OJSC KuzbasskayaToplivnaya Company
(trading as “KTK”)

Consolidated Financial Statements
for the year ended 31 December 2011

Contents

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Independent Auditors' Report

The Board of Directors

OJSC Kuzbasskaya Toplivnaya Company

We have audited the accompanying consolidated financial statements of OJSC Kuzbasskaya Toplivnaya Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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3 April 2012

	Note	31 December 2011 Mln RUB	31 December 2010 Mln RUB
ASSETS			
Property, plant and equipment	14	10 358	8 804
Goodwill and intangible assets	15	18	14
Investments in equity accounted investees	16	29	8
Other investments	17	5	6
Long-term receivables		-	1
Deferred tax assets	18	45	19
Non-current assets		**10 455**	**8 852**
Inventories	19	1 275	759
Other investments	17	27	39
Income tax receivable		9	6
Trade and other receivables	20	1 562	1 086
Prepayments and deferred expenses	21	916	440
Cash and cash equivalents	22	1 884	457
Current assets		**5 673**	**2 787**
Total assets		**16 128**	**11 639**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 54.

	Note	31 December 2011 Mln RUB	31 December 2010 Mln RUB
Equity			
Share capital	23	20	20
Retained earnings		5 672	3 975
Additional paid-in capital		2 829	2 829
Equity attributable to equity holders of the Company		**8 521**	**6 824**
Non-controlling interest		4	11
Total equity		**8 525**	**6 835**
Liabilities			
Loans and borrowings	25	2 794	1 676
Deferred income	29	227	-
Net assets attributable to minority participants in LLC subsidiaries	26	83	68
Provisions	27	262	265
Employee benefits		39	15
Deferred tax liabilities	18	432	448
Non-current liabilities		**3 837**	**2 472**
Loans and borrowings	25	1 753	535
Trade and other payables	28	1 955	1 767
Employee benefits		5	4
Provisions	27	3	-
Income tax payable		50	26
Current liabilities		**3 766**	**2 332**
Total liabilities		**7 603**	**4 804**
Total equity and liabilities		**16 128**	**11 639**

These consolidated financial statements were approved by management on 3 April 2012 and were signed on its behalf by:

General Director

Igor Y. Prokudin

Deputy General Director
for Economics and Finance

Andrey N. Magaev

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 54.

	Note	2011 Mln RUB	2010 Mln RUB
Revenue	6	**23 939**	**14 160**
Cost of sales	7	(19 404)	(11 457)
Gross profit		**4 535**	**2 703**
Distribution expenses	8	(654)	(540)
Administrative expenses	9	(1 010)	(849)
Other income and expenses, net	10	24	39
Results from operating activities		**2 895**	**1 353**
Finance income	12	55	99
Finance costs	12	(394)	(385)
Income of associates	16	4	5
Profit before income tax		**2 560**	**1 072**
Income tax expense	13	(542)	(249)
Profit for the year		**2 018**	**823**
Profit attributable to:			
Equity holders of the Company		2 006	826
Minority participants in LLC subsidiaries		17	-
Non-controlling interests		(5)	(3)
		2 018	**823**
Defined benefit plan actuarial losses, net of income tax		(14)	(7)
Total comprehensive income for the year		**2 004**	**816**
Total comprehensive income attributable to:			
Equity holders of the Company		1 992	819
Minority participants in LLC subsidiaries		17	-
Non-controlling interests		(5)	(3)
		2 004	**816**
Earnings per share			
Basic and diluted earnings per share (RUB)	24	20	9

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 54.

Mln RUB

	Attributable to equity holders of the Company					
	Share capital	**Retained earnings**	**Additional paid-in capital**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	**17**	**3 409**	**-**	**3 426**	**41**	**3 467**
Profit for the year	-	826	-	826	(3)	823
Defined benefit plan actuarial losses, net of income tax		(7)	-	(7)	-	(7)
Total comprehensive income for the year	**-**	**819**	**-**	**819**	**(3)**	**816**
Issue of ordinary shares	3	-	2 829	2 832	-	2 832
Dividends paid	-	(253)	-	(253)	-	(253)
Effect of acquisition of non-controlling interest	-	-	-	-	(27)	(27)
Balance at 31 December 2010	**20**	**3 975**	**2 829**	**6 824**	**11**	**6 835**
Profit for the year	-	2 006	-	2 006	(5)	2 001
Defined benefit plan actuarial losses, net of income tax	-	(14)	-	(14)	-	(14)
Total comprehensive income for the year	**-**	**1 992**	**-**	**1 992**	**(5)**	**1 987**
Dividends paid	-	(298)	-	(298)	-	(298)
Effect of acquisition of non-controlling interest	-	3	-	3	(2)	1
Balance at 31 December 2011	**20**	**5 672**	**2 829**	**8 521**	**4**	**8 525**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 54.

	2011 Mln RUB	2010 Mln RUB
OPERATING ACTIVITIES		
Profit for the year	2 018	823
Adjustments for:		
Depreciation and amortisation	1 039	820
(Reversal)/recognition of impairment losses	(1)	7
Gain from disposal of property, plant and equipment	(22)	(46)
Income of associates	(4)	(5)
Net finance costs	339	286
Income tax expense	542	249
Operating result before changes in working capital and provisions	**3 911**	**2 134**
Changes in:		
- inventories	(511)	(354)
- trade and other receivables	(487)	126
- prepayments for current assets	(478)	(215)
- trade and other payables	425	617
- provision for site restoration and employee benefits	(16)	13
Cash flows from operations before income tax and interest paid	**2 844**	**2 321**
Income taxes paid	(563)	(101)
Interest paid	(207)	(275)
Compensation of interest received from the State	-	86
Cash flows from operating activities	**2 074**	**2 031**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	25	21
Loans issued	(17)	(87)
Proceeds from loans issued including interest received	60	130
Acquisition of property, plant and equipment and intangible assets	(2 581)	(2 499)
Acquisition of subsidiaries, net of cash acquired	(10)	-
Acquisition of equity accounted investees	(17)	-
Cash flows used in investing activities	**(2 540)**	**(2 435)**
FINANCING ACTIVITIES		
Proceeds from borrowings	12 414	5 273
Repayment of borrowings	(10 210)	(6 960)
Proceeds from share issue, net of issue costs	-	2 805
Dividends paid	(298)	(253)
Acquisition of non-controlling interests	-	(25)
Cash flows from financing activities	**1 906**	**840**
Net increase in cash and cash equivalents	**1 440**	**436**
Cash and cash equivalents at the beginning of year	457	86
Effect of exchange rate fluctuations on cash and cash equivalents	(13)	(65)
Cash and cash equivalents at the end of year	**1 884**	**457**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 54.

