LLC Coal Company Zarechnaya

Consolidated Financial Statements for the year ended 31 December 2011

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of LLC Coal Company Zarechnaya

We have audited the accompanying consolidated financial statements of LLC Coal Company Zarechnaya (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, changes in equity and cash flows for the year ended 31 December 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 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 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 about 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 auditor's 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 qualified audit opinion.

Basis for Qualified Opinion

We did not observe the counting of inventories with a carrying amount of RUB 461 million as at 1 January 2010 because we were engaged as auditors of the Group only after this date. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the elements making up the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2010. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2010 dated 2 March 2012 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures as at and for the year ended 31 December 2010 and the possible effects on the comparability of the current year's figures of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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27 July 2012

RUB, million	Note	2011	2010 Restated*
ASSETS			
Non-current assets			
Property, plant and equipment	16	15,256	10,796
Intangible assets		8	3
Investments in equity accounted investee	17	468	401
Other investments	18	374	82
Deferred tax assets	19	162	286
Trade and other receivables	21	500	262
Total non-current assets		**16,768**	**11,830**
Current assets			
Inventories	20	2,384	924
Current portion of mine drifting costs		466	493
Other investments	18	463	207
Input VAT		1,651	933
Current income tax		154	16
Trade and other receivables	21	5,576	3,802
Cash and cash equivalents	22	1,839	116
Total current assets		**12,533**	**6,491**
Total assets		**29,301**	**18,321**

* Restated for the effect of business combinations under common control (note 6(b)).

The consolidated statement of financial position is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

RUB, million	**Note**	**2011**	**2010 Restated***
EQUITY AND LIABILITIES			
Equity			
Charter capital	23	337	337
Treasury shares	23	(5)	-
Additional paid-in capital		709	709
Retained earnings		510	345
Currency translation reserve		(1)	(5)
Total equity attributable to owners of the Company		**1,550**	**1,386**
Non-controlling interest		648	286
Total equity		**2,198**	**1,672**
Non-current liabilities			
Loans and borrowings	24	16,209	9,088
Employee benefits	25	417	338
Provision for site restoration	26	312	291
Deferred tax liabilities	19	54	77
Trade and other payables	27	-	517
Total non-current liabilities		**16,992**	**10,311**
Current liabilities			
Loans and borrowings	24	4,045	2,567
Trade and other payables	27	6,033	3,756
Other taxes payable		15	-
Provision for site restoration	26	18	15
Total current liabilities		**10,111**	**6,338**
Total liabilities		**27,103**	**16,649**
Total equity and liabilities		**29,301**	**18,321**

* Restated for the effect of business combinations under common control (note 6(b)).

The consolidated statement of financial position is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

RUB, million	Note	2011	2010 Restated*
Revenue	7	19,453	13,671
Cost of sales	8	(13,781)	(10,055)
Gross profit		**5,672**	**3,616**
Selling expenses	9	(173)	(130)
Administrative expenses	10	(1,559)	(1,316)
Other income	11	398	-
Other expenses	12	(1,029)	(304)
Results from operating activities		**3,309**	**1,866**
Share of profit of equity accounted investees (net of income tax)	17	42	8
Net finance costs	14	(2,084)	(1,476)
Profit before tax		**1,267**	**398**
Income tax expense	15	(450)	(147)
Profit for the year		**817**	**251**
Other comprehensive income/(loss)			
Actuarial losses on defined benefit plans	25	(64)	(55)
Effect of deferred income tax		13	11
Exchange differences on foreign currency translation		24	(32)
Other comprehensive loss for the year, net of income tax		**(27)**	**(76)**
Total comprehensive income for the year		**790**	**175**
Profit attributable to:			
Owners of the Company		470	210
Non-controlling interest		347	41
Profit for the year		**817**	**251**

The consolidated statement of comprehensive income is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

RUB, million	**Note**	**2011**	**2010 Restated***
Total comprehensive income for the year attributable to:			
Owners of the Company		428	165
Non-controlling interest		362	10
Total comprehensive income for the year		**790**	**175**
Earnings before interest, tax, depreciation and amortization (EBITDA)	34	4,981	3,429

* Restated for the effect of business combinations under common control (note 6(b)).

The consolidated financial statements were approved by management on 27 July 2012 and signed on its behalf by:

V.G. Kharitonov
General Director

V.A. Tarasyuk
Finance Director

The consolidated statement of comprehensive income is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

RUB, million	Equity attributable to owners of the Company							
	Charter capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Currency translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2010 (as previously reported)	337	-	597	183	-	1,117	(111)	**1,006**
Restatement* (note 6(b))	-	-	64	(8)	-	56	388	**444**
Balance as at 1 January 2010 (restated)	**337**	**-**	**661**	**175**	**-**	**1,173**	**277**	**1,450**
Total comprehensive income for the year								
Profit for the year	-	-	-	210	-	210	41	**251**
Other comprehensive income								
Exchange differences on foreign currency translation	-	-	-	-	(5)	(5)	(27)	**(32)**
Actuarial losses on defined benefit pension plans, net of income tax	-	-	-	(40)	-	(40)	(4)	**(44)**
Total other comprehensive income/(loss)	-	-	-	(40)	(5)	(45)	(31)	**(76)**
Total comprehensive income for the year	-	-	-	**170**	**(5)**	**165**	**10**	**175**
Transactions with owners, recorded directly in equity								
Other transactions with owners (discount on low interest rate loans, debt forgiveness)	-	-	48	-	-	48	(4)	**44**
Non-controlling interest arising in a business combination	-	-	-	-	-	-	3	**3**
Total transactions with owners	**-**	**-**	**48**	**-**	**-**	**48**	**(1)**	**47**
Balance as at 31 December 2010	**337**	**-**	**709**	**345**	**(5)**	**1,386**	**286**	**1,672**

The consolidated statement of changes in equity is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

RUB, million	Equity attributable to owners of the Company							
	Charter capital	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Currency translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at 1 January 2011	337	-	709	345	(5)	1,386	286	**1, 672**
Total comprehensive income for the year								
Profit for the year	-	-	-	470	-	470	347	**817**
Other comprehensive income								
Exchange differences on foreign currency translation	-	-	-	-	4	4	20	**24**
Actuarial losses on defined benefit pension plans, net of income tax	-	-	-	(46)	-	(46)	(5)	**(51)**
Total other comprehensive income/(loss)	-	-	-	(46)	4	(42)	15	**(27)**
Total comprehensive income for the year	**-**	**-**	**-**	**424**	**4**	**428**	**362**	**790**
Transactions with owners, recorded directly in equity								
Acquisition of treasury shares	-	(5)	-	-	-	(5)	-	**(5)**
Dividends paid	-	-	-	(259)	-	(259)	-	**(259)**
Total transactions with owners	**-**	**(5)**	**-**	**(259)**	**-**	**(264)**	**-**	**(264)**
Balance at 31 December 2011	**337**	**(5)**	**709**	**510**	**(1)**	**1,550**	**648**	**2,198**

* Restated for the effect of business combinations under common control (note 6(b)).

The consolidated statement of changes in equity is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

RUB, million	Note	2011	2010 Restated*
OPERATING ACTIVITIES			
Profit for the year		817	251
Adjustments for:			
Depreciation	8, 10	1,629	1,555
Loss on disposal of property, plant and equipment	12	82	51
Net finance costs	14	2,084	1,476
Share of profit of equity accounted investees (net of income tax)	17	(42)	(8)
Income tax expense	15	450	147
Cash flows from operating activities before changes in working capital and provisions		**5,020**	**3,472**
Change in inventories		(1,460)	(463)
Change in current portion of mine drifting costs		27	(236)
Change in trade and other receivables, including VAT		(2,650)	(1,933)
Change in trade and other payables		2,363	1,532
Change in allowance for accounts receivable	10	(1)	(14)
Change in provisions for employee benefits	25	-	20
Cash flows from operations before income taxes and interest paid		**3,299**	**2,378**
Income tax paid		(463)	(164)
Interest paid		(1,492)	(1,301)
Net cash from operating activities		**1,344**	**913**

The consolidated statement of cash flows is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

RUB, million	Note	2011	2010 Restated*
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment	16	22	42
Acquisition of property, plant and equipment		(5,816)	(1,777)
Receipts from repayment of loans and disposal of other investments		-	135
Issue of loans and acquisition of other investments		(554)	-
Interest received		28	14
Acquisition of subsidiaries, net of cash acquired	6	(279)	(974)
Net cash used in investing activities		**(6,599)**	**(2,560)**
FINANCING ACTIVITIES			
Proceeds from borrowings		15,125	9,588
Repayment of borrowings		(7,032)	(7,234)
Dividends paid		(259)	-
Repayment of debt for the acquisition of OJSC Zarechnaya Mine shares		(851)	(765)
Acquisition of treasury shares		(5)	-
Net cash flow from financing activities		**6,978**	**1,589**
Net increase/(decrease) in cash and cash equivalents		1,723	(58)
Cash and cash equivalents at the beginning of the year		116	174
Cash and cash equivalents at the end of the year	22	**1,839**	**116**

* Restated for the effect of business combinations under common control (note 6(b)).

The consolidated statement of cash flows is to be read in conjunction with the notes on pages 13 - 68, which are an integral part of these consolidated financial statements.

