	–	858	–	858
Foreign currency translation	–	–	–	–	–	–	68,157	68,157	664	68,821
Total income and expense for the year recognized directly in equity	–	–	–	–	–	858	68,157	69,015	664	69,679
Profit for the year	–	–	–	–	239,133	–	–	239,133	1,110	240,243
Total income and expense for the year	–	–	–	–	239,133	858	68,157	308,148	1,774	309,922
Retirement of treasury shares *(Note 13)*	(1)	1,131	–	–	(1,130)	–	–	–	–	–
Dividends declared *(Note 13)*	–	–	–	–	(97,911)	–	–	(97,911)	–	(97,911)
At 31 December 2007	**303**	**–**	**783,862**	**7**	**179,888**	**2,438**	**97,680**	**1,064,178**	**6,064**	**1,070,242**
Net gains on available-for-sale financial investments, net of income tax	**–**	**–**	**–**	**–**	**–**	**(1,920)**	**–**	**(1,920)**	**–**	**(1,920)**
Foreign currency translation	**–**	**–**	**–**	**–**	**–**	**–**	**(249,207)**	**(249,207)**	**(1,064)**	**(250,271)**
Total income and expense for the year recognized directly in equity	**–**	**–**	**–**	**–**	**–**	**(1,920)**	**(249,207)**	**(251,127)**	**(1,064)**	**(252,191)**
Profit for the year	**–**	**–**	**–**	**–**	**530,798**	**–**	**–**	**530,798**	**319**	**531,117**
Total income and expense for the year	**–**	**–**	**–**	**–**	**530,798**	**(1,920)**	**(249,207)**	**279,671**	**(745)**	**278,926**
Dividends declared *(Note 13)*	**–**	**–**	**–**	**–**	**(164,677)**	**–**	**–**	**(164,677)**	**–**	**(164,677)**
At 31 December 2008	**303**	**–**	**783,862**	**7**	**546,009**	**518**	**(151,527)**	**1,179,172**	**5,319**	**1,184,491**

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

1. Corporate information

The consolidated financial statements of OAO Raspadskaya (the “Company”) for the year ended 31 December 2008 were authorized for issue in accordance with a resolution of the Board of Directors on 14 April 2009.

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 Mastercroft Mining Limited, a subsidiary of Evraz Group S.A. (Luxembourg), and Adroliv Investments Limited (Cyprus) (“Adroliv”). The Company’s shares are publicly traded.

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

In the years ended 31 December 2008 and 2007, 29% and 25%, respectively, of the Group’s revenues were generated in transactions with related parties. For detailed information related to such activities refer to Note 11.

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

	Ownership interest		
Subsidiary	**2008**	**2007**	**Business activity**
OAO MUK-96	**100.00%**	100.00%	Coal mining
ZAO Razrez Raspadskiy	**100.00%**	100.00%	Coal mining
ZAO Raspadskaya Koksovaya	**100.00%**	100.00%	Coal mine under construction
ZAO Raspadskaya Preparation Plant	**100.00%**	100.00%	Coal processing
OOO Raspadskiy Ugol	**100.00%**	100.00%	Coal trading
ZAO Raspadskaya Coal Company	**100.00%**	100.00%	Managing

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

2. Significant accounting policies

Basis of preparation

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

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

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

Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. As of December 31, 2008, the Group has considerable financial resources together with long-term contracts with number of customers.

2. Significant accounting policies (continued)

Going concern (continued)

The current economic conditions create uncertainty particularly over (a) the level of demand and prices for the Group's products; (b) the exchange rate between euro, dollar and Russian rouble; and (c) ability of the Group to maintain certain level of operating cash flows necessary to comply with the terms of loan agreements.

In the next 12 months, the Group expects to finance its operating and investing activities primarily by cash generated from operations. If necessary, management may postpone certain investment projects and capital repairs till 2010 and 2011 to provide the Group with sufficient resources to manage its cash and debt position allowing the compliance with the terms of loan agreements.

As a consequence, management believes that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted new interpretations mandatory for financial years beginning on or after 1 January 2008:

- **IFRIC 11** *IFRS 2 - Group and Treasury Share Transactions;*
- **IFRIC 12** *Service Concession Arrangements*;
- **IFRIC 14** *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

The adoption of these interpretations had no effect on the Group’s financial performance or position.