1 Background

(a) Corporate information

OJSC Kuzbasskaya Toplivnaya Company, also known as “Kuzbass Fuel Company” and trading as “KTK” (‘the Company’) is an open joint-stock company (OAO) registered under the Russian law on April 4th, 2000. The Company’s shares are quoted on the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX) since May 2010. The registered office of the Company is: 4, 50 Let Oktyabrya street, Kemerovo, Russia, 650099.

The Company’s ultimate controlling party is Mr. Igor Yuryevich Prokudin.

The Company together with its subsidiaries, the most significant of which are listed below, are referred to as ‘the Group’:

	Country of incorporation	Principal activity	31 December 2011 Ownership/ voting share	31 December 2010 Ownership/ voting share
LLC TEK Meret	Russia	Railroad transportation services	100%	100%
OJSC Kuzbasstoplivosbyt	Russia	Retail sale of coal	100%	100%
OJSC Kaskad Energo	Russia	Electricity generation	100%	100%
CJSC Management Company Kaskad	Russia	Wholesale supply of coal	100%	100%
OJSC ATK	Russia	Retail sale of coal	51%	51%
LLC Transugol	Russia	Retail sale of coal	52%	51%
LLC NTK	Russia	Retail sale of coal	51%	51%
LLC Kaskad Geo	Russia	Land lease	100%	100%

The Group’s principal activities are the extraction of thermal coal from open-pit mines located in the territory of the Kemerovo region in the Russian Federation, wholesale supply of coal to customers in the Russian Federation as well as abroad, and retail sales of coal through its distribution networks located in the Kemerovo, Altai, Omsk and Novosibirsk regions.

Additionally, the Group is engaged in re-sale of coal purchased from other coal producers, electricity generation, storage and transport services.

The operations of the Group are subject to various regulations and licensing laws related to the extraction of coal in the Russian Federation.

(b) Russian business environment

The Group’s operations are primarily located 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.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis. Property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Company and all of its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, except when otherwise indicated.

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty, which have the most significant effect on the amounts recognised in the financial statements, is included in the following notes:

- Note 14 – Property, plant and equipment;
- Note 27 – Provision for site restoration;
- Note 30 – Financial risk management;
- Note 33 – Contingencies.

(e) Changes in accounting policies and presentation

There have been no changes in accounting policies during the financial year 2011.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) 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.

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.

(ii) 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.

(iii) 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.

(iv) 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 share premium. Any cash paid for the acquisition is recognised directly in equity.

(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. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

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 nil 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 that are measured based on historical cost in a foreign currency 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.

(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.

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 has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are 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 comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(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, cancelled or expire.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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 for 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 recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Exploration and evaluation expenditure

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 which are inseparable from the mine’s landscape, as well as costs of development stripping as described in 3(d)(iv). Other development costs are recognised in profit or loss as an expense as incurred.

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to “Mining assets and mining structures” category, which is classified within property, plant and equipment.

(iv) Stripping costs

Overburden and other mine waste materials are removed during the initial development of a mine site in order to access the mineral resource. This activity is referred to as development stripping for open-pit mines. The directly attributable costs of development stripping (inclusive of an allocation of relevant overhead expenditure) are capitalised as mine development costs within property, plant and equipment.

Removal of waste material continues throughout the life of open-pit mines and is referred to as production stripping. Production stripping commences from the date when saleable materials begin to be extracted from the mine.

Costs of production stripping are variable production costs which are included in the cost of inventory extracted during the period in which the stripping costs have been incurred.

(v) Mining assets and mining structures

This category of property, plant and equipment comprises the following categories of capitalized costs, related to mines put into production use:

- Capitalized mine development expenditure – note 3(d)(iii);
- Capitalized development stripping costs – note 3(d)(iv);
- Capitalized site restoration obligations – note 27(a);
- Cost of production mining licences.

(vi) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(vii) Depreciation

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures 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 and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in the profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset’s depreciation rates are as follows:

- Buildings and other production structures 9-46 years
- Machinery, equipment and vehicles 15-35 years
- Fixtures and fittings 3-5 years
- Mining assets and mining structures Pro rata to extraction volumes in relevant mines

Based on current extraction volumes, average expected remaining useful life of mining assets and mining structures is approximately 50 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a)(i).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

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.

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

(f) Leased assets

Leases in terms of 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 value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group’s statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. 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.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) 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, 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.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables, if found not to be specifically impaired, are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables 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 receivables. 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.

(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, recoverable amount is estimated each year at the reporting date.

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”). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. 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) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised 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.

(ii) Long-term benefits

The Group is subject to certain defined benefit plans. Defined benefit plans are post-employment benefits plans under which the Group has a legal or constructive obligation to pay amounts in respect of those benefits, and thus makes direct payments to its employees. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method.

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

Group's net obligation is calculated separately for each defined benefit 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 its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on high quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. Any net actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized as 'other comprehensive income'.

(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 levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

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, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred. Increases in provision due to subsequent disturbance of land plots in course of coal extraction are charged to cost of production of inventories.

(k) Net assets attributable to minority participants in LLC entities

If, according to charter documents of a limited liability company, a participant may unilaterally withdraw from such company, the company will be obliged to pay the withdrawing participant's share of net assets of the company for the year of withdrawal, in cash or, subject to consent of the participants, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of withdrawal.