1. Background

(a) Russian business environment

The Group operates primarily in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organization and operations

LLC Coal Company Zarechnaya (hereinafter the "Company") and its subsidiaries (hereinafter jointly the "Group") includes Russian limited-liability and joint-stock companies (as defined by the Civil Code of the Russian Federation), as well as entities incorporated in Latvia and Switzerland.

The Company is registered at the address: #1, ulitsa Zarechnaya, Polysayevo, Kemerovo oblast, 652562 Russian Federation.

The core activity of the Group is the extraction of thermal coal by underground mining on the territory of Kemerovo oblast in the Russian Federation and the wholesale sale of coal, both for export and to consumers in the Russian Federation.

The ultimate controlling party of the Group is a private individual, Mr. V.L. Nusenkis, who also has interests in other entities not related to this Group. Detailed information on transactions with related parties is provided in Note 32.

2. Basis of preparation

(a) Statement of compliance with IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for the valuation of certain items of property, plant and equipment which have been stated at their deemed cost, determined as fair value at the date of first time adoption of IFRS by the Group (or by its subsidiaries).

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble (hereinafter the "rouble" or "RUB"), which is the functional currency of the Company and all of the Group's Russian entities, and the currency in which these consolidated financial statements are presented. All financial information presented in roubles has been rounded to the nearest million.

The national currency of Latvia is the Latvian lat (“lat”), which is the functional currency of Indtec Baltic Coal.

The functional currency of CCZ Trade, which is based in Switzerland, is the Russian rouble.

(d) Use of estimates and professional judgment

The preparation of consolidated financial statements in accordance with IFRS requires that management make judgments, assumptions, and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these revisions.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following Notes:

- Note 3(d)(vii) –coal reserves estimates;
- Note 29 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following Notes:

- Note 19 – deferred tax assets;
- Note 20 – provisions for obsolescence of inventory;
- Note 25 – actuarial assumptions;
- Note 26 – provision for site restoration;
- Note 28 (b) – credit risk;
- Note 31 – contingencies.

3. Significant accounting policies

The accounting policies described below were applied consistently in all reporting periods presented in these consolidated financial statements, unless stated otherwise.

Accounting policies are uniform across the Group.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions occurring on or after 1 January 2009, the Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(iv) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result.

Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(v) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Russian rouble at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Russian roubles at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets in the following categories: loans and receivables, and available for sale financial assets.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables (see Note 21) and cash and equivalents (see Note 22).

Cash and equivalents

Cash and cash equivalents include cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of other categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities and debt securities.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) Charter capital

The charter capital of the Company (interests acquired by participants) is classified within equity.

Pursuant to the charter documents of the Company (a limited liability company), a participant may at any time unilaterally withdraw from the Company, and the Company is required to pay the participant its share of the net assets of the Company as at the relevant period, in cash or through the transfer of in-kind assets. This payment should be made not later than six months after the reporting period in which the participant withdraws.

Management concluded that while the interests acquired by the Company's participants meet the definition of puttable instruments under IFRS, the terms and features of these instruments allow to use an exception provided by IFRS and classify the Company's charter capital as equity. Additionally, the Company's ultimate controlling party who controls all of the Company's participants, has confirmed that they have no intention of demanding the buyout of their interests in the foreseeable future.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses, except that deemed cost of property, plant and equipment of subsidiaries that transitioned to IFRS as at 1 January 2006, i.e. before the Group's transition to IFRS (as at 1 January 2009), and of those that transitioned to IFRS as at 1 January 2009, was determined on the basis of their fair values as at 1 January 2006 and 1 January 2009, respectively.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" or "other expenses" in profit or loss for the period.

(ii) Exploration and evaluation of mineral reserves

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as "Exploration and evaluation assets" within property, plant and equipment. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, which is evidenced by a formalized development plan, the exploration and evaluation assets are reclassified within property, plant and equipment to "Construction in progress", where they form part of mine development costs.

(iii) Mine development costs

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on development of mineral resources is capitalised and classified within the "Construction in progress" category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to works on mine development.

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to the corresponding categories of property, plant and equipment.

(iv) *Mine drifting costs*

Mine drifting relates to mining work performed in the existing mines to prepare individual coalfaces for extraction.

Direct costs related to drifting (including the share of the corresponding overheads) are classified as mine development costs and, depending on the expected timing of their use, are included within the cost of property, equipment and equipment or inventories, and are amortized into cost of sales over the production lifetime of a given coalface.

Coal extraction costs are included within the cost of extracted coal when incurred.

(v) *Subsequent costs*

Costs related to replacing a major component of an item of property, plant and equipment are recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is written off. Costs of day-to-day repairs and servicing of property, plant and equipment are recognized in profit or loss as incurred.

(vi) *Mining assets*

This category of property, plant and equipment includes the following categories of capitalized costs related to the deposits where commercial mining is underway:

- Capitalized mine development costs (note 3(d)(iii));
- Capitalized mine drifting costs (note 3(d)(iv));
- Capitalized provision for site restoration (see 3(j)(i));
- Cost of mining licenses.

(vii) *Coal reserves estimates*

Estimates of coal reserves are used to calculate future cash flows, site restoration provisions, depreciation of mining assets, unwinding of the discount for site restoration provisions and the related deferred income tax.

The estimates of coal reserves represent the quantity of coal planned for extraction, treatment and sale, which is at least sufficient to compensate total estimated costs, the carrying value of capital investments, and anticipated additional costs. The estimates are based on several assumptions as to the physical existence of coal reserves, future extraction and compensation factors, production costs and coal prices, and have been made on the basis of available reserve exploration data and other data, in accordance with the classification system adopted by the State Reserves Commission of the Russian Federation. The Group undertakes regular reviews of its coal reserve assessments.

Despite the fact that the long-term production plan exceeds the remaining terms of the Group’s production licences, the Group has the legal right to submit an application for an extension of the licenses for the existing coal reserves. Therefore, management is confident that the licences will be extended provided that they refer to the same coal seams as stated in the initial licences, and provided that certain other conditions are met. Expansion to other coal seams and to adjacent territories may be obtained based on the results of auctions. A delay in issuing or refusal to issue the necessary permits or licences on the part of the competent authorities, as well as any other unfavourable change in state regulations, may lead to a substantial adjustment in plans for development and the acquisition of new licenses, which in turn may have a negative impact on the Group's financial position and performance.

(viii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss for the period on a straight-line basis over the estimated useful lives of each major component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. An exception is items of property, plant and equipment whose value is consumed in the process of extraction proportional to the amount of reserves extracted.

Mining assets are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves under the Russian classification. Depletion of mining assets commences from the date when saleable materials begin to be extracted from the mine.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

• Buildings and other production facilities	5-50 years
• Plant, equipment, and vehicles	3-15 years
• Other devices and office equipment	1-10 years
• Mining assets	Proportionate to volumes of production at relevant mines (expected useful lives of mining assets at current production level varies from 11 to 50 years)

Depreciation methods, expected useful lives and residual values of property, plant and equipment are reviewed at the end of each financial year and are adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arising from the acquisition of subsidiaries is included in intangible assets.

Acquisitions before 1 January 2009

One of the decisions made during the Group's transition to IFRS was to restate only those business combinations that have taken place on or after 1 January 2009 (Note 3(a)(ii)).

For business combinations occurring before 1 January 2009, goodwill was determined based on the difference between the cost of the investment in the separate financial statements of the investor and the net assets of the relevant subsidiary. As a result no goodwill was recognized.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

Other intangible assets acquired by the Group that have a finite useful life are measured at initial cost less accumulated amortisation and impairment losses.

(iii) Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- software and other intangible assets 3-10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate

(f) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present (discounted) value of the minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases, and the leased assets are not recognized in the Group’s statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available for sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of cash generating units that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(i) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the period in which they arise.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Short-term benefits

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

Site restoration provision includes expected costs of dismantling of assets located at the mine site, mothballing (closure) of the mine, clean-up and re-vegetation of soil. The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed in course of land plot preparation.

An increase in provision due to subsequent damage to land plots during coal extraction is allocated to the cost of production of inventories.

(k) Revenue

(i) Sale of coal

Revenue from the sale of coal is measured at the fair value of the consideration received or receivable, net any trade discounts and markdowns. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, receipt of the consideration is probable, and the costs incurred and potential coal returns can be reliably estimated.

The transfer of risks and rewards varies depending on the specific terms of sale agreements and normally occurs at the time the goods are loaded to the relevant carrier or at the relevant border.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Service revenues include revenues from the performance of geological and exploration work and equipment repair services.

(l) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) Social expenditures

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognized in profit or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial instruments at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Unless indicated otherwise, management has not yet assessed their probable impact on the Group's financial position and performance.

- Amendment to IFRS 7 Disclosures – Transfers of Financial Assets introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IAS 28 (2011) Investments in Associates and Joint Ventures combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

- IFRS 10 Consolidated Financial Statements will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements (2008) and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 Disclosure of Interests in Other Entities will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity’s interests in other entities and the effects of those interests on the entity’s financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group does not intend to adopt this standard early.

- IFRS 13 Fair Value Measurement will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group does not intend to apply this standard early.

