OAO Belon and subsidiaries

Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2006

Contents

KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

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

Independent Accountants' Review Report

To the Shareholders

OAO Belon

We have reviewed the accompanying condensed consolidated interim balance sheet of OAO Belon and its subsidiaries (the "Group") as at 30 June 2006, and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six-month period then ended. This condensed consolidated interim financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this condensed consolidated interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

The Group has not presented corresponding figures as at and for the six-month period ended 30 June 2005, which is required by International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Based on our review, except for the omission of the information as described in the preceding paragraph, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Without further qualifying our report, we draw attention to the fact that the US dollar amounts in the accompanying consolidated financial statements, which are presented solely for the convenience of users as described in Note 2(d) and do not form part of the condensed consolidated interim financial statements, are unaudited.

KPMG Limited

KPMG Limited

25 October 2006

	Note	Unaudited For six months ended 30 June 2006 '000 RUR	Unaudited For six months ended 30 June 2006 '000 USD*
Revenues	4	4,854,574	179,275
Cost of sales		(3,737,263)	(138,014)
Gross profit		1,117,311	41,261
Distribution expenses		(426,105)	(15,735)
Administrative expenses		(272,273)	(10,054)
Taxes, other than on profit		(97,803)	(3,612)
Other operating expense, net		(125,066)	(4,619)
Net financing expenses	7	(100,831)	(3,724)
Income from associates		411	15
Profit before tax		95,644	3,532
Income tax expense	8	(60,359)	(2,229)
Net profit for the period		35,285	1,303
Attributable to the Shareholders of the Parent		35,285	1,303
Basic and diluted earnings per share	11	3.07	0.11

The condensed consolidated interim financial statements were authorized for issuance on 25 October 2006:

Acting Chief Financial Officer	General Director
Dmitri G. Vostretsov	Andrey P. Dobrov

The condensed consolidated interimincome statement is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 9 to 22.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

	Note	Unaudited 30 June 2006 '000 RUR	Restated 31 December 2005 '000 RUR	Unaudited 30 June 2006 '000 USD*	Restated 31 December 2005 '000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment and mining assets	9	6,943,431	4,680,336	256,415	172,841
Intangible assets		304,601	274,020	11,249	10,119
Investments in associates		31,063	17,302	1,147	639
Other investments		3,344	15,772	123	582
Deferred tax assets		42,821	27,580	1,581	1,019
		7,325,260	5,015,010	270,515	185,200
Current assets					
Other investments		21,063	609,137	778	22,495
Inventories	10	1,029,860	1,021,772	38,033	37,733
Trade and other receivables		2,822,011	2,283,346	104,214	84,322
Cash and cash equivalents		569,319	860,617	21,024	31,782
		4,442,253	4,774,872	164,049	176,332
Total assets		11,767,513	9,789,882	434,564	361,532
EQUITY AND LIABILITIES					
Equity	11				
Share capital		35,864	35,864	1,324	1,324
Retained earnings		3,978,095	4,276,010	146,908	157,910
Total equity attributable to shareholders of the Parent		4,013,959	4,311,874	148,232	159,234
Non-current liabilities					
Loans and borrowings	12	2,953,330	686,099	109,064	25,337
Other payables		112,070	117,715	4,138	4,347
Deferred tax liabilities		251,821	148,861	9,300	5,497
		3,317,221	952,675	122,502	35,181
Current liabilities					
Loans and borrowings	12	3,325,958	3,184,825	122,825	117,613
Trade and other payables		1,110,375	1,340,508	41,005	49,504
		4,436,333	4,525,333	163,830	167,117
Total equity and liabilities		11,767,513	9,789,882	434,564	361,532

The condensed consolidated interim balance sheet is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 9 to 22.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

	Unaudited For six months ended 30 June 2006 '000 RUR	Unaudited For six months ended 30 June 2006 '000 USD*
OPERATING ACTIVITIES		
Net profit for the period, attributable to the shareholders of the Parent	35,285	1,303
Adjustments for:		
Depreciation	219,793	8,117
Amortisation	6,541	242
Loss on disposal of property, plant and equipment	21,085	779
Unrealised foreign exchange loss	8,083	298
Loss on impairment of property, plant and equipment	950	35
Income from associates	(411)	(15)
Interest capitlalised	101,214	3,738
Interest expense	159,157	5,878
Interest income	(82,090)	(3,031)
Income tax expense	60,359	2,229
Operating profit before changes in working capital and provisions	529,966	19,573
Decrease in inventories	36,940	1,364
Increase in trade and other receivables	(491,491)	(18,150)
Decrease in trade and other payables	(304,665)	(11,251)
Cash flows utilized by operations before income taxes and interest paid	(229,250)	(8,464)
Income taxes paid	(70,179)	(2,592)
Interest paid	(229,786)	(8,486)
Cash flows utilized by operating activities	(529,215)	(19,542)