Accordingly, the share capital and retained earnings of limited liability companies forming part of the Group which are attributable to minority participants and where the participants may unilaterally withdraw, are shown as net assets attributable to minority participants, and are presented as liabilities of the Group.

(l) Revenue

(i) Sale of coal

Revenue from the sale of coal in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The transfer of risks and rewards varies depending on the individual terms of the contract of sale and usually occurs when the coal is received at the customer's warehouse or is collected from the Group's warehouse in case of retail sales. However, for some international shipments the transfer of risks and rewards occurs upon passing the products to the relevant carrier or at the frontier.

(ii) Revenue from rendering services

Revenue from rendering services comprises sales of power and heat energy and sales of storage and transportation services. Revenue from transportation services rendered is recognised in profit or loss in proportion to the stage of completion of a respective voyage at the reporting date. Revenue from sales of power and heat energy is recognized on the delivery of electricity and heat and is based on the quantities actually measured or estimated on the basis of the output less expected grid losses, and authorized tariffs for electricity and heat as approved by the Regional Energy Commission.

(iii) Compensation from government

Compensation from government relates to retail sales of coal to the general public at fixed prices regulated by the government. The Group receives reimbursement from the state budget for the difference between the regulated price and an average market price, which is agreed with the government. Compensation from government is accrued when respective sales are made to end customer.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, and foreign currency gains. 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.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, and impairment losses recognised on financial assets. 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.

(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.

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 the following temporary differences: 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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.

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) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Company's General Director to make decisions about resources to be allocated to the segment and assess its performance.

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations listed below 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. Management has not yet assessed the potential impact of these Standards, amendments to Standards and Interpretations on the Group's financial position and the results of its performance.

- 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.

- 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 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively.

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

- 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 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 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, 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.

- 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.

- 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.

- 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.

- 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.

(r) Determination of fair value

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.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination 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.

(ii) 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.

(iii) 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.

(iv) 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.

4 Reportable segments

The Group determines and presents operating segments based on the information that internally is provided to the General director, who is the Group's chief operating decision maker. The Company's General director reviews operating results for purposes of assessing performance and making resource allocation decisions.

The segmented financial information is prepared and reported to general director at least quarterly. Management selected gross profit as the measure of the segment's result.

For the year ended and as at 31 December 2011 Mln RUB	**Domestic sales of coal produced**	**Export sales of coal produced**	**Re-sale of coal purchased**	**Other operations**	**Total**
Revenue	4 026	17 127	2 227	559	23 939
Cost of sales	(2 948)	(14 200)	(1 853)	(403)	(19 404)
Gross profit and segment result	**1 078**	**2 927**	**374**	**156**	**4 535**
Unallocated expenses					
Other operating expenses					(1 640)
Finance income and costs					(335)
Profit before income tax					**2 560**
Trade receivables	331	97	183	52	663
Advances received	(41)	(484)	(23)	(13)	(561)

For the year ended and as at 31 December 2010 Mln RUB	**Domestic sales of coal produced**	**Export sales of coal produced**	**Re-sale of coal purchased**	**Other operations**	**Total**
Revenue	3 144	8 178	2 273	565	14 160
Cost of sales	(2 373)	(6 907)	(1 786)	(391)	(11 457)
Gross profit and segment result	**771**	**1 271**	**487**	**174**	**2 703**
Unallocated expenses					
Other operating expenses					(1 350)
Finance income and costs					(281)
Profit before income tax					**1 072**
Trade receivables	260	95	187	62	604
Advances received	(50)	(641)	(36)	(9)	(736)

(i) Geographical information

The Group operates in three principal geographical areas: Russia, European Union and Asia (by location of customers).

	Revenues		**Trade receivables**		**Advances received**	
Mln RUB	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Russia	6 812	5 982	567	509	76	95
European Union	10 187	5 238	26	28	482	641
Asia	6 940	2 940	70	67	3	-
Total	**23 939**	**14 160**	**663**	**604**	**561**	**736**

All non-current assets of the Group are located in Russia.

(ii) Major customers

During 2011 sales to two most significant clients comprising more than 10% of revenue each, amounted to RUB 6 940 million (2010: RUB 2 940 million) and RUB 4 517 million (2010: RUB 1 731 million), respectively.

5 Acquisition of subsidiaries and non-controlling interests.

(i) Acquisition of subsidiaries

In July 2011, the Group acquired a 100% interest in OJSC Barabinsky Gortop that sales coal in the Novosibirsk region. Cost of the investment amounted to RUB 10 million paid in cash. As a result, revenue and profit of the Group in 2011 have increased by RUB 82 million and RUB 8 million respectively.

If the acquisition had occurred on 1 January 2011, management estimates that revenue, attributable to the acquired subsidiary that would have been included in the consolidated revenue would have amounted to RUB 107 million, and consolidated profit for the year would have changed immaterially.

Effect of acquisition on assets and liabilities of the Group:

Mln RUB	**Recognised fair values on acquisition**
Non-current Assets	
Property, plant and equipment	25
Current assets	
Inventories	5
Trade and other receivables	1
Cash and cash equivalents	-
Current liabilities	
Loans and borrowings	(8)
Trade and other payables	(12)
Net identifiable assets and liabilities	**11**
Negative goodwill	(1)
Fair value of consideration paid	10
Cash acquired	-
Net cash outflow	**10**

Gain on a “bargain purchase” (negative goodwill) amounted to RUB 1 million and has been recognised as other operating income for the year.

(ii) Acquisition of non-controlling interests

In July 2010, the Group acquired a 25% interest in OJSC Kuzbasstoplivisbyt Company for a consideration of RUB 20 mln. Also, during 2011 and 2010, the LLC NTK has acquired some immaterial additional interests in coal distribution subsidiaries for total consideration of less than RUB 1 million in 2011 and RUB 5 million in 2010. The above acquisition resulted in reduction of non-controlling interest by RUB 2 million (2010: RUB 27 million) and in increase of net assets attributable to minority participants of LLC NTK by RUB 1 million (2010: RUB 2 million).