- Amendment to IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 Business Combinations provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

- IAS 19 (2011). Employee benefits. Amendment to IAS 19 significantly changes the accounting for employee benefits. First of all, the document replaces the corridor method and, subsequently, all changes in the present value of pension obligations and the fair value pension assets are recognised immediately as they arise. Secondly, the amendment removes the ability to recognise all changes in pension obligations with defined benefits and in the pension plan assets in profit or loss. Thirdly, expected profit from pension plan assets, recognized in profit or loss, is calculated based on the discount rate, which is applied to pension plan obligations with defined benefits. The amendment should be applied for annual periods, commencing on or after 1 July 2013 and is applied retrospectively.
- IAS 27 (2011). Separate Financial Statements is applied to periods, commencing on or after 1 January 2013. This amendment maintains existing requirements of IAS 27 (2008) of accounting and disclosure for separate financial statements, making some clarifications. Requirements of IAS 28 (2008) and IAS 31 for separate financial statements are included in IAS 27 (2011). The amendment should be applied for annual periods, commencing on or after 1 January 2013. The early adoption is permitted, but only together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).
- IFRS 11 Joint activity is applied for annual accounting periods, commencing on or after 1 January 2013 and its retrospective application will be required. New standard replaces IAS 31 Participation in Joint Ventures. Principal amendment made by IFRS 11 is that all joint agreements are classified either as joint ventures, accounted using proportionate consolidation method, or as joint ventures, accounted using equity method. The kind of joint agreement is determined on the basis of rights and obligations of parties of this agreement, arising from its structure, legal form, formalised agreements and other factors and circumstances. If adoption of IFRS 11 leads to a change in accounting model, this change is taken into account retrospectively commencing from the earliest period. According to new standard, all parties of joint agreement fall under the requirement of IFRS 11, even if they don't participate in joint control. The early adoption of IFRS 11 is permitted, but only with early adoption of IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011)
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified, future benefits arising from the improved access are probable and the costs related to the stripping activity associated with the component of the ore body are reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset.

Various *Improvements to IFRSs* are to be dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(p) Reclassification of comparative information

With effect from 1 January 2011, the Group changed the functional classification of certain expenses recognized in the Consolidated Statement of Comprehensive Income and payments, recognized in the Consolidated Statement of Cash Flows. Comparative information for the year ended 31 December 2010 was reclassified for consistency. The purpose of the change in presentation is to provide a more transparent classification of expenses.

As a result of reclassification, the following adjustments have been made in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows for the year ended 31 December 2010 (before effect of restatement due to acquisition under common control, refer to Note 6 (b)):

Consolidated Statement of Comprehensive Income	**Before reclassification**	**Effect of reclassification**	**After reclassification**
Administrative expenses	(1,362)	61	(1,301)
Results from operating activities	**1,814**	**61**	**1,875**
Net finance costs	(1,415)	(61)	(1,476)
Earnings before interest, tax, depreciation and amortization (EBITDA)	3,376	61	3,437

Consolidated Statement of Cash Flows	**Before reclassification**	**Effect of reclassification**	**After reclassification**
Net finance costs	1,415	61	1,476
Cash flows from operating activities before changes in working capital and provisions	**3,411**	**61**	**3,472**
Change in trade and other payables	1,862	(330)	1,532
Cash flows from operations before income taxes and interest paid	**2,647**	**(269)**	**2,378**
Interest paid	(1,268)	(33)	(1,301)
Net cash from operations	**1,215**	**(302)**	**913**
Acquisition of subsidiaries, net of cash acquired	(1,276)	302	(974)
Net cash used in investing activities	**(2,862)**	**302**	**(2,560)**

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination, and the deemed cost of property, plant and equipment recognised as at the date of first time adoption of IFRS, is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. Operating segments

The Group is engaged in the mining and sale of thermal coal, as well as a number of other associated lines of business that are not material for the Group either individually or in aggregate.

Starting from 2011, management of the Group has identified the following operating segments, representing production units, for which discrete financial information is available:

Zarechnaya mine **-** involved in production, enrichment and sale of steam coal;

Oktyabrskaya mine **-** involved in production and sale of steam coal;

Aleksyevskaya mine **-** involved in production and sale of steam coal;

Karagaylinskoe mine **-** involved in ongoing construction of the mine, production and sale of coking coal.

Other operations include support services for operating segments above. None of other operating segments meets quantitative criteria for classification as reportable segments in both 2010 and 2011. Integration between reportable segments is not significant.

Information about results of each of the reportable segments is presented below. Financial results are evaluated based on segment profit before tax, which is presented in financial statements prepared according to the Russian accounting standards, and is analyzed by the General director of the Company.

(i) Information on reportable segments

RUB, million	Zarechnaya | mine 2011	Zarechnaya | mine 2010	Oktyabrskaya mine 2011	Oktyabrskaya mine 2010	Aleksyevskaya mine 2011	Aleksyevskaya mine 2010	Karagaylinskoe mine 2011	Karagaylinskoe mine 2010	Total 2011	Total 2010
Revenue from external customers	10,086	11,166	4,366	3,227	3,860	1,682	266	-	18,578	16,075
Inter-segment revenue	167	217	3	4	274	201	-	-	444	422
Revenue from other segments	2,115	96	1,981	663	-	-	-	-	4,096	759
Elimination of inter-segment revenue	(167)	(217)	(3)	(4)	(274)	(201)	-	-	(444)	(422)
Revenue of reportable segments	**12,201**	**11,262**	**6,347**	**3,890**	**3,860**	**1,682**	**266**	**-**	**22,674**	**16,834**
Interest income	100	128	-	-	40	3	-	-	140	131
Interest expenses	(980)	(815)	-	-	(31)	(50)	(95)	(94)	(1,106)	(959)
Depreciation	(674)	(572)	(514)	(204)	(64)	(47)	-	-	(1,252)	(823)
Profit of reportable segment before tax (segment result)	(210)	170	571	644	840	294	(109)	(13)	1,092	1,095
Capital expenditure	1,950	1,235	1,752	1,381	218	63	452	90	4,372	2,769

(ii) Reconciliations of reportable segment amounts to the consolidated financial statements

RUB, million	**2011**	**2010**
Revenue		
Total revenue of reportable segments	22,674	16,834
Other revenue (other segments and unallocated)	6,347	1,307
Intercompany elimination	(9,247)	(2,008)
Cut-off adjustments	303	(253)
Net-off of income and expenditure on agency contracts	(236)	(2,209)
Reclass of revenue to other operating income	(388)	-
Consolidated revenue	**19,453**	**13,671**

RUB, million	**2011**	**2010**
Profit before tax for the year		
Total profit before tax of reportable segments	1,092	1,095
Profit / (loss) from other operations (other segments and unallocated)	(224)	6
Adjustments on depreciation and disposal of property, plant and equipment	43	(253)
Effect of discounting of various financial items	(119)	(238)
Mineral extraction tax accrual	(60)	-
Cut-off adjustments	110	(123)
Capitalization of drifting costs (current and non-current)	379	57
Other adjustments	4	(154)
Share of profit of equity accounted investees	42	8
Consolidated profit before tax	**1,267**	**398**

(iii) Other items

Year ended 31 December 2011

RUB, million	**Totals of reportable segments**	**Adjustments**	**Consolidated totals**
Interest income	140	(110)	30
Interest expenses	(1,106)	52	(1,054)
Capital expenditure	4,372	1, 941	6,313
Depreciation	(1,252)	(377)	(1,629)

Year ended 31 December 2010

RUB, million	**Totals of reportable segments**	**Adjustments**	**Consolidated totals**
Interest income	131	(117)	14
Interest expenses	(959)	89	(870)
Capital expenditure	2,769	566	3,335
Depreciation	(823)	(732)	(1,555)

6. Acquisition and disposal of subsidiaries and non-controlling interests

(a) Acquisition of a business in 2010

On 1 January 2010 the Group acquired control over a production unit – the Oktyabrskaya Mine – through the purchase of property, plant and equipment and a legal entity with a coal mining licence (CJSC Ugol-Invest, Note 33), and through the transfer of employment contracts of the relevant personnel from the old employer (the seller) to a Group company. The cost of acquisition amounted to RUB 1,276 million, which was paid in cash in the amount of RUB 1 253 million (2010: RUB 974 million, 2011: RUB 279 million) with outstanding consideration as at 31 December 2011 amounting to RUB 23 million.

After acquiring control over Oktyabrskaya Mine, the Group received access to new coal reserves. This acquisition allowed the Group to increase production volume in 2010 by approximately 2,300 thousand tonnes of coal. The volume of coal extraction by Oktyabrskaya Mine in 2011 comprised of 2,456 thousand tonnes in 2011. In the future, this acquisition is expected to increase the Group's annual production volume by approximately 3,000 thousand tonnes of coal.

On the date of acquisition, the identifiable acquired assets and assumed liabilities included the following:

RUB, million	**Note**	**Fair value recognized on the date of acquisition**
Property, plant and equipment	16	1,355
Current mine drifting costs		137
Trade and other receivables		1
Deferred tax liabilities	19	(44)
Employee benefits	25	(109)
Site restoration provisions	26	(48)
Trade and other payables		(13)
Net identifiable assets, liabilities and contingent liabilities		**1,279**
Non-controlling interests		(3)
Cost of acquisition		**1,276**

(b) Acquisition of control over Indtec Baltic Coal in 2011.

In 2011 the Group entered into an agreement with related parties under common control, according to which the Group acquired potential voting rights in Indtec Baltic Coal, sufficient to establish control over the entity.

In consolidated financial statements of the Group for the year ended 31 December 2010 this investment was recorded as an investment in associate. As at 31 December 2011, the Group owned 16,08% voting rights in Indtec Baltic Coal, and also owned potential voting rights amounting to 36,95%. The shares corresponding to the potential voting rights were acquired and paid for in 2012.