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 9 to 22.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

	Unaudited For six months ended 30 June 2006 '000 RUR	Unaudited For six months ended 30 June 2006 '000 USD*
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	4,544	168
Interest received	82,090	3,031
Net decrease in investments	587,152	21,682
Acquisition of property, plant and equipment	(1,771,205)	(65,409)
Acquisition of subsidiaries, net of cash acquired	(523,639)	(19,338)
Acquisition of intangible assets	(37,076)	(1,369)
Cash flows utilised by investing activities	(1,658,134)	(61,235)
FINANCING ACTIVITIES		
Proceeds from borrowings	10,248,314	378,461
Repayment of borrowings	(7,974,193)	(294,480)
Payment of finance lease liabilities	(44,815)	(1,655)
Dividends paid	(333,200)	(12,305)
Cash flows from financing activities	1,896,106	70,021
Net increase in cash and cash equivalents	(291,243)	(10,756)
Cash and cash equivalents at beginning of year	860,562	31,780
Cash and cash equivalents at 30 June 2006	569,319	21,024

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 9 to 22.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

Unaudited, except for the information as at 1 January 2006 ’000 RUR	**Attributable to shareholders of the Parent**			**Total Equity**
	Share capital	**Restated Retained earnings**	**Total**	
Balance at 1 January 2006	35,864	4,276,010	4,311,874	4,311,874
Net profit for the period	-	35,285	35,285	35,285
Total recognised income and expenses	-	35,285	35,285	35,285
Dividends to shareholders	-	(333,200)	(333,200)	(333,200)
Balance at 30 June 2006	35,864	3,978,095	4,013,959	4,013,959

Unaudited ’000 USD*	**Attributable to shareholders of the Parent**			**Total Equity**
	Share capital	**Restated Retained earnings**	**Total**	
Balance at 1 January 2006	1,324	157,910	159,234	159,234
Net profit for the period	-	1,303	1,303	1,303
Total recognised income and expenses	-	1,303	1,303	1,303
Dividends to shareholders	-	(12,305)	(12,305)	(12,305)
Balance at 30 June 2006	1,324	146,908	148,232	148,232

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to and forming part of the condensed consolidated interim financial statements set out on pages 9 to 22.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

1 Reporting entity

(a) Organisation and operations

OAO Belon (the “Parent company”) and its subsidiaries (together referred to as the “Group”) comprise of open and closed joint stock and limited liability companies as defined in the Civil Code of the Russian Federation. The Parent company was established in accordance with Russian legislation on 14 May 1991.

The Group’s principal areas of activity are:

- Coal mining;
- Coal refining;
- Coal and metal trading.

The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2006 comprise the Company and its subsidiaries.

2 Basis of preparation

(a) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The accompanying condensed consolidated interim financial information reflects management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(b) Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2005.

The consolidated financial statements of the Group as at and for the year ended 31 December 2005 are available upon request from the Company’s registered office located at 56 Bogdana Khmelnitskogo str., Novosibirsk, Russian Federation or at www.belon.com.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Parent Company’s functional currency and the currency in which this condensed consolidated financial information is presented. All financial information presented in RUR has been rounded to the nearest thousand.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

2 Basis of preparation, continued

(d) Convenience translation

The Parent Company's functional currency is RUR because it reflects the economic substance of the underlying events and circumstances of the Company. In addition to presenting the consolidated financial statements in RUR, supplementary information in USD has been prepared for the convenience of users of the financial statements.

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 30 June 2006 of RUR 27.0789 to one USD.

3 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements, except for outlined in note 3(a), are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2005.

(a) Changes in accounting policies

(i) Voluntary changes in accounting policies

During the current year the Group changed its accounting policy in relation to accounting for borrowing costs and adopted allowed alternative treatment prescribed by IAS 23 *Borrowing Costs* so that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

This change in accounting policies was made with the purpose to provide more reliable and relevant information about the effects of capital expenditure and financing transaction transactions on the entity's financial position, financial performance and cash flows. Management of the Group also gave recognition to the upcoming changes in IAS 23 *Borrowing Cost*s reflected in the Exposure draft of proposed Amendments to IAS 23 *Borrowing Costs* which tends to exclude benchmark treatment from IAS 23 *Borrowing Costs* as part of the US GAAP/ IFRS convergence project.