6 Revenue

Mln RUB	2011	2010
Sales of coal	22 838	13 000
Compensation from government	541	596
Sales of electrical and heat power	248	236
Provision of transportation services	141	170
Provision of storage services	63	50
Other revenue	108	108
	23 939	**14 160**

Compensation from government refers to amounts received from the local authorities as part of the consideration for coal sold to local municipalities and population. Such compensation is due to the company in accordance with the Russian legislation.

7 Cost of sales

Mln RUB	2011	2010
Railway tariff and transportation services	10 623	5 437
Coal purchased	2 189	1 595
Extraction, processing and sorting of coal	1 790	723
Fuel	1 348	804
Wages, salaries and social charges	1 262	924
Depreciation	965	755
Spare parts	557	499
Repair and maintenance	375	228
Mining and environmental taxes	280	248
Other materials	164	142
Other services	116	79
Electricity	77	57
Operating leases	75	75
Security services	39	38
Other costs	19	11
Land rent	5	4
Change in provision for site restoration	(20)	3
Change in coal stock	(460)	(165)
	19 404	**11 457**

8 Distribution expenses

Mln RUB	2011	2010
Services	282	241
Wages, salaries and social charges	242	193
Materials	58	45
Depreciation	54	45
Other distribution expenses	18	16
	654	**540**

9 Administrative expenses

Mln RUB	2011	2010
Wages, salaries and social charges	570	421
Services	131	160
Taxes other than income tax	146	123
Charity and welfare	62	40
Fees and penalties	10	9
Materials	27	25
Depreciation and amortisation	20	20
Sundry payments to personnel	7	12
Other administrative expenses	37	39
	1 010	**849**

10 Other income and expenses, net

Mln RUB	2011	2010
Reversal/(recognition) of impairment losses	1	(7)
Gain on disposal of property, plant and equipment	22	46
Negative goodwill	1	-
	24	**39**

11 Personnel costs

Mln RUB	2011	2010
Wages, salaries and other payments to personnel	1 628	1 269
Expenses related to employee benefits	7	13
Social charges	446	268
	2 081	**1 550**

12 Finance income and finance costs

Mln RUB	2011	2010
Interest income on loans issued and cash equivalents	55	13
Compensation of interest paid in prior periods from the State	-	86
Finance income	55	99
Foreign exchange loss	(148)	(83)
Interest expense	(170)	(250)
Allowance for doubtful debts and write-offs	(13)	(21)
Unwinding of discount on provision for site restoration	(20)	(21)
Unwinding of discount on long-term promissory notes and interest-free loans received	(40)	(9)
Unwinding of discount on employee benefits	(3)	(1)
Finance costs	(394)	(385)
	(339)	**(286)**

In addition to interest expense shown above, the Group has capitalised RUB 14 million (2010: 30 million) to property, plant and equipment under construction using a capitalisation rate of 5.2 % (2010: 7.7%)

13 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2010: 20%).

Mln RUB	2011	2010
Current tax expense		
Current year	(579)	(170)
Underprovided in prior years	(1)	(4)
	(580)	**(174)**
Deferred tax benefit / (expense)		
Origination and reversal of temporary differences	38	(75)
	38	**(75)**
	(542)	**(249)**

Reconciliation of effective tax rate:

	2011		**2010**	
	Mln RUB	**%**	**Mln RUB**	**%**
Profit before income tax	2 560		1 072	
Income tax at applicable tax rate	(512)	(20)	(214)	(20)
Non-deductible expenses	(29)	(1)	(31)	(3)
Underprovided in prior years	(1)	-	(4)	-
	(542)	**(21)**	**(249)**	**(23)**

(a) Income tax recognised in other comprehensive income

	2011			2010		
Mln RUB	**Before tax**	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Defined benefit plan actuarial losses	(18)	4	(14)	(9)	2	(7)
	(18)	**4**	**(14)**	**(9)**	**2**	**(7)**

(b) Income tax recognised directly in equity

	2011			2010		
Mln RUB	**Before tax**	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Share issue costs	-	-	-	(165)	33	(132)
	-	**-**	**-**	**(165)**	**33**	**(132)**

14 Property, plant and equipment

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Cost / deemed cost								
Balance at 1 January 2010	1 150	920	2 695	4 037	21	314	32	9 169
Additions	117	5	5	340	8	332	1 524	2 331
Transfers	896	-	178	824	23	(559)	(1 362)	-
Disposals	(9)	-	-	(120)	(1)	-	-	(130)
Balance at 31 December 2010	**2 154**	**925**	**2 878**	**5 081**	**51**	**87**	**194**	**11 370**
Acquisitions through BC	9	-	8	8	-	-	-	25
Additions	139	14	1	227	1	592	1 619	2 593
Transfers	129	-	234	656	-	-	(1 019)	-
Disposals	-	(11)	-	(206)	-	(4)	-	(221)
Balance at 31 December 2011	**2 431**	**928**	**3 121**	**5 766**	**52**	**675**	**794**	**13 767**

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Depreciation and impairment losses								
Balance at 1 January 2010	(74)	(51)	(527)	(1 180)	(4)	-	-	(1 836)
Depreciation charge	(43)	(19)	(133)	(607)	(18)	-	-	(820)
Impairment loss	-	-	-	(7)	-	-	-	(7)
Disposals	-	-	-	96	1	-	-	97
Balance at 31 December 2010	**(117)**	**(70)**	**(660)**	**(1 698)**	**(21)**	**-**	**-**	**(2 566)**
Depreciation charge	(106)	(26)	(127)	(772)	(7)	-	-	(1 038)
Impairment loss	-	-	-	1	-	-	-	1
Disposals	-	-	-	194	-	-	-	194
Balance at 31 December 2011	**(223)**	**(96)**	**(787)**	**(2 275)**	**(28)**	**-**	**-**	**(3 409)**
Net book value								
At 1 January 2010	**1 076**	**869**	**2 168**	**2 857**	**17**	**314**	**32**	**7 333**
At 31 December 2010	**2 037**	**855**	**2 218**	**3 383**	**30**	**87**	**194**	**8 804**
At 31 December 2011	**2 208**	**832**	**2 334**	**3 491**	**24**	**675**	**794**	**10 358**

The allocation of depreciation charge is presented in the table below:

Mln RUB	2011	2010
Cost of sales	965	755
Distribution expenses	54	45
Administrative expenses	19	20
	1 038	**820**

Additions to property, plant and equipment include RUB 14 million (2010: RUB 30 million) of capitalised interest.