As at 1 January 2010 the carrying value of acquired assets and liabilities, presented in the financial statements of the related party of the Group (the seller) in accordance with IFRS, were as follows:

RUB, million	**Predecessor IFRS carrying value**
Property, plant and equipment	38
Investment in associate, Baltic Coal Terminal	415
Trade and other receivables	13
Cash and cash equivalents	1
Deferred tax liabilities	(3)
Trade and other payables	(9)
Net identifiable assets and liabilities	455
Carrying value of previously existing shares in the acquired company	**(11)**
Net increase in the Group's equity as at 1 January 2010	**444**

The transaction was reflected in this consolidated financial statement as a business combination resulting from the transfer of shares in the entity, which is under the control of the same party that controls the Group. The transaction was accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented, that is, as of 1 January 2010.

The acquired assets and liabilities were recognized at the carrying amounts recognised previously in the financial statements of the selling party, prepared under IFRS.

The following adjustments have been made to the consolidated statement of financial position as at 31 December 2010:

Consolidated statement of financial position	**Before restatement**	**Effect from the acquisition**	**After restatement**
Property, plant and equipment	10,748	48	10,796
Intangible assets	1	2	3
Investments in equity accounted investees	48	353	401
Non-current assets	**11,427**	**403**	**11,830**
Trade and other receivables	3,792	10	3,802
Current assets	**6,481**	**10**	**6,491**
Additional paid-in capital	645	64	709
Retained earnings	380	(35)	345
Currency translation reserve	-	(5)	(5)
Non-controlling interest	(94)	380	286
Equity	**1,268**	**404**	**1,672**
Deferred tax liabilities	73	4	77
Non-current liabilities	**10,307**	**4**	**10,311**
Trade and other payables	3,751	5	3,756
Current liabilities	**6,333**	**5**	**6,338**

As a result of restatement, the following adjustments have been made in the consolidated Statement of Comprehensive Income for the year ended 31 December 2010:

Consolidated statement of comprehensive income	**Before restatement**	**Effect from the acquisition**	**After restatement**
Revenue	13,667	4	13,671
Gross profit	**3,612**	**4**	**3,616**
Administrative expenses	(1,301)	(15)	(1,316)
Other expenses	(306)	2	(304)
Results from operating activities	**1,875**	**(9)**	**1,866**
Share of profit of equity accounted investees (net of income tax)	7	1	8
Profit before tax	**406**	**(8)**	**398**
Profit for the year	**259**	**(8)**	**251**
Exchange difference on foreign currency translation	-	(32)	(32)
Other comprehensive (loss)/income for the year, net of income tax	**(44)**	**(32)**	**(76)**
Total comprehensive income /(loss) for the year	215	(40)	175
Profit attributable to:			
Owners of the Company	237	(27)	210
Holders of non-controlling interest	22	19	41
Total comprehensive income attributable to:			
Owners of the company	197	(32)	165
Holders of non-controlling interest	18	(8)	10
Earnings before interest, taxes and depreciation (EBITDA)	3,437	(8)	3,429

7. Revenue

RUB, million	**2011**	**2010**
Revenue from coal sales to related parties	8,877	5,680
Revenue from coal sales to third parties	10,408	7,838
Revenues from services rendered	119	105
Other revenue	49	48
Total revenue	**19,453**	**13,671**

Revenue from coal sales to related parties with a share in total revenue of more than 10% individually amounted to RUB 8,326 million in 2011 (2010: RUB 4,849 million).

Revenue from coal sales to third parties with an individual share in total revenue of more than 10% (two customers) amounted to RUB 5,872 million in 2011 (revenue from coal sales to third parties with an individual share in total revenue of more than 10% (three customers) amounted to RUB 5,685 million in 2010).

(a) Geographical regions

Information on the Group’s revenue by geography based on the location of sales markets (customers) is given below.

RUB, million	**Revenue 2011**	**Revenue 2010**
Export	18,557	13,012
Russia	896	659
	19,453	**13,671**

8. Cost of sales

RUB, million	**2011**	**2010**
Transportation costs	(8,248)	(5,700)
Wages and salaries	(2,110)	(1,507)
Depreciation	(1,599)	(1,499)
Other services	(962)	(470)
Materials	(999)	(818)
Electricity costs	(326)	(341)
Mineral extraction tax	(331)	(231)
Lease of land	(57)	(56)
Other expenses	(9)	(3)
Change in current mine drifting costs	(27)	236
Change in finished goods	887	334
	(13,781)	**(10,055)**

9. Selling expenses

RUB, million	**2011**	**2010**
Wages and salaries	(96)	(43)
Marketing expenses	(25)	(25)
Third party services	(48)	(56)
Related parties services	(1)	(3)
Other expenses	(3)	(3)
	(173)	**(130)**

10. Administrative expenses

RUB, million	2011	2010
Wages and salaries	(892)	(649)
Other services	(202)	(235)
Property tax and other taxes	(208)	(113)
Bank commissions	(34)	(36)
Depreciation	(31)	(56)
Change in investment provisions	(16)	(32)
Penalties and fines	(19)	(50)
Materials	(66)	(42)
Insurance	(28)	(18)
Land lease	(22)	(17)
Penalties on taxes	-	(20)
Change in allowance for accounts receivable	(1)	(14)
Other administrative expenses	(40)	(34)
	(1,559)	**(1,316)**

11. Other income

RUB, million	2011	2010
Income from sale of equipment and goods for resale	388	-
Other	10	-
	398	**-**

12. Other expenses

RUB, million	2011	2010
Charity	(559)	(239)
Cost of equipment and goods for resale sold	(388)	-
Loss on disposal of property, plant and equipment	(82)	(51)
Other	-	(14)
	(1,029)	**(304)**

13. Personnel costs

RUB, million	2011	2010
Wages and salaries	(2,306)	(1,675)
Mandatory contributions to social security funds	(750)	(484)
Expenses related to defined benefit plans	(42)	(40)
	(3,098)	**(2,199)**

14. Finance income and costs

RUB, million	2011	2010
Interest income on loans and accounts receivable	30	14
Income from the disposal of investments	-	2
Finance income	**30**	**16**
Interest expenses on loans	(1,054)	(870)
Interest expenses on employee benefit liabilities	(31)	(26)
Interest expenses on finance lease	(174)	(259)
Net loss from unwinding of a discount on long-term accounts payable	(74)	(181)
Net loss from unwinding of a discount on long-term loans received	(45)	(56)
Net foreign exchange loss	(724)	(75)
Unwinding of a discount on site restoration provision	(12)	(25)
Finance costs	**(2,114)**	**(1,492)**
Net finance cost recognized in profit or loss	**(2,084)**	**(1,476)**

15. Income tax expense

The applicable tax rates for the Group are:

- For companies operating on the territory of Russian Federation the income tax is 20% (2010: 20%);
- For companies operating on the territory of Switzerland the income tax is 18,6%;
- For companies operating on the territory of Latvian Republic the income tax is 15% (2010: 15%).

RUB, million	2011	2010
Current income tax		
Current year	(342)	(226)
Deferred income tax		
Origination and reversal of temporary differences	(108)	79
Total income tax expense	**(450)**	**(147)**

(a) Income tax recognized directly in other comprehensive income

RUB, million	2011			2010		
	Pre-tax	**Tax**	**Net of tax**	**Pre-tax**	**Tax**	**Net of tax**
Actuarial loss on defined benefit plans	(64)	13	(51)	(55)	11	(44)
	(64)	**13**	**(51)**	**(55)**	**11**	**(44)**

(b) Income tax recognized directly in equity

RUB, million	2011			2010		
	Pre-tax	**Tax**	**Net of tax**	**Pre-tax**	**Tax**	**Net of tax**
Amount of the discount on non-current accounts receivable and accounts payable of related parties	-	-	-	(23)	5	(18)
Amount of unwinding of discount recognised upon early repayment of debt to a related party	-	-	-	(11)	2	(9)
Amount of forgiven debt	-	-	-	89	(18)	71
	-	**-**	**-**	**55**	**(11)**	**44**

(c) Reconciliation of effective tax rate:

	2011		2010	
	RUB, million.	**%**	**RUB, million**	**%**
Profit before tax	1,267	100	398	100
Income tax at applicable tax rate	(253)	20	(80)	20
Effect of income, taxed at different rate	2	-	-	-
Non-deductible expenses	(199)	16	(69)	17
	(450)	**36**	**(149)**	**37**

16. Property, plant and equipment

RUB, million	Land plots, buildings and facilities	Mining assets	Mining and other equipment, installations, machinery and vehicles	Other devices and office equipment	Construction in progress	Total
Historical cost						
Balance at 1January 2010 (Restated, note 6(b))	1,141	2,154	4,551	92	3024	10,962
Acquisitions due to business combinations	147	697	509	2	-	1,355
Additions	3	-	1,088	2	887	1,980
Disposals	(10)	(64)	(75)	(1)	(2)	(152)
Transfers	324	329	78	6	(737)	-
Balance at 31 December 2010	1,605	3,116	6,151	101	3,172	14,145
Balance at 1 January 2011	1,605	3,116	6,151	101	3,172	14,145
Additions	94	302	2,814	28	3,075	6,313
Disposals	(7)	(430)	(138)	(8)	(35)	(618)
Transfers	942	844	129	12	(1,927)	-
Balance at 31 December 2011	2,634	3,832	8,956	133	4,285	19,840