The change had the following impact on the Group's financial position as at 1 January 2006.

- Property, Plant and Equipment increased by RUR 191,858 thousand/ USD*7,085 thousand.
- Deferred tax liability increased by RUR 46,046 thousand/ USD*1,700 thousand
- Retained earning increased by RUR 145,812 thousand/ USD*5,385 thousand

Comparatives as at 31 December 2005 were restated to reflect these changes.

Had no change in accounting policies took place the net result for six months ended 30 June 2006 would decrease by RUR 73,923 thousand/*USD 2,730 thousand.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

3 Significant accounting policies, continued

(ii) Adoption of new Standards and Interpretations

During the current year the Group changed a number of its accounting policies as a result of new or revised Standards that are effective for periods beginning on or after 1 January 2006.

IFRS 6 *Exploration for and Evaluation of Mineral Resources*, which is effective for annual periods beginning on or after 1 January 2006. The Standard includes a requirement to distinguish between tangible and intangible assets that are used in the exploration for and evaluation of mineral resources, and specifies the level at which impairment testing should be carried out.

Due to the fact that the Group does not undertake any substantial exploration or evaluation activities internally the changes in accounting policies did not result in a material impact on the Group's financial position or results of operations, or resulted in material changes in classification.

∗ *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

4 Segment reporting

(a) Business segments

The Group comprises the following main business segments:

Coal. The extraction of steam and coking coal, processing of extracted and purchased coal into a coal concentrate and sale of coal and coal concentrate used in power and steel industries, as well as research and development activities in this area.

Metals. The purchase and re-sale of steel and other metal produce from steel production companies to ultimate customers in Russia.

Other operations include sales of red bricks and coal processing by-products.

Unaudited
For six months ended
30 June 2006

’000 RUR	**Coal**	**Metals**	**Other operations**	**Eliminations**	**Consolidated**
Segment revenue	2,805,951	1,999,837	113,034	(64,248)	4,854,574
Segment result	511,959	75,174	63,557	-	650,690
Unallocated expenses					(454,626)
Net financing expenses					(100,831)
Income from associates					411
Profit before tax					95,644

Unaudited
For six months ended
30 June 2006

’000 USD*	**Coal**	**Metals**	**Other operations**	**Eliminations**	**Consolidated**
Segment revenue	103,622	73,852	4,174	(2,373)	179,275
Segment result	18,906	2,776	2,347	-	24,029
Unallocated expenses					(16,788)
Net financing expenses					(3,724)
Income from associates					15
Profit before tax					3,532

(b) Geographical segments

Due to the fact that the majority of the Group’s operations relate to the Russian Federation no separate disclosure in regard to geographical segments is provided.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

5 Seasonality and cyclicity of operations

(a) Coal

Seasonality is inherent to the sales of steam coal as electricity and heat consumptions generally falls during the summertime with the lowest prices typically prevailing in the period of April to June. Domestic utilities tend to purchase 2 to 3 months coal inventories in the beginning of heating period in Russia, and generally prices increase in August-September. Sales of coking coal are not subject to significant seasonal variations.

The sales of coking coal and coking coal concentrate are dependent on fluctuation in world coking coal prices, which in turn, follow fluctuations in world steel prices with a certain time lag. Current period result was affected by the general cyclical decrease in market prices for coking coal which took place in the beginning of 2006. This decrease followed after market steel prices went down in 2005.

(b) Metals

Metal sales are typically affected by cyclical fluctuations. Cyclical factors which affect metal sales are similar to those described in relation to coking coal.

(c) Other

The Group's other operations were not affected significantly by seasonal or cyclical factors during the financial year.

6 Acquisition of subsidiaries

(a) Acquisition of mining businesses of OOO Mine Chertinskaja-Yuzhnaya and OAO Mine Novaya-2

In March 2006 The Group have acquired the controlling interest of 100% in OOO Mine Chertinskaja-Yuzhnaja and 100% in OAO Mine Novaja-2 for RUR 525,000 thousand/ USD* 19,388 thousand.