At 31 December 2011 items of property, plant and equipment with a carrying amount of RUB 1 750 million (2010: RUB 2 555 million) were pledged to secure bank loans (refer to note 25).

15 Goodwill and intangible assets

Mln RUB	Goodwill	Licence other	Software	Other	Total
Cost					
Balance at 1 January 2010	14	1	-	-	15
Additions	-	-	-	-	-
Balance at 31 December 2010	14	1	-	-	15
Additions	-	-	4	1	5
Balance at 31 December 2011	**14**	**1**	**4**	**1**	**20**
Amortisation and impairment					
Balance at 1 January 2010	-	(1)	-	-	(1)
Amortisation charge	-	-	-	-	-
Balance at 31 December 2010	-	(1)	-	-	(1)
Amortisation charge	-	-	(1)	-	(1)
Balance at 31 December 2011	-	**(1)**	**(1)**	-	**(2)**
Net book value					
At 1 January 2010	**14**	**-**	**-**	**-**	**14**
At 31 December 2010	**14**	**-**	**-**	**-**	**14**
At 31 December 2011	**14**	**-**	**3**	**1**	**18**

Impairment testing of goodwill

Goodwill arising from previous business combinations has been entirely allocated to the operating segment “domestic sales of coal produced”, which is the lowest level at which the goodwill is monitored for internal management purposes.

The Group tested the goodwill for impairment as at 31 December 2011. The results of the test did not identify any impairment of the goodwill as at 31 December 2011.

16 Investments in equity accounted investees

Mln RUB	Ownership	Assets	Liabilities	Revenue	Profit	Group share of net asset	Group share of profit
2010							
Suzunsky raitop OJSC	49.00%	8	(1)	36	1	3	-
Kuzbasskaya Transportnaya Company LLC	45.00%	943	(932)	458	10	5	5
		951	**(933)**	**494**	**11**	**8**	**5**
2011							
Suzunsky raitop OJSC	49.00%	11	(2)	35	1	4	-
Kuzbasskaya Transportnaya Company LLC	49.98%	5 056	(5 032)	1 022	8	12	4
		5 067	**(5 034)**	**1 057**	**9**	**16**	**4**

Movements in carrying value of investments in equity accounted investees were as follows:

Mln RUB	2011	2010
Carrying value as at the beginning of year	8	3
Acquisition of 4.98% share in Kuzbasskaya Transportnaya Company	17	-
Income of associates	4	5
Carrying value as at the end of year	**29**	**8**

LLC Kuzbasskaya Transportnaya Company ("KTrK") is engaged in acquisition of railroad wagons under finance lease arrangements from third parties. KTrK further sublets these wagons under operating lease arrangements to its other investor, a third party (“the Operator”), who provides transportation services to the Group using wagons both from KTrK and from other sources. The majority of transportation expenses incurred by the Group, as well as advances paid as at the balances sheet date, relate to the Group’s transactions with the Operator.

During the year the Group also provided short-term financing (loans with the maturities less than 3 months, reported on a net basis in the statement of cash flows) to KTrK and to the Operator in the amount of RUB 1 059 million and RUB 1 100 million, respectively.

17 Other investments

Mln RUB	31 December 2011	31 December 2010
Non-current		
Loan issued to other companies (7.6% - 11.0%)	5	6
	5	**6**
Current		
Loan issued to other companies (7.5%-14.0%)	27	39
	27	**39**

The Group’s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 30.

18 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Mln RUB	Assets		Liabilities		Net balance	
	2010	2011	2010	2011	2010	2011
Property, plant and equipment	-	-	(490)	(503)	(490)	(503)
Inventories	8	31	(48)	(66)	(40)	(35)
Trade and other receivables	44	32	(8)	-	36	32
Trade and other payables	23	51	(6)	-	17	51
Loans and borrowings	5	5	(10)	(1)	(5)	4
Provisions and employee benefits	53	62	-	-	53	62
Tax loss carry-forwards	-	2	-	-	-	2
Deferred tax assets / liabilities	**133**	**183**	**(562)**	**(570)**	**(429)**	**(387)**
Set-off of tax	(114)	(138)	114	138	-	-
Net tax assets / liabilities	**19**	**45**	**(448)**	**(432)**	**(429)**	**(387)**

(b) Unrecognised deferred tax liabilities

As at 31 December 2011, the Group has not recognised a deferred tax liability with respect to taxable temporary differences relating to investments in subsidiaries, because management believes all such differences will not be reversed in the foreseeable future. The amount of these differences is RUB 1 056 million (2010: RUB 852 million).

(c) Movement in temporary differences during the year

	1 January 2010	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2010	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2011
Property, plant and equipment	(422)	(68)	-	(490)	(13)	-	(503)
Inventories	1	(41)	-	(40)	5	-	(35)
Trade and other receivables	-	36	-	36	(4)	-	32
Trade and other payables	16	1	-	17	34	-	51
Loans and borrowings	(7)	2	-	(5)	9	-	4
Provisions and employee benefits	47	4	2	53	5	4	62
Tax loss carry-forwards	9	(9)	-	-	2	-	2
	(356)	**(75)**	**2**	**(429)**	**38**	**4**	**(387)**

19 Inventories

Mln RUB	31 December 2011	31 December 2010
Raw materials and consumables	384	334
Coal in stock	701	347
Coal in transit	183	75
Other	7	3
	1 275	**759**

20 Trade and other receivables

Mln RUB	31 December 2011	31 December 2010
Trade receivables	663	604
VAT receivable	748	288
Compensation receivable from budget	64	91
Receivables for railway tariff	25	55
Receivable from personnel	14	16
Other receivables	119	94
Allowance for doubtful debts	(71)	(62)
	1 562	**1 086**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

21 Prepayments and deferred expenses

Mln RUB	31 December 2011	31 December 2010
Advances given for transportation services	665	322
Other advances given for inventory and other services	248	97
Deferred expenses	3	21
	916	**440**

22 Cash and cash equivalents

Mln RUB	31 December 2011	31 December 2010
Petty cash	2	2
Bank accounts	36	76
Term deposits	1 846	379
	1 884	**457**

As at the reporting date short-term deposit rate for the Group was 5.6%-8.5% per year (as at 31 December 2010: 2.3% - 3.0% per year).