RUB, million	Land plots, buildings and facilities	Mining assets	Mining and other equipment, installations, machinery and vehicles	Other devices and office equipment	Construction in progress	Total
Depreciation and impairment loss						
Balance at 1 January 2010 (restated, see note 6(b))	(240)	(191)	(1,335)	(48)	-	(1,814)
Depreciation for the year	(85)	(457)	(1,037)	(15)	-	(1,594)
Disposals	1	16	41	1	-	59
Balance at 31 December 2010	(324)	(632)	(2,331)	(62)	-	(3,349)
Balance at 1 January 2011	(324)	(632)	(2,331)	(62)	-	(3,349)
Depreciation for the year	(159)	(347)	(1,228)	(15)	-	(1,749)
Disposals	4	391	111	8	-	514
Balance at 31 December 2011	(479)	(588)	(3,448)	(69)	-	(4,584)
Carrying value						
At 1 January 2010	901	1,963	3,216	44	3,024	9,148
At 31 December 2010	1,281	2,484	3,820	39	3,172	10,796
At 31 December 2011	2,155	3,244	5,508	64	4,285	15,256

In 2010 depreciation charges in the amount of RUB 1,499 million and RUB 56 million were included in the cost of sales and administrative expenses, respectively, and RUB 39 million were capitalised in assets under construction.

In 2011 depreciation charges in the amount of RUB 1,599 million and RUB 31 million were included in the cost of sales and administrative expenses, respectively, and RUB 119 million were capitalised in assets under construction.

(a) Security

As at 31 December 2011 property, plant and equipment with a carrying value of RUB 3,856 million (31 December 2010: RUB 2,180 million) was pledged as collateral for bank loans (see Note 24).

(b) Leased plant and equipment

The Group leases production equipment under several finance lease agreements. The leased equipment secures the lease liabilities. As at 31 December 2011 the net carrying value of leased plant and equipment amounted to RUB 102 million (31 December 2010: RUB 262 million)

(c) Property, plant and equipment under construction

During 2011 the Group performed constructions of buildings and mining assets for LLC Karagaylinskoe Mine, OJSC Zarechnaya Mine and OJSC Aleksyevskaya Mine.

Capitalised interest amounted to RUB 131 million in 2011 (In 2010: RUB 137 million), with a capitalisation rate of 9.15% in 2011 (in 2010: 10.23%).

17. Equity-accounted investees

As at 1 January 2010, 31 December 2010 and 31 December 2011 the Group's equity interest in Baltic Coal Terminal (Latvia) amounts to 50%.

The share of the group in profits of the equity accounted investee accounted to RUB 48 million during 2011 (In 2010 the share in profit RUB 8 million), and RUB 42 million net of income tax.

Changes in the carrying value of equity accounted investments:

RUB, million	2011	2010
Balance at the beginning of the year	401	422
Exchange differences on translation from other currencies	19	(29)
Changes in share of net assets for the year	48	8
Balance at the end of the year	**468**	**401**

The carrying amount of investment contains goodwill of RUB 30 million recognized on the acquisition of the associate and the foreign currency translation difference associated with it.

The reporting date for this associate is 31 December.

Presented below is the summary financial information of the equity accounted investee:

RUB, million	Equity interest	Assets	Liabilities	Revenue	Profit	Foreign currency translation differences	Share of net assets	The Group's share of profit
31 December 2010								
Baltic Coal Terminal	50%	3 191	(2 447)	420	16	(54)	372	8
31 December 2011								
Baltic Coal Terminal	50%	3 337	(2 461)	511	96	36	438	48

18. Other investments

RUB, million	**2011**	**2010**
Non-current		
Loans due from related parties	49	69
Loans due from third parties	312	-
Available-for-sale investments measured at cost	13	13
	374	**82**
Current		
Loans due from related parties	323	184
Loans due from third parties	140	14
Promissory notes of related parties	-	9
	463	**207**

The loans due from related parties bear interest rates ranging from 6% to 10% (in 2010: from 8.25% to 12%) and mature in 2012–2017.

The loans due from third parties as at 31 December 2011 bear interest rates ranging from 3% to 10,5% and mature in 2012-2021.

The available-for-sale investments measured at cost comprise unquoted equity securities. There is no market for these investments, nor have there been any recent transactions that could serve as the basis for determining their fair value.

Loan due from a third party in the amount of RUB 303 million (along with accounts receivable from the same party in the amount of RUB 459 million, see Note 21) is secured by the pledge of 100 % shares of the debtor.

Information on the Group’s exposure to credit, currency and interest risks in relation to other investments is provided in Note 28.

19. Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

RUB, million	**Assets**		**Liabilities**		**Net**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Property, plant and equipment	100	122	(342)	(249)	(242)	(127)
Equity accounted investees	-	-	(10)	(4)	(10)	(4)
Investments	116	68	(28)	(3)	88	65
Inventories	4	-	(54)	(176)	(50)	(176)
Trade and other receivables	52	101		-	52	101
Loans and borrowings	67	78	(15)	(4)	52	74
Provisions	66	61	-	-	66	61
Employee benefits	83	68	-	-	83	68
Trade and other payables	20	52	(8)	(26)	12	26
Tax losses carried forward	57	121	-	-	57	121
Tax assets/(liabilities)	565	671	(457)	(462)	108	209
Tax net off	(403)	(385)	403	385	-	-
Net tax assets/(liabilities)	**162**	**286**	**(54)**	**(77)**	**108**	**209**

(b) Movement in temporary differences during the year

RUB, million	1 January 2011	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Profit or loss (Note 17)	31 December 2011
Property, plant and equipment	(127)	(115)	-	-	-	(242)
Equity accounted investees	(4)	-			(6)	(10)
Investments	65	23	-	-	-	88
Inventories	(176)	126	-	-	-	(50)
Trade and other receivables	101	(49)	-	-	-	52
Loans and borrowings	74	(22)	-	-	-	52
Provisions	61	5	-	-	-	66
Employee benefits	68	2	13	-	-	83
Trade and other payables	26	(14)	-	-	-	12
Tax loss carried forward	121	(64)	-	-	-	57
	209	**(108)**	**13**	**-**	**(6)**	**108**

RUB, million	1 January 2010	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Acquired	31 December 2010
Property, plant and equipment	(146)	68	-	-	(49)	(127)
Equity accounted investees	(4)	-	-	-	-	(4)
Investments	46	19	-	-	-	65
Inventories	(50)	(99)	-	-	(27)	(176)
Trade and other receivables	61	37	-	3	-	101
Loans and borrowings	81	9	-	(16)	-	74
Provisions	47	4	-	-	10	61
Employee benefits	29	6	11	-	22	68
Trade and other payables	(50)	74	-	2	-	26
Tax loss carried forward	160	(39)	-	-	-	121
	174	**79**	**11**	**(11)**	**(44)**	**209**

Tax losses, in relation to which the Group’s deferred tax assets were recognized, expire in 2020 and 2021.

(c) Unrecognized deferred tax assets and liabilities

As at 31 December 2011 a deferred tax liability in the amount of RUB 243 million (31 December 2010: RUB 182 million) related to temporary differences in the amount of RUB 1,215 million (31 December 2010: RUB 910 million), and a deferred tax asset in the amount of RUB 180 million (31 December 2010: RUB 132 million) related to temporary differences in the amount of RUB 900 million (31 December 2010: RUB 660 million), which arose in relation to investments in subsidiaries, were not recognized as the Group controls the timing of realisation of the relevant temporary differences and believes that they will not be realised in the foreseeable future.

20. Inventories

RUB, million	**2011**	**2010**
Raw materials and consumables	1,019	436
Finished products and goods for resale	1,365	488
	2,384	**924**

In 2011 the amount of write-off of inventories to the net realisable value amounted to RUB 3 million (2010: RUB 1 million). The reversal of such write-offs amounted to RUB 11 million in 2011 (in 2010: RUB 5 million). The amounts of write-offs and reversals were included in other operating income and expenses.

Inventories with a carrying value of RUB 284 million were pledged as security against borrowings as at 31 December 2011 (31 December 2010: RUB 148 million).

21. Trade and other receivables

RUB, million	**2011**	**2010**
Trade receivables due from related parties	1,686	2,289
Trade receivables due from third parties	909	286
Advances issued to third parties	456	669
Advances issued to related parties	1,611	208
Other trade receivables due from related parties	1,325	516
Other trade receivables due from third parties	89	96
Total	**6,076**	**4,064**
Non-current	500	262
Current	5,576	3,802
	6,076	**4,064**

Non-current accounts receivable from a third party in the amount of RUB 459 million are secured by retention of ownership title to the items sold and by pledge of 100 % shares of the debtor.

Information on the Group's exposure to credit and currency risks and on impairment losses in respect of trade and other receivables is disclosed in Note 28.

22. Cash and cash equivalents

RUB, million	2011	2010
Bank balances	284	116
Deposit with maturity less than 3 months	1,555	-
Cash and cash equivalents	**1,839**	**116**

Information on the Group's exposure to interest rate risk and a sensitivity analysis of financial assets and liabilities are disclosed in Note 28.

23. Equity and reserves

(a) Charter capital

The charter capital of LLC Coal Company Zarechnaya amounted to RUB 337 million as at 31 December 2011 and 2010.