The Group has also early adopted **IAS 23** (revised) *Borrowing Costs* (effective from 1 January 2009). The revised standard requires that all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized. In accordance with the transitional requirements of this standard, this has been adopted as a prospective change. Therefore, borrowing costs have been capitalized on qualifying assets with a commencement date 1 January 2008. No changes have been made for borrowing costs incurred prior to this date. During 2008, borrowing costs in the amount of US$989,000 have been capitalized using the capitalization rate (the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset) of 8%.

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

- **IFRS 8** *Operating Segments* (effective from 1 January 2009);
- **IFRS 3** (revised) *Business Combinations* (effective from 1 July 2009);
- **IAS 27** (revised) *Consolidated and Separate Financial Statements* (effective from 1 July 2009);
- Amendments to **IFRS 2** *Share-based Payments – Vesting Conditions and Cancellation* (effective from 1 January 2009);
- **IAS 1** (revised) *Presentation of Financial Statements* (effective from 1 January 2009);
- Amendments to **IAS 39** *Financial Instruments: Recognition and Measurement* and **IFRS 7** *Financial Instruments: Disclosures – Reclassification of Financial Assets* (effective for financial years beginning on or after 1 July 2008);
- Amendments to **IAS 39** *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective from 1 July 2009);

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

- Amendments to **IAS 32** *Financial Instruments: Presentation* and **IAS 1** (revised) *Presentation of Financial Statements – Puttable Instruments and Obligations Arising on liquidation* (effective from 1 January 2009);
- Amendments to **IFRS 1** *First-time Adoption of International Financial Reporting Standards* and **IAS 27** *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective from 1 January 2009);
- Amendments to **IFRS 7** *Improving Disclosures about Financial Instruments* (effective from 1 January 2009);
- **IFRIC 13** *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008);
- **IFRIC 15** *Agreements for the Construction of Real Estate* (effective from 1 January 2009);
- **IFRIC 16** *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008);
- **IFRIC 17** *Distributions of Non-Cash Assets to Owners* (effective from 1 July 2009);
- **IFRIC 18** *Transfer of Assets from Customers* (effective from 1 July 2009);
- Amendments to standards following the 2007 "improvement to IFRSs" project.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

Foreign currency transactions

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

The functional currency of the Company and its subsidiaries is the Russian ruble (the "ruble"). As at the reporting date, the assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements 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 and each subsidiary are initially recorded in the functional currency ruling at the rate at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the balance sheet date. All resulting differences are taken to the consolidated income statement.

Basis of consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date 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.

2. Significant accounting policies (continued)

Basis of consolidation (continued)

Acquisition of subsidiaries

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

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

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

Increases in ownership interests in subsidiaries

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

Property, plant and equipment

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

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

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

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

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

	Useful lives (years)	Weighted average useful life (years)
Buildings and constructions	10-60	22
Machinery and equipment	2-25	4
Transport and motor vehicles	4-32	5
Other assets	2-9	4

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

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

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

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

Leases

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

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

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

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

Financial assets

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

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

2. Significant accounting policies (continued)

Financial assets (continued)

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

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

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

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 balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

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

Inventories

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

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

Trade and other receivables

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

2. Significant accounting policies (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.

Value added tax

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

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

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

Cash and cash equivalents

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

Equity

Share capital

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

Treasury shares

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

Dividends

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

Borrowings

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

Prior to 2008, borrowing costs were expensed as incurred. Since 1 January 2008 borrowing costs relating to qualifying assets are capitalized.

2. Significant accounting policies (continued)

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 balance sheet 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 (approximately 26%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-employment benefits

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

The liability recognized in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for 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.

2. Significant accounting policies (continued)

Employee benefits (continued)

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 income statement.

Other costs

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

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:

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.

2. Significant accounting policies (continued)

Current income tax

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

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

Deferred income tax

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

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 balance sheet date.

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

3. Significant accounting judgments and estimates

Estimation of uncertainty

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

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. No impairment losses were recognized or reversed in the years ended 31 December 2008 and 2007.

3. Significant accounting judgments and estimates (continued)

Estimation of uncertainty (continued)

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with **IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss. In the years ended 31 December 2008 and 2007, there were no changes to the estimated remaining useful lives of items of property, plant and equipment.

Mineral reserves

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

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

Site restoration provision

The Group reviews site restoration provision at each balance sheet date, 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 balance sheet date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. As at 31 December 2008 and 2007, site restoration provision that is included in other long-term liabilities was US$1,466,000 and US$1,685,000, respectively.