The fair values to be assigned to the acquiree's identifiable assets and liabilities, including property, plant and equipment, coal reserves and mining licenses, were determined only provisionally. As a result, the fair values of the acquired assets and liabilities are subject to possible change. Management intends to involve an independent appraiser in order to determine the fair value of the acquired assets and liabilities at the date of acquisition.

* _The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d)._

6 Acquisition of subsidiaries, continued

The acquisition had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair value on acquisition	
	'000 RUR	**'000 USD***
Property, plant and equipment and mining assets	597,817	22,077
Intangible assets	46	2
Inventories	45,028	1,663
Trade and other accounts receivable	56,028	2,069
Cash and cash equivalents	1,361	50
Trade and other accounts payable	(71,097)	(2,626)
Deferred tax liabilities	(104,183)	(3,847)
Net identifiable assets and liabilities	525,000	19,388
Consideration paid	525,000	19,388
Cash acquired	(1,361)	(50)
Net cash outflow	523,639	19,338

7 Net financing expenses

	Unaudited For six months ended 30 June 2006 '000 RUR	**Unaudited For six months ended 30 June 2006 '000 USD***
Interest expense	(159,157)	(5,878)
Foreign exchange loss	(29,276)	(1,081)
Interest income	82,090	3,031
Gain on disposal of investments	5,512	204
	(100,831)	(3,724)

The Group has voluntary changed its accounting policies regarding accounting for borrowing costs (refer note 3(a)(i)).

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

8 Income tax expense

	Unaudited For six months ended 30 June 2006 '000 RUR	Unaudited For six months ended 30 June 2006 '000 USD*
Current tax expense		
Current year	(76,823)	(2,838)
Deferred tax benefit		
Origination and reversal of temporary differences	16,464	609
	(60,359)	(2,229)

The Group's applicable tax rate is the corporate income tax rate of 24% (2005: 24%).

Reconciliation of effective tax rate:

	Unaudited For six months ended 30 June 2006 '000 RUR	%	Unaudited For six months ended 30 June 2006 '000 USD*	%
Profit before tax	95,644	100	3,532	100
Income tax expense at applicable tax rate	(22,955)	(24)	(848)	(24)
Unrecognised tax assets	(17,395)	(18)	(642)	(18)
Non-taxable / (non-deductible) items, net	(20,009)	(21)	(739)	(21)
	(60,359)	(63)	(2,229)	(63)

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

9 Property, plant and equipment

(a) Acquisitions and disposals

During six months ended 30 June 2006 the Group acquired property, plant and equipment with a cost of RUR 2,408,253 thousand/ USD*88,935 thousand, including assets acquired through business combinations (see note 6) of RUR 597,817 thousand/ USD*22,077 thousand and including assets acquired through finance lease agreements of RUR 140,445 thousand/ USD*5,187 thousand.

Assets with a carrying amount of RUR 25,629 thousand/ USD*947 thousand were disposed of during the six months ended 30 June 2006, resulting in a loss on disposal of RUR 21,085 thousand/ USD*779 thousand, which is included in other operating expense, net.

(b) Leased plant and machinery

The Group leased production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2006 the net book value of leased equipment was RUR 262,468 thousand/ USD* 9,693 thousand (31 December 2005: RUR 136,651 thousand/ USD*5,046 thousand). The leased equipment secures lease obligations.

(c) Capitalisation rate

The Group has capitalized borrowing costs as part of the qualifying assets (refer note 3(a)(i)) in amount of RUR 101,214 thousand/ USD*3,738 thousand using the capitalization rate of 10.5%.

(d) Capital commitments

As at 30 June 2006 the Group is committed to capital expenditure of approximately RUR 1,058,106 thousand/ USD* 39,075 thousand.

(e) Security

During six months ended 30 June 2006 the Group has obtained a secured bank loan (refer note 12) in the form of letter of credit securing Group’s obligations to foreign suppliers of equipment. The increase in carrying amount of assets used to secure the loan amounted to RUR 386,815 thousand/ USD*14,285 thousand.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

10 Inventories

	Unaudited 30 June 2006 ’000 RUR	31 December 2005 ’000 RUR	Unaudited 30 June 2006 ’000 USD*	Unaudited 31 December 2005 ’000 USD*
Raw materials and consumables	200,811	171,811	7,416	6,345
Advance shaft mine drifting	95,374	-	3,523	-
Work in progress	78	943	3	35
Finished goods and goods for resale	733,597	849,018	27,091	31,353
	1,029,860	1,021,772	38,033	37,733

In 2006 the Group started to apply new production equipment and technology for development and extraction on its shaft mines. As a result, the process coal extraction has changed in terms of allocation of time and effort between coal body preparation (drifting) and extraction steps as well as in terms of overall efficiency.