The Group bought back 1% of their own stake for RUB 5 million in 2011, which was sold to related parties in 2012.

(b) Dividends

In 2011, company declared dividends amounting to RUB 259 million. The Company did not declare or pay dividends to its participants in 2010.

24. Loans and borrowings

This Note provides information on the contractual terms of interest-bearing loans and borrowings of the Group, measured at amortized cost. For more detailed information on the Group's exposure to interest rate, foreign currency and liquidity risks, refer to Note 28.

RUB, million	2011	2010
Non-current liabilities		
Secured bank loans	13,207	8,927
Bonds	3,000	-
Finance lease liabilities	2	161
	16,209	**9,088**

RUB, million	**2011**	**2010**
Current liabilities		
Secured bank loans	665	698
Loans due to related parties	365	1,253
Current portion of long-term secured bank loans	2,665	403
Current portion of bonds	2	-
Current portion of finance lease liabilities	336	213
Loans due to third parties	12	-
	4,045	**2,567**

(a) Debt repayment terms and schedule

The payment terms and maturities of outstanding loans were as follows:

RUB, million	**Currency**	**Effective interest rate**	**Year of maturity**	**2011**	**2010**
Secured bank loan					
-	US dollars	6,3%	2016	3,220	-
-	US dollars	8.75%-10%	2015	3,643	3,449
-	US dollars	7.3%	2014	-	914
-	US dollars	7%	2013	-	2,250
-	US dollars	10%	2013	193	180
-	US dollars	11%	2011	-	543
-	US dollars	Libor + 5.55%	2011	-	155
-	US dollars	5.5%-6.8%	2012	2,900	-
-	US dollars	9.41%	2018	665	-
-	US dollars	Libor+4%	2013	1,223	-
-	euro	5.75%	2014	285	368
-	roubles	14.5%	2012	-	702
-	roubles	10-10.75%	2012	421	-
-	roubles	10-11%	2016	1,399	-
-	roubles	15.75%	2014	-	240
-	roubles	10.75%	2013	1,227	1,227
-	roubles	9.1%-12%	2014	820	-
-	roubles	2.3%	2017	541	-

RUB, million		**Currency**	**Effective interest rate**	**Year of maturity**	**2011**	**2010**
Bonds						
		roubles	10.8%	2014	3,002	-
Loans due to related parties						
	-	roubles	5%	2012	41	-
	-	roubles	11%	2010-2011	-	1,253
	-	roubles	5%	2011	324	-
Loans due to third parties						
	-	US dollars	6%	2012	12	-
Finance lease liabilities to related parties						
	-	roubles	65-100%	2012	338	374
Total interest-bearing liabilities					**20,254**	**11,655**

Bank loans were secured by the following assets:

- Property, plant and equipment with a carrying value of RUB 3,856 million as at 31 December 2011 (31 December 2010: RUB 2,180 million) – see Note 16;
- inventories with a carrying value of RUB 284 million as at 31 December 2011 (31 December 2010: RUB 148 million) – see Note 20;
- land lease rights with a value of RUB 104 million as at 31 December 2011;
- finance lease liabilities were secured by leased assets (see Note 16(b));
- 50% plus one share in OJSC Zarechnaya Mine (a total of 590,185 shares), whose aggregate net assets amounted to RUB 3,060 million as at 31 December 2011 (31 December 2010: RUB 2,998 million) (see Note 33);
- 49% share in OJSC Aleksiyevskaya Mine (a total of 16,542 shares), whose aggregate net assets amounted to RUB 429 million as at 31 December 2011;
- 98,97% share in the authorised capital of LLC Karagaylinskoe Mine, whose aggregate net assets amounted to RUB 304 million as at 31 December 2011.

Finance lease liabilities are due as follows:

	2011			**2010**		
RUB, million	**Future minimum lease payments**	**%**	**Present value of minimum lease payments**	**Future minimum lease payments**	**%**	**Present value of minimum lease payments**
Less than one year	368	32	336	395	182	213
Between 1 and 5 years	2	-	2	199	38	161
	370	**32**	**338**	**594**	**220**	**374**

25. Employee benefits

RUB, million.	**2011**	**2010**
Present value of liabilities		
- Non-current	417	338
- Current (included within payables to employees in Trade and other payables)	48	31
Total liabilities on employee benefits	465	369

The Group makes contributions under a defined benefit plan to provide pension and medical payments to employees after their retirement. Based on the conditions of this plan, a retired employee has the right to annual payments in the amount of 1/6 of their final pay prior to retirement for each year of service, and to reimbursement of certain health care costs.

(a) Movement of present value of obligations under defined benefit plans

RUB, million	**2011**	**2010**
Liabilities under defined benefit plans at 1 January	369	159
Benefits paid to employees	(41)	(20)
Interest on the liability	31	26
Cost of services rendered under employment contracts in the current period	42	25
Cost of services rendered under employment contracts in previous periods	-	15
Actuarial losses recognized in other comprehensive income	64	55
Liabilities recognized upon acquisition	-	109
Liabilities under defined benefit plans at 31 December	**465**	**369**

(b) Expenses recognized in profit or loss for the period

RUB, million	**2011**	**2010**
Current service cost	42	25
Past service cost	-	15
Interest on the liability	31	26
	73	**66**

The expenses above are included in the following lines of the statement of comprehensive income:

RUB, thousand	**2011**	**2010**
Cost of sales	23	26
Selling expenses	4	1
Administrative expenses	15	13
Finance costs	31	26
	73	**66**

(c) Actuarial gains and losses recognized in other comprehensive income

RUB, million	**2011**	**2010**
Accumulated loss / (gain) recognised in retained earnings at the beginning of the year	12	(43)
Loss recognised during the year	64	55
Accumulated loss recognised in retained earnings at the end of the year	**76**	**12**

(d) Actuarial assumptions

Key actuarial assumptions at the reporting date (expressed as weighted average amounts):

	2011	**2010**
	%	**%**
Discount rate at 31 December	8	8
Future salary increase	8.6	8.6

The assumptions regarding life expectancy were based on published statistical data and demographic mortality tables.

Staff engaged in extraction industries reach pension age after a minimum of 20 years of service or upon reaching 50 years of age.

26. Site restoration provisions

RUB, million	**2011**	**2010**
Balance at 1 January	306	237
Capitalized in assets and facilities of coal extraction	8	-
Change in accounting estimates	4	(4)
Unwinding of discount	12	25
Provisions recognised upon acquisition	-	48
Balance at 31 December	**330**	**306**
Long-term	312	291
Short-term	18	15
	330	**306**

Site restoration

According to the environmental protection legislation of the Russian Federation, the land in Kemerovo oblast contaminated by the Group should be cleaned up, and the land plots should be restored to their initial state after the closure of the mines. The site restoration provision includes anticipated expenses on the demolition of property, mothballing (closure) of mines, clean-up and reclamation of the land of the mines and the surrounding territories used by the Group.

The provision has been calculated taking into account risks associated with the amount and timing of site restoration costs, based on the known extent of the damage. The present value of restoration costs was determined by discounting their estimated amount at a risk-free nominal rate of 7.48% (31 December 2010: 7,37%). Due to the long-term nature of this liability, the most significant uncertainty in estimation of the amount arises in respect of the amount of costs to be incurred. The environmental protection legislation of the Russian Federation continues to develop, and it is difficult to determine the exact standards that will be applied to sites such as those operated by the Group. Generally, the standard of restoration is determined based on discussions with governmental officials at the time when restoration is about to commence.

In making the assumptions for the calculation of the expected costs management has consulted with valuation experts and its in-house engineers who have considered governmental requirements in respect of similar sites that require similar restoration activities.

27. Trade and other payables

RUB, million	**2011**	**2010**
Advances received from customers	2,490	1,382
Trade payables	1,697	799
Amounts due to related parties for acquired shares in OJSC Zarechnaya Mine	289	1,046
Payables for shares of Mine Oktyabrskaya	23	302
Payables to employees	294	237
Taxes payable	606	176
Payables for acquisition of property, plant and equipment	516	284
Other payables and accrued expenses	118	47
	6,033	**4,273**

RUB, million	**2011**	**2010**
Non-current	-	517
Current	6,033	3,756
	6,033	**4,273**

Information on the Group’s exposure to currency risk and liquidity risk in respect of trade and other payables is disclosed in Note 28.

28. Financial instruments and risk management

(a) Overview

The Group is exposed to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This Note presents information about the Group’s exposure to each of the indicated risks, the Group’s goals, policies and processes for measuring and managing these risks, and the Group’s approaches to capital management. Further quantitative disclosures are included throughout the text of these consolidated financial statements.

Risk management framework

The Group does not have a formal risk management policy. However, procedures have been established for identification and analysis of risks to which the Group is exposed, establishing the allowable risk thresholds and the corresponding control mechanisms, and for monitoring risks and compliance with the established restrictions.

The Group is committed to developing a structured, effective system of control, in which all employees understand their role and job duties. The Board of Directors takes full responsibility for organizing the Group's risk management system and monitoring of the functioning of this system. The Finance Director of the Group is responsible for the actual performance of risk analysis on financial instruments and its management. The Finance Director regularly considers the Group's exposure to risk and the risk profile, and recommends risk management actions to keep risks below the allowable risk thresholds.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and loans issued.

(i) Trade and other receivables

The majority of the Group's revenue from coal sales is comprised of sales to a single customer that is a related party and to several individually significant customers.