3. Significant accounting judgments and estimates (continued)

Estimation of uncertainty (continued)

Post-employment benefits

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

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2008 and 2007, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of US$1,050,000 and US$1,150,000, respectively (Note 10).

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 18.

Deferred income tax assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be 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 income statement.

4. Segment information

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

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

	2008	2007
	US$000	*US$000*
Russia	**947,248**	554,171
Ukraine	**219,490**	105,721
Hungary	**16,875**	17,177
Romania	**15,132**	76,793
Bulgaria	**1,652**	9,118
Japan	**–**	12,982
Slovakia	**–**	2,833
South Korea	**–**	2,715
China	**–**	2,584
	1,200,397	784,094

5. Expenses

	2008	2007
	US$000	*US$000*
Cost of inventories recognized as expense	**58,146**	49,676
Staff cost, including social security taxes	**121,938**	108,607
Depreciation, depletion and amortization	**121,622**	135,624

6. Income taxes

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

	2008	2007
	US$000	*US$000*
Current income tax:		
Current income tax charge	**(191,461)**	(108,245)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**16,752**	19,455
Relating to changes in tax rates or the imposition of new taxes	**35,237**	–
Income tax expense	**(139,472)**	(88,790)

Russia was the only tax jurisdiction in which the Group's income was subject to taxation. In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate is effective from 1 January 2009. As such, the respective deferred tax assets and liabilities were measured using the announced tax rate.

Some of subsidiaries of the Group operate with losses in the current or preceding periods. The management of the Group is confident that the subsidiaries will be able to improve their tax position in the foreseeable future.

6. Income taxes (continued)

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

	2008	2007
	US$000	*US$000*
Profit before income tax	**670,589**	329,033
At Russian statutory income tax rate of 24%	**(160,941)**	(78,968)
Tax on dividends distributed by the Group's subsidiaries to the parent company	**(283)**	–
Adjustments in respect of previous years	**(5,231)**	(3,184)
Deferred tax benefit relating to the change in tax rate	**35,237**	–
Effect of non-deductible expenses and other non-temporary differences	**(8,254)**	(6,638)
Income tax expense	**(139,472)**	(88,790)

Movement in deferred income tax assets and liabilities

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

	At 31 December 2007	Change recognised in income statement	Change recognised in equity statement	Translation difference	At 31 December 2006
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Deferred income tax liabilities:					
Property, plant and equipment	224,938	(20,045)	–	15,819	229,164
Investments	770	–	105	49	616
Inventory	804	(484)	–	69	1,219
Other	1,237	1,187	–	50	–
	227,749	(19,342)	105	15,987	230,999
Deferred income tax assets:					
Accrued liabilities	2,309	1,142	–	124	1,043
Loss carry forward	50	(3,184)	–	94	3,140
Other	2,788	2,155	–	126	507
	5,147	113	–	344	4,690
Total deferred income tax asset/(liability)	(222,602)	19,455	(105)	(15,643)	(226,309)
Represented by the following:					
Net deferred income tax asset	2,919	(983)	–	227	3,675
Net deferred income tax liability	225,521	(20,438)	105	15,870	229,984

6. Income taxes (continued)

The recognition and reversals of temporary differences primarily relates to: 1) depreciation and depletion of property, plant and equipment in excess of the depreciation and depletion for tax purposes; 2) fair value adjustments to property, plant and equipment acquired in a business combination; 3) accruals and provisions; and other temporary differences.

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

7. Property, plant and equipment

	2008	2007
At 31 December:	*US$000*	*US$000*
Cost:		
Land	**60**	63
Mining assets	**1,021,649**	1,181,396
Buildings and constructions	**87,196**	85,437
Machinery and equipment	**367,399**	346,967
Transport and motor vehicles	**33,186**	32,864
Other assets	**7,941**	8,020
Assets under construction	**262,396**	210,222
	1,779,827	1,864,969
Accumulated depreciation, depletion and amortization:		
Mining assets	**(172,489)**	(156,323)
Buildings and constructions	**(10,055)**	(8,492)
Machinery and equipment	**(219,444)**	(205,613)
Transport and motor vehicles	**(11,251)**	(9,738)
Other assets	**(4,048)**	(2,808)
	(417,287)	(382,974)
Government grants:		
Mining assets, net	**(1,314)**	(1,938)
Machinery and equipment, net	**(160)**	(382)
Other assets, net	**(113)**	(468)
	1,360,953	1,479,207

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$21,207,000 and US$40,777,000 as at 31 December 2008 and 2007, respectively.