Starting from 2006 the Group prepares (drifts) for subsequent extraction substantially larger portions of coal reserves (coal fields) at a time. This implies significant costs to be incurred at the stage of preparation to extraction and extraction being delayed unless the drifting process is finished. In previous years the Group generally mined within several smaller coal fields striving to keep them of different mining stages so that the overall mine preparation and extraction costs were stable for the whole financial period.

The financial impact of the change in process resulted in increase in inventories related to capitalized drifting costs. These costs will be written off to cost of production pro-rata volumes of coal extracted within the prepared coal field.

11 Equity

(a) Dividends

In accordance with Russian legislation the Parent Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. As of 30 June 2006 the Parent Company had cumulative retained earnings, including the loss for the period, of RUR 3,735,485 thousand/ USD* 137,948 thousand (31 December 2005: RUR 3,948,140 thousand/ USD*145,801 thousand).

In March 2006 the Group has paid annual dividend of RUR 33.32 per share totaling RUR 333,200 thousand/ USD*12,305 thousand.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

11 Equity, continued

(b) Earnings per share

Subsequent to the balance sheet date, in July 2006, the Parent Company has issued 1,500,000 ordinary shares for 38 USD per share (refer note 15). Giving the effect that the issue was finalized before this financial information was authorized for issue the calculation of basic and diluted earnings per share for the six months ended was based on the increased number of shares.

	Unaudited ’RUR	**Unaudited ’USD***
Net profit for six months ended 30 June 2006	35,285,000	1,303,000
Number of shares after new issue	11,500,000	11,500,000
Earnings per share	3.07	0.11

12 Loans and borrowings

The following loans and borrowing (non-current and current) were issued and repaid during the six months ended 30 June 2006:

’000 RUR	**Currency**	**Nominal interest rate**	**Effective interest rate**	**Face value**	**Carrying amount**	**Year of maturity**
Balance as at 1 January 2006					3,870,924	
New issues						
Secured bank loans	USD	Libor + 2.9%	Libor + 2.9%	386,815	386,815	2009
Unsecured bank loans	Euro	4.9%	4.9%	28,959	29,052	2007
Unsecured bank loans	Euro	Libor + 0.9%	Libor + 0.9%	212,797	213,270	2013
Unsecured bank loans	RUR	10-14%	10-14%	5,936,922	5,942,996	2007
Unsecured bonds	RUR	9.1%	9.5%	1,500,000	1,490,354	2011
Unsecured loans obtained by bank	RUR	5-8%	5-8%	1,811,632	1,813,381	2007
Unsecured loans obtained by bank	RUR	5-8%	5-8%	102,189	109,116	2011
Loans obtained from other companies	RUR	0.5%	13.3%	269,000	252,971	2007
Finance lease liabilities	Euro	11.4%	11.4%	92,217	92,217	2009
Finance lease liabilities	USD	15.2%	15.2%	64,219	64,219	2010
Repayments						
Unsecured bank loans	RUR	10-14%	10-14%	(6,024,187)	(6,164,221)	
Unsecured loans obtained by bank	RUR	5-8%	5-8%	(1,776,991)	(1,776,991)	
Finance lease liabilities	Euro	11.7%	11.7%	(34,956)	(34,956)	
Finance lease liabilities	USD	15.1%	15.1%	(9,859)	(9,859)	
Balance as at 30 June 2006					6,279,288	

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

12 Loans and borrowings, continued

Unaudited '000 USD*	**Currency**	**Nominal interest rate**	**Effective interest rate**	**Face value**	**Carrying amount**	**Year of maturity**
Balance as at 1 January 2006					142,950	
New issues						
Secured bank loans	USD	Libor + 2.9%	Libor + 2.9%	14,285	14,285	2009
Unsecured bank loans	Euro	4.9%	4.9%	1,069	1,073	2007
Unsecured bank loans	Euro	Libor + 0.9%	Libor + 0.9%	7,858	7,876	2013
Unsecured bank loans	RUR	10-14%	10-14%	219,245	219,470	2007
Unsecured bonds	RUR	9.1%	9.5%	55,394	55,037	2011
Unsecured loans obtained by bank	RUR	5-8%	5-8%	66,902	66,967	2007
Unsecured loans obtained by bank	RUR	5-8%	5-8%	3,774	4,030	2011
Loans obtained from other companies	RUR	0.5%	13.3%	9,934	9,342	2007
Finance lease liabilities	Euro	11.4%	11.4%	3,405	3,405	2009
Finance lease liabilities	USD	15.2%	15.2%	2,372	2,372	2010
Repayments						
Unsecured bank loans	RUR	10-14%	10-14%	(222,469)	(227,640)	
Unsecured loans obtained by bank	RUR	5-8%	5-8%	(65,623)	(65,623)	
Finance lease liabilities	Euro	11.7%	11.7%	(1,291)	(1,291)	
Finance lease liabilities	USD	15.1%	15.1%	(364)	(364)	
Balance as at 30 June 2006					231,889	