The Group does not require any collateral in respect of its trade and other receivables; however it sells to third parties primarily on the basis of prepayment. Certain other receivables from third parties are secured by retention of ownership title to the items sold (such as equipment) until the receivables are collected.

The Group creates allowance for impairment of trade and other receivables and investments, representing an estimate of the amount of credit losses already incurred.

(ii) Investments

The Group creates allowance for impairment of loans issued, representing an estimate of the amount of credit losses already incurred. This allowance is created for significant individual loans which demonstrate objective evidence of impairment.

(iii) Exposure to credit risk

The carrying value of financial assets represents the maximum amount of the Group's exposure to credit risk. As at the reporting date, the maximum credit risk was:

RUB, million	Note	**2011**	**2010**
Loans issued and promissory notes	18	824	276
Trade and other receivables	21	4,009	3,187
		4,833	**3,463**

The carrying value of trade receivables from the most significant customer (a related party) (see Note 7) amounted to RUB 1,032 million as at 31 December 2011 (31 December 2010: RUB 2,007 million).

The Group is not exposed to any significant credit risk in respect of third party customers whose share in total revenue for 2011 exceeded 10% (see Note 7), as the respective contractual terms require prepayment.

As at 31 December 2011 the Group had a significant credit risk exposure in respect of various balances due from related parties, amounting to RUB 5,467 million, which was partially mitigated by balances due to related parties amounting to RUB 2,153 million as the ultimate controlling party of the Group confirmed their ability to enable legal offsetting of balances if and when necessary (2010: credit risk exposure arising from balances due from related parties of RUB 3,843 million, which was to a significant degree mitigated by amounts due to related parties of RUB 3,162 million). The Group does not require any collateral in respect of balances due from related parties, and usually provides such amounts on extended credit terms which may exceed 180 days and may not be monitored as strictly as those provided to third parties. The timing of recovery of those balances may be affected by the financial position and liquidity of relevant related parties at the time of settlement.

Impairment losses

As at the reporting date, the aging of trade and other receivables was as follows:

RUB, million	**Total carrying amount 2011**	**Impairment 2011**	**Total carrying amount 2010**	**Impairment 2010**
Not past due	3,274	-	2,928	(1)
Past due by 0-30 days	369	-	35	-
Past due by 31-90 days	117	-	82	(1)
Past due by 91-180 days	30	-	114	-
Past due by more 180 days	309	(90)	117	(87)
	4,099	(90)	3,276	(89)

The following demonstrates the movement in the allowance for trade and other receivables during the year:

RUB, million	**2011**	**2010**
Balance at 1 January	89	79
Increase during the year	1	14
Decrease due to write-back of amounts previously written off	-	(4)
Balance at 31 December	**90**	**89**

The following demonstrates the movement in the allowance for investments during the year:

RUB, million	**2011**	**2010**
Balance at 1 January	32	-
Increase during the year	16	32
Balance at 31 December	**48**	**32**

Loans to third and related parties, net of loans for which impairment losses were recognized in 2011, were not expired as of 31 December 2011 and 31 December 2010.

The group uses valuation reserve account to reflect the impairment of trade receivables and investments, except for when the Group believes that the return of the amount due is not possible; in this case the amount that cannot be recovered is written off by directly reducing the cost of the financial asset.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, 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.

As at 31 December 2011 the Group's current assets exceeded its current liabilities and the Group demonstrated reasonable short-term liquidity profile (as at 31 December 2010 the Company's current liabilities exceeded its current assets by RUB 153 million).

To date the Group has obtained debt financing, on both short- and long-term basis, to finance the construction of property, plant and equipment and to develop mines. Financing was received in the form of bank loans, finance leases and other financing from related parties.

In 2012 the Group plans to receive financing from the following sources: cash flows from operating activities; bank loans and financing from related parties. Additionally, Group management believes that certain investment projects can be postponed or curtailed if there is insufficient working capital to ensure financing of the Group's current operations.

As at 31 December 2011, the Group had several open credit facilities with a number of major Russian banks. In accordance with the agreement the Group may borrow from these banks at rates of 6.2 - 10% p.a. The unused amount of these facilities was RUB 10,588 million as at the reporting date, including unused facilities on specific borrowings to finance construction of Karagailinskoe Mine LLC in the amount of RUB 9,870 million at effective rate of 9.41 % p.a.

As disclosed in Note 28 (e), a significant share of the Group's loans and borrowings are subject to financial covenants linked to EBITDA of the Group (or its individual production entities). Whilst the Group was in compliance with those covenants as at 31 December 2011, a decline in selling prices for the Group's key products after the reporting date may result in a reduction of EBITDA of the Group (or its individual production entities), and a breach of the existing covenants in subsequent periods. The Group's financial gearing ratio may also further increase beyond the current levels. Management believes that it will be able to renegotiate the necessary adjustments to the Group's loan covenants as and when necessary, so that the Group will continue to meet its obligations when they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2011

RUB, million	**Carrying value**	**Contractual cash flows**	**up to 1 year**	**from 1 to 2 years**	**from 2 to 5 years**	**More than 5 years**
Secured bank loans	16,537	(20,512)	(4,473)	(3,635)	(11,006)	(1,398)
Bonds	3,002	(3,184)	(46)	(46)	(3,092)	-
Loans due to third and related parties	377	(377)	(377)	-	-	-
Finance lease liabilities due to related parties	338	(370)	(368)	(2)	-	-
Trade and other payables	3,543	(3,577)	(3,577)	-	-	-
Guarantees issued	-	(1,646)	(1,646)	-	-	-
	23,797	**(29,666)**	**(10,487)**	**(3,683)**	**(14,098)**	**(1,398)**

2010

RUB, million	**Carrying value**	**Contractual cash flows**	**up to 1 year**	**from 1 to 2 years**	**from 2 to 5 years**	**More than 5 years**
Secured bank loans	10,028	(13,458)	(2,059)	(1,482)	(9,917)	-
Loans due to related parties	1,253	(1,318)	(1,318)	-	-	-
Finance lease liabilities due to related parties	374	(594)	(395)	(199)	-	-
Trade and other payables	2,891	(2,891)	(2,374)	(517)	-	-
Guarantees issued	-	(1,800)	(1,800)	-	-	-
	14,546	**(20,061)**	**(7,946)**	**(2,198)**	**(9,917)**	**-**

(d) Market risk

Market risk is the risk that changes in market prices (such as foreign exchange rates, interest rates and share prices) will have a negative effect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures and keep them within acceptable parameters, while optimizing the yield on investments.

The Group assumes financial liabilities for the purpose of market risk management.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings denominated in a currency other than the functional currencies of the relevant Group entities. The currency in which these transactions primarily are denominated is US Dollar.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, mainly in US dollars. This provides an economic hedge without a need to enter into derivatives contracts.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

RUB, million	**US dollars 2011**	**Euro 2011**	**US dollars 2010**	**Euro 2010**
Trade receivables	1,663	30	14	-
Loans issued	129	-	-	-
Cash and cash equivalents	196	1	81	-
Secured bank loans	(11,844)	(285)	(7,491)	(368)
Loans due to related and third parties	(12)	-	-	-
Trade payables	(697)	(176)	-	-
Net risk	**(10,565)**	**(430)**	**(7,396)**	**(368)**

The following principal foreign exchange rates were used throughout the year:

	Average exchange rate		**Reporting date spot rate**	
	2011	**2010**	**2011**	**2010**
USD 1	29.3869	30.3692	32.1961	30.4769
EUR 1	40.8865	40.2980	41.6714	40.3331

Sensitivity analysis

A strengthening of the RUB, as indicated below, against the following currencies at 31 December would have increased equity and profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

RUB, million	Strengthening		Weakening	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
31 December 2011				
US dollars (10% change)	1,057	1,057	(1,057)	(1,057)
Euro (10% change)	43	43	(43)	(43)
31 December 2010				
US dollars (10% change)	739	739	(739)	(739)
Euro (10% change)	37	37	(37)	(37)

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings received by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Group management does not have a formal policy for determining how much of the Group's exposure should be assigned to fixed or variable rates. However, at the time when new loans or borrowings are raised management uses its professional judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

RUB, million	2011	2010
Fixed-rate instruments		
Financial assets	824	276
Financial liabilities	(19,031)	(11,500)
	(18,207)	**(11,224)**
Variable-rate instruments		
Financial liabilities	(1,223)	(155)
	(1,223)	**(155)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed assuming that all other variables, foreign currency rate in particular, remain unchanged. In 2010, the analysis was performed on the same basis.

	Libor – effect of a change in rates	
RUB, million	**2011**	**2010**
Profit/(loss)	12	2

(e) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management and constant monitoring of Group's revenues and profit. With these measures the Group aims for steady profits growth.

Under the requirements of existing loan agreements, the Group is obliged to maintain a debt to EBITDA ratio as well as total amount of bank debt. Obligations under these agreements amount to RUB 13,440 million as at 31 December 2011 (2010: RUB 7,036 million)

RUB, million	**2011**	**2010**
Total loans from banks up to RUB 16 billion (up to RUB 12.5 billion in 2010) according to quarterly financial statements of Zarechnaya Mine prepared in accordance with Russian accounting standards	7,327	4,873
The debt/EBITDA ratio up to 7.0 according to quarterly financial statements of Zarechnaya Mine prepared in accordance with Russian accounting standards	2,893	2,163
The debt/EBITDA ratio up to 5.0 according to quarterly summarized financial statements of the Group prepared in accordance with Russian accounting standards	3,220	-
	13,440	**7,036**

29. Operating lease

The Group leases a number of units of production equipment under operating lease agreements. A lease agreement is usually concluded initially for a period of one to two years, with the right of subsequent prolongation. Lease payments are usually increased annually to reflect market prices.