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

7. Property, plant and equipment (continued)

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 2006 cost, net of accumulated depreciation, depletion and government grants	49	1,002,644	68,345	159,425	19,549	5,191	98,913	1,354,116
Additions	–	23,995	13	–	–	–	142,289	166,297
Assets put into operation	10	1,916	6,901	26,887	5,071	1,423	(42,208)	–
Disposals	–	–	(350)	(1,680)	(172)	(42)	(160)	(2,404)
Reclassification	–	(1,938)	–	1,782	624	(468)	–	–
Depreciation & depletion charge	–	(74,355)	(3,078)	(55,869)	(3,456)	(1,725)	–	(138,483)
Amortization of government grants	–	–	–	142	–	–	–	142
Change in site restoration provision	–	–	–	–	–	–	–	–
Translation difference	4	70,873	5,114	10,285	1,510	365	11,388	99,539
At 31 December 2007, cost, net of accumulated depreciation, depletion and government grants	63	1,023,135	76,945	140,972	23,126	4,744	210,222	1,479,207

As at 31 December 2008 and 2007 certain items of production equipment with carrying value of US$nil and US$27,758,000, respectively, were pledged to banks as collateral against loans to the Group (Note 14).

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

Short-term bank deposits

	2008	**2007**
	US$000	*US$000*
At 31 December:		
Russian rubles	**93,565**	–
US dollars	**21,480**	–
	115,045	–

The above short-term deposits are represented by non-restricted deposits placed in reputable Russian banks and affiliates of international banks and maturing in 2009.

Cash and cash equivalents

	2008	**2007**
	US$000	*US$000*
At 31 December:		
Russian rubles	**64,349**	73,877
US dollars	**7,206**	8,433
Euro	**–**	1
	71,555	82,311

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

9. Inventories

	2008	**2007**
	US$000	*US$000*
At 31 December:		
Raw materials and spare parts (at cost)	**47,674**	41,349
Finished goods (at cost)	**1,580**	9,409
Finished goods (at fair value)	**6,802**	–
	56,056	50,758

10. Trade and other receivables

	2008	2007
	US$000	*US$000*
At 31 December:		
Trade accounts receivable	**62,021**	25,901
Prepayments	**8,106**	13,552
Other receivables	**2,299**	3,692
	72,426	43,145
Allowance for doubtful accounts	**(1,050)**	(1,150)
	71,376	41,995

As at 31 December 2008 and 2007, receivables with nominal value of US$1,050,000 and US$1,150,000, respectively were doubtful and fully provided for.

Movement in the allowance for doubtful accounts

	2008	2007
	US$000	*US$000*
At 1 January	**1,150**	843
Charge for the year	**393**	501
Amounts written off	**(272)**	(176)
Unused amounts reversed	**(15)**	(88)
Translation difference	**(206)**	70
At 31 December	**1,050**	1,150

11. Related party disclosures

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

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

Amounts owed by/to related parties

	Amounts due from related parties		Amounts due to related parties	
	2008	2007	2008	2007
	US$000	*US$000*	*US$000*	*US$000*
At 31 December:				
OOO Trade House Evrazresource	**56,438**	9,520	**1,027**	–
Greyridge Coal and Shipping	**–**	14,651	**–**	–
OAO Yuzhny Kuzbass	**212**	490	**18**	29
OOO Raspadskaya Constructing Industrial Company	**5**	–	**137**	–
OOO Evrazresourse Ukraine	**3**		**–**	
Other entities	**321**	658	**59**	539
	56,979	25,319	**1,241**	568

Assets under construction include prepayments to related parties - constructors and suppliers of property, plant and equipment in the amount of US$1,082,000 and US$4,173,000 as at 31 December 2008 and 2007, respectively.