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

23 Share capital

Number of shares unless otherwise stated	31 December 2011	31 December 2010
On issue at 1 January	99 258 355	84 399 400
Issued for cash	-	14 858 955
On issue at 31 December - fully paid	99 258 355	99 258 355
Authorized shares	99 258 355	99 258 355
Par value, Russian roubles	0.2	0.2
Share capital, RUB million	**20**	**20**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 17 February 2010, the shareholders resolved to increase the number of the Company’s authorised shares to 99 299 400 and to issue an additional 14 900 000 shares.

In April 2010, the Company made an initial public offering of its shares at RTS and MICEX stock exchanges, raising RUB 2 964 million for 15% of its shares. As a result of public offering, 14 858 955 shares were issued and paid in cash. Transaction costs of the issue amounted to RUB 132 million net of income tax effect and have been offset against the share issue proceeds in the statement of changes in equity.

(a) Dividends

In accordance with the Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with the Russian Accounting Principles, which differs from the balance of retained earnings reported in these consolidated financial statements.

The following dividends were declared and paid by the Company:

Mln RUB	2011	2010
3 RUB per qualifying ordinary share	298	253

24 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders of RUB 2 006 million (2010: RUB 826 million), and a weighted average number of ordinary shares outstanding of 99 258 355 (2010: 90 058 016). The Company has neither preference shares nor dilutive potential ordinary shares.

25 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 30.

Mln RUB	31 December 2011	31 December 2010
Non-current liabilities		
Secured bank loans	2 126	1 618
Unsecured bank loans	515	-
Loans from other companies	142	37
Promissory notes issued	11	21
	2 794	**1 676**
Current liabilities		
Secured bank loans	291	511
Unsecured bank loans	1 429	-
Promissory notes issued	15	15
Loans from other companies	10	5
Interest accrued	8	4
	1 753	**535**

(a) Terms and debt repayment schedule:

				2011		2010	
Mln RUB	**Currency**	**Effective interest rate**	**Year of maturity**	**Carrying amount**	**Face value**	**Carrying amount**	**Face value**
Secured bank loan	USD	7.5%	2011 - 2014	-	-	1 981	1 981
Secured bank loan	USD	3.6% - 5.2%	2012 - 2016	2 089	2 089	-	-
Secured bank loan	RUB	11.5%	2012	15	15	103	103
Secured bank loan	RUB	10.5%	2012 -2013	159	159	-	-
Secured bank loan	RUB	3m Mosprime+4.6%	2011	-	-	45	45
Secured bank loan	RUB	7.0% - 8.0%	2012	162	162	-	-
Promissory notes issued	RUB	13.10%	2012 - 2013	26	30	36	45
Unsecured bank loans	USD	2.6% - 3.9%	2012 - 2013	1 083	1 083	-	-
Unsecured bank loans	USD	4.0% - 5.8%	2012 - 2013	728	728	-	-
Unsecured bank loans	RUB	7.9% - 8.0%	2012	116	116	-	-
Unsecured bank loans	RUB	1m Mosprime+3.8%	2012	17	17	-	-
Loans from other companies	RUB	8% - 13.1%	2012 - 2037	152	381	42	85
				4 547	**4 780**	**2 207**	**2 259**

The borrowings above are stated with interest payable.

Bank loans are secured by the property, plant and equipment with a carrying amount of RUB 1 750 million (2010: RUB 2 555 million) (refer to note 14).

26 Net assets attributable to minority participants in LLC entities

	Mln RUB
Balance at 1 January 2010	66
Comprehensive income attributable to minority participants	-
Effect of change in non-controlling interests	2
Balance at 31 December 2010	**68**
Comprehensive income attributable to minority participants	17
Effect of change in non-controlling interests	(2)
Balance at 31 December 2011	**83**

As minority participants in limited liability companies of the Group have a unilateral right to withdraw their share of net assets from the entity, their interests in the net assets of these entities have been recognised as a liability.

27 Provisions

All of the Group's provisions are represented by site restoration liabilities.

Mln RUB	Site restoration
Balance at 1 January 2010	237
Provisions made during the year	29
Unwinding of discount	21
Change of accounting estimates	(22)
Balance at 31 December 2010	**265**
Provisions made during the year	35
Unwinding of discount	20
Change of accounting estimates	(55)
Balance at 31 December 2011	**265**

(a) Site restoration

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

During 2011, RUB 35 million (2010: RUB 29 million) was charged to cost of sales in the course of coal extraction.

As a result of change in accounting estimates, RUB 3 million was recognised (2010: RUB 5 million) in mining assets and decrease of RUB 58 million (2010: RUB 26 million) was credited to cost of sales.

Because of the nature of the liability, the most significant uncertainty in estimating the provision is the costs which will be incurred. Environmental legislation in the Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as those operating by the Group. Generally the standard of restoration is determined based on discussions with federal and local government 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 its in-house engineers who have considered statutory requirements in respect of similar sites that require similar site restoration activities.

Future costs were discounted using an average yield on Russian government bonds with similar maturities. As at 31 December 2011 the average yield amounted to 7.37% p. a. (2010: 7.48 % p.a.).