Additionally, the Group leases land plots from municipal authorities. The land plots lease agreements are non-cancellable by nature, as most of the Group's production assets are located on leased land plots. Lease agreements are usually concluded for a period of eleven months, with subsequent prolongation; several agreements were concluded for a period of three to five years, with subsequent prolongation.

Lease payments under non-cancellable operating lease agreements are payable as follows:

RUB, million	2011	2010
Less than one year	90	54
Between 1 and 5 years	337	194
More than 5 years	416	243
	843	**491**

During the year ended 31 December 2011 expenses under operating lease agreements in the amount of RUB 106 million were recognized in profit or loss (2010: RUB 71 million).

30. Capital commitments

As at 31 December 2011 the Group had entered into agreements to purchase machinery and equipment in the amount of RUB 254 million (31 December 2010: RUB 274 million).

31. Contingencies

(a) Tax risks

The tax system of the Russian Federation continues to evolve and is characterized by frequent changes in legislative norms, official interpretations and court decisions, which are sometimes stated unclearly and are contradictory, which allows varying interpretation by different tax authorities. Taxes are subject to review and investigation by several regulatory authorities, which have the right to impose severe fines and to charge penalty interest. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation, while striving to uncover instances of receipt of unjustified tax benefits.

These circumstances may create tax risks in the Russian Federation that are substantially higher than in other countries. Group management believes that it has provided adequately for tax liabilities based on its understanding of applicable Russian tax law, official interpretations and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities are successful in enforcing their position, could be significant.

(b) Environment

The Group is subject to comprehensive control and regulation at the federal, regional and municipal levels related to its environmental impact in the regions of its operations. The Group's activities lead to the disturbance of the earth's surface and emission of pollutants into the atmosphere, and have an impact on flora and fauna and other environmental issues.

Group management believes that it has complied with all existing laws and regulations over health, safety and the environment in the regions of its operations. However, the regulations over environmental protection in the Russian Federation continue to evolve. The Group reassesses its obligations arising from new or changing legislation on an ongoing basis. The Group is unable to forecast the timing or the extent of potential change in the laws and regulations over environmental protection. Any such change, should it occur, may require the Group to modernize the technology used and lead to additional costs in the future to comply with more strict legislative requirements.

(c) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other countries of the world are not yet available in Russia. The Group does not have full insurance coverage for its production facilities, insurance against losses caused by suspension of production, or against obligations to third parties arising in connection with damage caused to immoveable property or the environment as a result of accidents or the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or damage of certain assets could have a material adverse effect on the Group's operations and financial position.

32. Related party transactions

(a) Control relationships

The immediate and ultimate parent of the Company in 2010 and until 6 September 2011 was CJSC MPO Kuzbass, and from September 2011 to the present date the immediate and ultimate parent of the Company is Interconsulting LLC. The ultimate controlling party of the Group is disclosed in Note 1.

The immediate and ultimate parent of the Company does not submit publicly available financial statements.

(b) Transactions with management employees and their family members

(i) Management remuneration

Key management employees received the following remuneration during the year, which is included in personnel costs (see Note 13):

RUB, million	2011	2010
Salaries and bonuses	148	99
Payments to social security funds	3	5
	151	104

(c) Transactions with other related parties

Information on the Group's other related party transactions are disclosed in the following tables.

RUB, million	**Goods and services sold**		**Goods and services purchased**	
	2011	**2010**	**2011**	**2010**
Parent company	-	-	-	(19)
Related parties under common control	8,877	5,695	(3,396)	(608)
Equity-accounted investees	-	-	(712)	(356)
	8,877	**5,695**	**(4,108)**	**(983)**

In 2011 the Group also acquired property, plant and equipment from related parties under common control in the amount of RUB 1 404 million (2010: RUB 595 million), and from the parent in the amount of RUB 30 million (2010: RUB 20 million).

RUB, million	**Trade and other receivables**	
	2011	**2010**
Related parties under common control:		
Trade accounts receivable	1,686	2,289
Advances issued	1,470	208
Other accounts receivable	1,325	439
Advances for property, plant and equipment	531	568
Equity-accounted investees		
Other accounts receivable	-	77
Advances issued	141	-
	5,152	**3,581**

RUB, million	**Trade and other payables**	
	2011	**2010**
Parent company	**-**	169
Related parties under common control:		
Trade accounts payable	797	82
Payables for acquisition of property, plant and equipment	357	180
Payables for shares of OJSC Mine Zarechnaya	289	1,046
Advances received	-	33
Other payables	7	25
Key management personnel	35	-
	1,485	**1,535**

Amounts due to related parties under common control include payables for acquired shares in OJSC Zarechnaya Mine in the amount of RUB 289 million (2010: RUB 1,046 million). The initial repayment date of this payable was set on or before 31 December 2010, which resulted in the payable being shown at its amortised cost with an effective annual interest rate of 12%. Remaining debt is payable till 31 December 2012.

Other related party payables are due to be paid in cash within six months after the reporting date. The payables are unsecured.

RUB, million	**Balance of loan debt**	
	2011	**2010**
Loans received		
Related parties under common control	(365)	(1,253)
Loans issued and promissory notes		
Parent company	57	-
Related parties under common control	258	262
Key management personnel	57	-
	7	**(991)**

RUB, million	**2011**	**2010**
Liabilities under finance lease agreements		
Related parties under common control	(338)	(374)
	(338)	**(374)**

The finance lease agreements were entered into for a period up to 2012.

Interest was accrued on the finance lease agreements in 2009 and 2010 at an effective annual interest rate of 65 to 100%.

RUB, million	**2011**	**2010**
Interest expenses under finance lease agreements	(174)	(259)
	(174)	**(259)**

As at 31 December 2011 the Group had outstanding financial guarantees to a third parties in respect of borrowings obtained by a related parties for RUB 1,646 million (31 December 2010: RUB 1,800 million).

Also, the Group had outstanding financial guarantee for its related party, which provides services for railway transportation of finished goods, in respect of timely repayment of monthly rent for 2,124 wagons.

In 2011 and prior periods related parties, for whom guarantees were issued, settled their liabilities in full, thus no cash outflows took place in Group. Thus, Group has not recognized a provision for guarantees issued, as no cash outflows are expected in the future.

33. Significant subsidiaries

Subsidiary	Country of registration	31 December 2011 Ownership / voting right	31 December 2010 Ownership / voting right
OJSC Zarechnaya Mine	Russian Federation	99.992%	99.992%
OJSC Alexievskaya Mine	Russian Federation	58.55%	58.55%
Karagaylinskoye Mine LLC	Russian Federation	98.97%	68%
OJSC Gramoteinskie CEMW	Russian Federation	100%	100%
Georesurs LLC	Russian Federation	99.99%	99.99%
CJSC Ugol-Invest*	Russian Federation	25%	25%
CCZ Trade SA Corporation	Switzerland	100%	-
LLC Indtec Baltic Coal**	Latvian Republic	16.08%	-

The Group pledged 50% plus one share of its interest in OJSC Zarechnaya Mine as well as 98.97% share of LLC Karagaylinskoye Mine and 49% share in OJSC Alexievskaya Mine as security for a long-term loan (see Note 24).

* The Group controls this entity, which holds the mining licence to the Oktyabrskaya Mine, and therefore consolidates it in these financial statements.

**The Group controls this entity through potential voting rights (see Note 6(b)).

34. Calculation of earnings before interest, taxes, depreciation and amortization (EBITDA)

RUB, million	2011	2010
Profit for the year	817	251
Adjustments:		
Income tax expense	450	147
Depreciation	1,630	1,555
Net finance costs	2,084	1,476
EBITDA	**4,981**	**3,429**

EBITDA is not an IFRS term and should not be considered as an alternative to profit for the period presented in accordance with IFRS. EBITDA is presented because management believes that such presentation is beneficial for users and can provide additional information. Not all the companies calculate EBITDA in the same way and consequently this presentation may be not comparable to similarly titled measures of other companies.

35. Events after the reporting date

During 2012 the Group signed loan agreements with a number of Russian banks to finance the expansion of production capacity and current operations. The total amount of the loans received amounted to RUB 1,500 million.

After the reporting date the Group signed financial lease agreements to finance acquisition of property, plant and equipment for the total amount of RUB 2,560 million.

After the reporting date the Group has provided a financial guarantee to a third party in respect of a financial lease agreement of a related party under common control. The guarantee has been provided in the form of the Group's irrevocable offer to buy back debt of the related party under common control. The guarantee covers liabilities under the financial lease agreement up to the amount of RUB 1 451 million and expires in 2022. The purpose of finance lease agreement is the acquisition of railway wagons, primarily used for the Group needs. As of the date when these financial statements were authorized, the likelihood of execution of the guarantee is assessed to be remote.

In January 2012 the Group acquired 24.99 % share of OJSC Andzherosudzhenskoe Pogruzo-Transportnoe Uprevlenie from a third party for RUB 56 million.

In February 2012 the Group acquired the remaining 75% share of CJSC Ugol-Invest from related parties for RUB 174 million.