11. Related party disclosures (continued)

Transactions with related parties

	Sales to related parties		Purchases from related parties	
	2008	**2007**	**2008**	**2007**
	US$000	*US$000*	*US$000*	*US$000*
OOO Trade House Evrazresource	**225,766**	153,086	**–**	–
Greyridge Coal and Shipping	**51,804**	38,177	**–**	–
OAO Yuzhny Kuzbass	**4,455**	4,734	**19**	169
OOO Raspadskaya Constructing Industrial Company	**1,617**	59	**10,358**	2,456
OOO Evrazresourse Ukraine	**76,080**	–	**–**	–
Other entities	**438**	134	**246**	2,539
	360,160	196,190	**10,623**	5,164

OOO Trade House Evrazresource ("Evrazresource") is an entity under control of one of the major ultimate shareholders of the Company. In both the years ended 31 December 2008 and 2007, the Group sold to Evrazresource 18% of sales volumes of raw coal and coal concentrate.

Greyridge Coal and Shipping is an entity under control of one of the major ultimate shareholders of the Company. In both the years ended 31 December 2008 and 2007 the Group sold to the entity 4% of sales volumes of raw coal and coal concentrate.

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

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

OOO Evrazresource Ukraine is an entity under control of one of the major ultimate shareholders of the Company. In the year ended 31 December 2008 the Group sold to Evrazresource Ukraine 6% of sales volumes of raw coal and coal concentrate.

Compensation to key management personnel

Key management personnel totalled 9 persons as at 31 December 2008 and 2007. Total compensation to key management personnel was included in general and administrative expenses in the income statement and consisted of the following in the years ended 31 December:

	2008	**2007**
	US$000	*US$000*
Short-term benefits:		
Salary	**2,629**	2,099
Bonus	**228**	826
Social security taxes	**80**	105
	2,937	3,030

12. Other taxes recoverable

	2008	2007
	US$000	*US$000*
At 31 December:		
Input VAT	**15,225**	31,769
Other taxes	**508**	137
	15,733	31,906

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

13. Equity

Total number of outstanding shares comprises:

	Issued ordinary shares	Treasury shares	Outstanding ordinary shares
At 31 December 2006	781,988,250	1,188,441	780,799,809
Retirement of treasury shares	(1,188,441)	(1,188,441)	–
At 31 December 2007 and 2008	**780,799,809**	**–**	**780,799,809**

As at 31 December 2008 and 2007, the Company's authorized share capital consisted of 1,478,811,096 ordinary shares with par value 0.004 rubles each.

Reserve capital

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

Earnings per share

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

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

Dividends declared and paid

	Date of declaration	Per share	Total
		Rubles	*US$000*
Final for 2006	15 June 2007	1.94	58,156
Interim for 2007	7 December 2007	1.25	39,755
Final for 2007	2 June 2008	3.75	123,344
Interim for 2008	24 December 2008	1.50	41,333

14. Loans and borrowings

Loans and borrowings by source

	2008	2007
	US$000	*US$000*
At 31 December:		
7.50% notes due 2012	**300,000**	300,000
BSGV	**35,901**	2,511
Raiffeisenbank	**11,255**	–
Other Russian banks	**2,748**	44,121
Ministry of Finance of Russia	**–**	428
Interest payable	**2,710**	2,568
Unamortized debt issue costs	**(1,467)**	(2,274)
	351,147	347,354

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

Loans and borrowings by term

	2008	2007
	US$000	*US$000*
Short-term	**2,748**	19,799
Long-term loans	**347,156**	327,261
including the current portion of long-term	**31,627**	17,119

Average annual interest rates

	2008		2007	
	Short-term	**Long-term**	**Short-term**	**Long-term**
RUB	**n/a**	**8.0%**	8.2%	9.9%
USD	**8.7%**	**7.3%**	8.1%	n/a
EUR	**7.2%**	**6.3%**	8.7%	7.1%

Loans and borrowings by currency

	2008	2007
	US$000	*US$000*
Russian rubles	**25**	35,184
US dollars	**341,331**	305,055
Euro	**11,258**	9,389
Unamortized debt issue costs	**(1,467)**	(2,274)
	351,147	347,354

Loans and borrowings by period of repayment

	2008	2007
	US$000	*US$000*
Not more than one year	**37,085**	39,486
After one year but not more than two years	**14,122**	10,142
After two years but not more than five years	**301,407**	300,000
Unamortized debt issue costs	**(1,467)**	(2,274)
	351,147	347,354

15. Post-employment benefits

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

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

The components of net benefit expense recognized in the consolidated income statement for the years ended 31 December 2008 and 2007 and amounts recognized in the balance sheet as at 31 December 2008 and 2007 for the post-employment benefits were as follows:

Net benefit expense

	2008	**2007**
	US$000	*US$000*
Current service cost	**1,338**	997
Interest cost on benefit obligation	**2,070**	1,450
Net actuarial loss recognized in the year	**1,333**	517
Past service cost	**378**	(135)
Net benefit expense	**5,119**	2,829

In the years ended 31 December 2008 and 2007, the Group reassessed benefits provided to retired employees and, consequently, reconsidered certain of these benefits to create a constructive obligation.