13 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage 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.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

13 Contingencies, continued

(b) Bankruptcy law

The bankruptcy law in Russia is relatively new, often unclear and subject to interpretation. Application of bankruptcy procedures in practice is often contradictory, and the legality of such procedures is often challenged by different groups of stakeholders.

A part of the assets of the Group was acquired as a result of bankruptcy procedures. This fact might create uncertainty with respect to the title to such assets, which potentially may be subject to challenge by former legal owners of these assets or their shareholders. The effect of such potential challenge could be significant, and materially impact the financial position of the Group.

(c) 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.

(d) Environmental contingencies

The Group is obligated to undertake certain environmental remediation activities to ensure site restoration of coal extraction mines in the Kemerovo and Belovo regions. In accordance with the permission granted by the regional authorities, the Group utilizes production waste to fill the mines where this waste does not exceed a prescribed toxicity level. Group management believes that the future costs associated with the restoration of the mines will not be material. These costs, and other environmental compliance costs associated with air and water pollution are included in the normal operating expenses of the Group as they are incurred.

Environmental regulations are currently under consideration in the Russian Federation and the Group is continuously evaluating its obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, management believes that there are no material unrecorded liabilities or contingencies, which could have a significant adverse effect on the operating results and / or financial position of the Group.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

14 Related party transactions

(a) Control relationships

The Parent Company's ultimate controlling party is Mr. Dobrov A.P.

(b) Transactions with management and close family members

(i) Management remuneration

Key management received the following remuneration during six months ended 30 June 2006, which is included in administrative costs:

	Unaudited '000 RUR	Unaudited '000 USD*
Salaries, bonuses and related taxes	38,833	1,434

(ii) Other transactions

Loans to executive directors as at 30 June 2006 amounting to RUR 424,539 thousand/ USD* 15,678 thousand (31 December 2005: RUR 93,890 thousand/ USD* 3,467 thousand) are included in "trade and other receivables". The loans bear interest of 6%.

Loans obtained by Group bank KB Belon from directors and key management as at 30 June 2006 amounted to RUR 141,609/ USD*5,229 (31 December 2005: RUR 126,293 thousand/ USD* 4,664 thousand).

(c) Transactions with other related parties

Related parties comprise the shareholders of the Parent Company and all other companies in which those shareholders, either individually or together, have a controlling interest or significant influence.

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

Sales with related parties for the six months ended 30 June 2006 were as follows:

	Unaudited '000 RUR	Unaudited '000 USD*
Sales of goods	46,181	1,705

Purchases of raw materials and services from related parties for the six months ended 30 June 2006 were as follows:

	Unaudited '000 RUR	Unaudited '000 USD*
Purchases of services	16,917	625

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*

14 Related party transactions, continued

Trade and other receivables owing by related parties at the end of the year were as follows:

	Unaudited 30 June 2006	**31 December 2005**	**Unaudited 30 June 2006**	**Unaudited 31 December 2005**
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
Receivables from associates	6,441	6,823	238	252

Loans and trade and other payables owing to related parties as at 30 June 2006 were as follows:

	Unaudited 30 June 2006	**31 December 2005**	**Unaudited 30 June 2006**	**Unaudited 31 December 2005**
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
Payables to associates	1,518	3,058	56	113
Loan from associate	22,309	-	824	-

15 Events subsequent to the balance sheet date

In July 2006, the Parent Company has issued 1,500,000 ordinary shares for 38 USD per share. Total consideration excluding related arrangement expenses amounted to approximately RUR 1,425,000 thousand/ USD*52,624 thousand. The shares were distributed among various investors during the initial public offering of the Company’s shares.

* *The USD equivalent figures are provided for information purposes only and do not form part of the condensed consolidated interim financial statements – refer note 2(d).*