28 Trade and other payables

Mln RUB	**31 December 2011**	**31 December 2010**
Trade payables	836	645
Advances received	561	736
Taxes (other than income tax) payable	139	139
Payables for property, plant and equipment	57	29
Payables to personnel	275	149
Other payables	87	69
	1 955	**1 767**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

29 Deferred income

During 2011 the Group received long-term non-interest bearing loans from its customers repayable in 2036-2037. The loan agreements require the provision of a minimal level of railroad transportation services to these customers through the Group’s own railway network until the repayment of the loans. The loans were recognized at amortised cost within loans and borrowings, with recognition of the initial discount as deferred income as at 31 December 2011 which is to be amortized into revenue over the term of the loans.

30 Financial instruments and risk management

(a) Overview

The Group’s activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group does not hedge its exposure to such risks.

The Group has exposure 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 above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group does not have formalized risk management policies, however procedures are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management procedures are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The actual execution of financial instruments risk analysis and management is the responsibility of First Deputy General Director of the Group, who reviews on a regular basis risk exposure and risk profiles and recommends management actions aimed at mitigating risks beyond levels of tolerance.

(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 cash and cash equivalents, deposits with banks and financial institutions, loans given and outstanding trade and other receivables. Credit risk is managed on a group basis.

The Group does not require collateral in respect of its financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The Group primarily transacts with its customers on a prepayment basis, however sales to related parties, government bodies and established customers, who have been trading with the Group for several years are made on credit terms.

As at 31 December 2011 the Group had one significant customer with an accounts receivable balance which individually exceeded 10 % of total trade accounts receivable amounting to RUB 70 million (2010: RUB 67 million due from the same customer).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance is made for individually significant exposures where objective evidence of impairment loss exists.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

Mln RUB	31 December 2011	31 December 2010
Loans issued	32	45
Trade receivables	616	574
Other receivables	184	207
Cash and cash equivalents	1 884	457
	2 716	**1 283**

The Group's exposure to credit risk in respect of trade and other receivables at the end of the reporting period is primarily represented by receivables from wholesale customers and other counterparties in Russia.

Impairment losses

The ageing of trade and other receivables together with allowances as at the reporting dates was:

Mln RUB	Trade and other receivables 2011	Impairment 2011	Trade and other receivables 2010	Impairment 2010
Not past due	539	-	574	-
Past due 0-30 days	119	(7)	94	(3)
Past due 31-60 days	74	-	30	-
Past due 61-90 days	20	-	39	-
Past due 91-180 days	17	(1)	19	-
Past due more than 180 days	102	(63)	87	(59)
	871	**(71)**	**843**	**(62)**

The impairment losses as at 31 December 2011 mostly relate to customers that experienced difficulties in obtaining finance from municipal budgets.

Loans and cash and cash equivalents are not past due.

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Mln RUB	2011	2010
Balance, as at beginning of the year	(62)	(45)
Recognised in income statement for the year	(13)	(21)
Amounts written off against trade receivables	4	4
Balance, as at end of the year	**(71)**	**(62)**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 180 days. Impairment allowance for receivables which are overdue by more than 180 days is determined on a case-by-case basis. Overdue but not impaired trade receivables primarily comprise amounts due from government bodies and customers who have a good track record with the Group.

(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.

To date, the Group has significantly relied upon short-term and long-term financing to fund the development of its production facilities. This financing has historically been provided through bank loans, and through proceeds from the initial public offering in 2010.

In 2011 and beyond, the Group anticipates funding for further capital investments from cash generated from operations and additional bank loans. Management believes that based on the expected levels of operating profit and cash flows, the Group will be able to meet its short-term liabilities as they fall due.

As at 31 December 2011, the Group had some open credit facilities with a number of major Russian banks. In accordance with the agreement the Group may borrow from these banks at 8% p.a (2010: 8% p.a.). The unused amount of these facilities was RUB 1 196 million (31 December 2010: RUB 1 603 million) as at the reporting date.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

As at 31 December 2011

Mln RUB

	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	2 425	174	245	987	520	515	272	-	2 713
Unsecured bank loans	1 944	793	698	532	-	-	-	-	2 023
Promissory notes issued	26	-	15	15	-	-	-	-	30
Loans from other companies	152	2	8	16	16	16	16	305	379
Trade and other payables	1 255	1 255	-	-	-	-	-	-	1 255
	5 802	**2 224**	**966**	**1 550**	**536**	**531**	**288**	**305**	**6 400**

As at 31 December 2010

Mln RUB

	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	2 129	234	423	770	706	287	-	-	2 419
Promissory notes issued	36	-	15	15	15	-	-	-	45
Loans from other companies	42	3	3	5	5	5	5	58	85
Trade and other payables	892	892	-	-	-	-	-	-	892
	3 099	**1 129**	**441**	**790**	**726**	**292**	**5**	**58**	**3 441**

Amounts of trade and other payables exclude advances received and other taxes payable.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of Group entities, the Russian Rouble (RUB).

Part of the Group's borrowings is denominated in foreign currencies so that they partially offset foreign currency cash inflows generated by the underlying operations of the Group.

Companies in the Group do not use foreign exchange hedges to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities.

Exposure to currency risk

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

Mln RUB	USD-denominated 31 December 2011	EUR-denominated 31 December 2011	USD-denominated 31 December 2010	EUR-denominated 31 December 2010
Trade and other receivables	92	-	106	-
Cash and cash equivalents	6	-	-	-
Trade and other payables	(19)	(2)	(3)	-
Loans and borrowings	(3 900)	-	(1 981)	-
Net exposure	**(3 821)**	**(2)**	**(1 878)**	**-**

The following significant exchange rates applied during the year:

in RUB	Average rate 2011	Average rate 2010	Reporting date spot rate 2011	Reporting date spot rate 2010
USD 1	29.3948	30.3765	32.1961	30.4769
EUR 1	40.9038	40.2157	41.6714	40.3331

Sensitivity analysis

A 10 % strengthening (weakening) of the RUB against the US dollar based on the Group's exposure as at the reporting date would have increased (decreased) profit or loss by RUB 382 million (2010: RUB 188 million). The analysis assumes that all other variables, in particular interest rates, remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its 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:

Mln RUB	31 December 2011	31 December 2010
Fixed rate interest-bearing instruments:		
Financial assets	32	45
Financial liabilities	(4 530)	(2 166)
	(4 498)	(2 121)
Variable rate interest-bearing instruments:		
Financial liabilities	(17)	(45)
Net amount	**(4 515)**	**(2 166)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 1% p.a. in Mosprime rates based on the Group's exposure as at the reporting date would increase (decrease) future annual cash flow related to interest payments of the Group by less than RUB 1 million (2010: RUB 1 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(e) Fair values versus carrying amounts

Except for items stated below, management believes that the carrying amounts of financial assets and liabilities as at 31 December 2011 approximate their fair values:

Mln RUB	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Loans received measured at amortised cost	4 547	4 567	2 211	2 432

The interest rates used to discount estimated cash flows, where applicable, are based on the incremental borrowing interest rate at the reporting date:

	2011	**2010**
Loans received measured at amortised cost	4.28-4.89%(USD) 8.11%-11.97% (RUB)	5%-6% (USD) 10%-11% (RUB)

(f) Capital management

The Group's objectives when managing capital is to provide an adequate return to shareholders by investing in financial assets which provide a return proportionate to the associated level of risk, and to safeguard the Group's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Group may adjust the return capital to shareholders, issue new shares, or sell assets to reduce debt.

With effect from 2010, the Board of Directors adopted a policy, under which the Company shall pay dividends annually in the amount of not less then 25% of the Company's net profit for the preceding year, as determined under Russian statutory accounting principles.

Loans amounting to RUB 2 771 million as at 31 December 2011 (2010: RUB 2 088 million) are subject to imposed capital requirement on the Group to maintain a prescribed debt (net debt) to EBITDA ratio.

Mln RUB	**Loan obligations**	
	2011	**2010**
Debt/EBITDA ratio not exceeding 4:1 according to quarterly financial statements of OJSC Kuzbasskaya Toplivnaya Company prepared under Russian accounting standards (RAS)	944	2 088
Debt/EBITDA ratio not exceeding 2.5:1 according to semi-annual and annual consolidated financial statements of OJSC Kuzbasskaya Toplivnaya Company prepared under International Financial Reporting Standards (IFRS)	773	-
Net debt/EBITDA ratio not exceeding 3:1 according to semi-annual and annual consolidated financial statements of OJSC Kuzbasskaya Toplivnaya Company prepared under International Financial Reporting Standards (IFRS)	1 054	-
Total:	**2 771**	**2 088**

During the 2010 - 2011 the Group was in compliance with all imposed capital requirements described above.

31 Operating leases

The Group leases a number of machinery and equipment items under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. During the year RUB 110 million (2010: RUB 84 million) was recognised as an expense in the income statement in respect of leased machinery and equipment.

Additionally, the Group leases land plots from various municipal bodies. The leases of land plots are non-cancellable by nature as most of the Group’s production assets are located on the leased land. The land leases typically run for a period of one year and are prolonged on an annual basis, except for several lease agreements that provide the lease of approximately 17 hectares of land for a period of 24-49 years and approximately 5 hectares for a period of 14 years. As at year end the Group leased in excess of 130 hectares of land and made payments during the year of RUB 9 million (2010: RUB 9 million). Payments of land rent in subsequent years will depend on the size of land plots under lease and changes in the rent rate per hectare.

32 Capital commitments

As at 31 December 2011, the Group has entered into a number of contracts to purchase plant and equipment for RUB 2 307 million (2010: RUB 430 million). A significant growth of capital commitments is due to the construction of the second enrichment plant.

33 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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.

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

34 Related party transactions

(a) Control relationships

The Company's shares are owned by several entities, none of which owns more than 50% of the Company's share capital. Mr Igor Yurievich Prokudin is the Company's ultimate controlling party as at 31 December 2011.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (refer to note 11):

Mln RUB	2011	2010
Salaries and bonuses	242	165
Contributions to State pension fund	17	7
Total management remuneration	**259**	**172**

(b) Transactions with other related parties

The Group's other related party transactions are disclosed below:

(i) Revenue

Mln RUB	Transaction value 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Sale of coal	28	28	-	1
Other revenue	59	2	16	2
	87	**30**	**16**	**3**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

Mln RUB	Transaction value 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Purchase of goods	-	-	-	1
Services received	15	9	1	-
	15	**9**	**1**	**1**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

Mln RUB	Interest income 2011	Interest income 2010	Outstanding balance 2011	Outstanding balance 2010
Shareholders of the Company	-	3	-	-
Associates	12	-	-	-
	12	**3**	**-**	**-**

During 2011, The Group provided short-term loans to Kuzbasskaya Transportnaya Company LLC totaled to RUB 1 059 million (2010: nil) for a period not exceeding 3 months bearing average interest at 8% per annum. Interest income earned by the Group on these transactions amounted to RUB 12 million (2010: nil) per year. As at 31 December 2011 the loan and the accrued interests were repaid.

35 Events subsequent to the reporting date

In February 2012 the Group acquired a licence for exploration and development of coal on the "Bryansk 1" site. Within the borders of the licensed area, the mineral coal deposits amount to approximately 250 million tones according to C2 category according to the Russian state classification.

After the reporting date the Group has provided a financial guarantee to a third party bank ("the Bank") in respect of a loan of its associate, KTrK. The guarantee covers liabilities under the loan up to the amount of RUB 1 211 million and expires in March 2023. The guarantee has been provided in the form of KTK's irrevocable offer to buy back any past-due debt of KTrK, and may be presented for payment by the Bank within one year from the date when such past due debt originates. The purpose of KTrK's loan is the acquisition of railway wagons, primarily used for KTK needs. As of the date when these financial statements were authorized, the likelihood of execution of the guarantee is assessed to be remote.

In March 2012 the Board of Directors proposed to pay dividends for 2011 amounting to RUB 596 million or RUB 6 per share. A final dividend is subject to the approval of the Company's shareholders at the annual general meeting scheduled on 16 April 2012.