Net benefit liability

	2008	**2007**
	US$000	*US$000*
Benefit obligation	**23,498**	31,160
Unrecognized net actuarial losses	**(5,976)**	(13,786)
Net benefit liability	**17,522**	17,374

Movement in benefit obligation

	2008	**2007**
	US$000	*US$000*
At 1 January	**31,160**	22,239
Benefit expense	**5,119**	2,829
Benefits paid	**(1,564)**	(1,659)
Actuarial losses on obligation	**(6,551)**	5,839
Translation difference	**(4,666)**	1,912
At 31 December	**23,498**	31,160

15. Post-employment benefits (continued)

Post-employment benefits disclosures

	2008	2007	2006	2005	2004
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Defined benefit obligation	**(23,498)**	(31,160)	(22,239)	(8,624)	(3,688)
Deficit	**(23,498)**	(31,160)	(22,239)	(8,624)	(3,688)
Experience adjustments on plan liabilities	**(3,722)**	7,516	5,406	221	–

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

	2008	2007
Discount rate	**8.50%**	6.75%
Future benefits increases	**6.00%**	5.00%

16. Trade and other payables

	2008	2007
	US$000	*US$000*
Trade accounts payable	**32,534**	19,688
Accrued payroll	**4,641**	9,267
Other payables	**5,900**	8,061
	43,075	37,016

17. Other taxes payable

	2008	2007
	US$000	*US$000*
VAT	**4,574**	3,972
Other taxes	**5,161**	7,448
	9,735	11,420

18. Commitments and contingencies

Operating environment of the Group

The Group is one of the biggest coking coal producers in Russia. Russia is considered as developing market with higher economic and political risks. The Russian economy is characterised by relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of the country. The country continues economic reforms and development of legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The developing economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

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

18. Commitments and contingencies (continued)

Operating environment of the Group (continued)

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

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

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

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

Contractual commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US$45,106,000 as at 31 December 2008.

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 2009, the Group plans to spend US$6,782,000 under these programs, including US$3,010,000 contributions to post-employment benefit programs.

Environmental protection

The Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

During the next three years, the Group expects to spend US$38,846,000 under the Plan on environmental protection for the years 2009-2011 authorized by management.

18. Commitments and contingencies (continued)

Insurance policies

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

19. Financial risks management objectives and policies

Credit risk

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

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

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

	2008	**2007**
	US$000	*US$000*
Long-term investments	**904**	3,516
Trade and other receivables	**71,376**	41,995
Long-term receivables	**2,176**	2,715
Receivables from related parties	**56,979**	25,319
Short-term investments, cash and cash equivalents	**186,600**	82,311
	318,035	155,856

The ageing analysis of trade and other receivables is presented in the table below:

	2008		**2007**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
	US$000	*US$000*	*US$000*	*US$000*
Not past due	**26,096**	**214**	68,537	–
Past due				
less than six months	**104,605**	**58**	1,407	–
over six months	**880**	**778**	1,238	1,150
	131,581	**1,050**	71,182	1,150

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

19. Financial risks management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

All of the Group's financial liabilities represent non-derivative financial instruments.

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

	Less than 1 year	1 to 2 years	2 to 5 years	Total
At 31 December 2008:	*US$000*	*US$000*	*US$000*	*US$000*
Fixed –rate debt				
Loans and borrowings				
Principal	**2,748**	**–**	**300,000**	**302,748**
Interest	**22,502**	**22,500**	**33,750**	**78,752**
	25,250	**22,500**	**333,750**	**381,500**
Variable –rate debt				
Loans and borrowings				
Principal	**31,627**	**14,122**	**1,407**	**47,156**
Interest	**1,200**	**283**	**15**	**1,498**
	32,827	**14,405**	**1,422**	**48,654**
Non-interest bearing debt				
Trade and other payables	**43,075**	**–**	**–**	**43,075**
Payables to related parties	**1,241**	**–**	**–**	**1,241**
Dividends payable	**8,267**	**–**	**–**	**8,267**
	52,583	**–**	**–**	**52,583**
	110,660	**36,905**	**335,172**	**482,737**

19. Financial risks management objectives and policies (continued)

Liquidity risk (continued)

	Less than 1 year	1 to 2 years	2 to 5 years	Total
At 31 December 2007:	*US$000*	*US$000*	*US$000*	*US$000*
Fixed –rate debt				
Loans and borrowings				
Principal	33,808	10,436	300,000	344,244
Interest	25,239	23,329	56,250	104,818
	59,047	33,765	356,250	449,062
Variable –rate debt				
Loans and borrowings				
Principal	701	2,115	–	2,816
Interest	5	169	–	174
	706	2,284	–	2,990
Non-interest bearing debt				
Trade and other payables	37,063	–	–	37,063
Payables to related parties	568	–	–	568
Dividends payable	2,716	–	–	2,716
	40,347	–	–	40,347
	100,100	36,049	356,250	492,399

Currency risk

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

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

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

	2008	**2007**
	US$000	*US$000*
USD/RUB	**(320,460)**	(271,968)
EUR/RUB	**(11,258)**	4,600
GBP/RUB	**–**	1,989

Sensitivity analysis

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

19. Financial risks management objectives and policies (continued)

Sensitivity analysis (continued)

	2008		2007	
	Change in exchange rate	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**
		US$000		*US$000*
USD/RUB	**13.80%**	**(44,223)**	(5.80)%	15,744
	31.80%	**(101,906)**	4.20%	(11,423)
EUR/RUB	**1.10%**	**(124)**	(5.45)%	(251)
	18.30%	**(2,060)**	3.25%	150
GBP/RUB	**–**	**–**	(4.40)%	(87)
	–	**–**	4.40%	87

Interest rate risk

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

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

	2008	2007
	US$000	*US$000*
At 31 December:		
Fixed-rate debt	**301,281**	341,970
Variable-rate debt	**47,156**	2,816
	348,437	344,786

Cash flow sensitivity analysis for variable rate instruments

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

	2008		2007	
	Change in interest rate	**Effect on profit before tax**	**Change in interest rate**	**Effect on profit before tax**
	basis points	*US$000*	*basis points*	*US$000*
Liabilities denominated in US dollars				
Decrease in LIBOR	**(55)**	**(197)**	(125)	(26)
Increase in LIBOR	**55**	**197**	75	16
Liabilities denominated in euro				
Decrease in EURIBOR	**(30)**	**(34)**	(150)	(11)
Increase in EURIBOR	**30**	**34**	75	5

19. 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 shareholders' value. There were no changes in the objectives, policies and processes of the Group's capital management during 2008.

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

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio at a level not exceeding 25%. The Group includes within net debt interest bearing loans and borrowings less cash, cash equivalents and short-term bank deposits. Capital includes equity attributable to the equity holders of the parent less the net unrealized gains on available-for-sale investments

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

	2008	2007
	US$000	*US$000*
Interest bearing loans and borrowings	**351,147**	347,401
Less:		
Cash, cash equivalents and short-term bank deposits	**(186,600)**	(82,311)
Net debt	**164,547**	265,090
Equity attributable to the equity holders of the parent	**1,179,161**	1,064,178
Less:		
Net unrealized gains on investments available for sale	**(518)**	(2,438)
Total capital	**1,178,643**	1,061,740
Total capital and net debt	**1,343,190**	1,326,830
Gearing ratio	**12%**	20%

Fair value of financial instruments

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, variable rate short-term and variable rate long-term loans payable approximate their fair value. Fair value of 7.5% notes due in 2012 with carrying amount US$298,533,000 is determined by reference to published price quotations in an active market and approximates to US$173,424,000.

20. Subsequent events

Proposed dividends

On 14 April 2009, the Board of Directors of the Company decided to recommend to the shareholders of the Company to approve no final dividends for 2008.

Exchange rates

In the beginning of 2009 the Russian ruble was devalued to major currencies. At the date these consolidated financial statements have been authorized for issue, the official exchange rate of the Russian ruble to US dollar as set by the Central Bank of Russia comprised 33.4863, which constitutes a 14% reduction in the value of the Russian ruble to the US dollar since 31 December 2008.