OAO KOKS

Special purpose IFRS consolidated financial information

For the year ended 31 December 2004

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AUDITORS' REPORT

To the Shareholders and Board of Directors of OAO KOKS

1 We have audited the accompanying preliminary special purpose IFRS consolidated balance sheet of OAO Koks (the “Company”) and its subsidiaries (the “Group”) as at 31 December 2004, and the related consolidated statements of income, cash flows and of changes in equity for the year then ended (hereinafter referred to as "special purpose financial information"). This special purpose financial information is the responsibility of the Group’s management. It has been prepared as part of the Group’s conversion to International Financial Reporting Standards (IFRS). Our responsibility is to express an opinion on this special purpose financial information based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the special purpose financial information. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the special purpose financial information as at 31 December 2004 has been prepared, in all material respects, in accordance with the basis set out in Note 2, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

4 Without qualifying our opinion, we draw your attention to Note 2.1, which explains why there is a possibility that the accompanying special purpose financial information may require adjustment before constituting the final comparative 2004 IFRS figures. Moreover, we draw your attention to the fact that, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, and cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the Group’s financial position, results of operations, and cash flows in accordance with IFRS.

5 Without qualifying our opinion, we draw your attention to Note 23. The Group had extensive transactions with related parties, because of these relationships, it is possible that the terms of these transactions are not the same as those that would have resulted from transactions with unrelated parties.

Moscow, Russian Federation
16 September 2005

(in thousands of Russian Roubles unless otherwise stated)

	Note	31 December 2004	1 January 2004
ASSETS			
Non-current assets:			
Property, plant and equipment	5	4,837,385	3,198,116
Goodwill	22	443,645	-
Investments in associates	6	478,935	-
Available-for-sale investments	7	748,467	932,410
Deferred tax asset	21	114,823	111,517
Other non-current assets		25,842	23,516
Total non-current assets		**6,649,097**	**4,265,559**
Current assets:			
Inventories	8	1,014,092	274,334
Financial assets at fair value	9	848,765	335
Trade and other receivables	10	2,104,511	397,082
Restricted cash	11	300,000	-
Cash and cash equivalents	11	1,283,184	2,523
Total current assets		**5,550,552**	**674,274**
Total assets		**12,199,649**	**4,939,833**
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	213,427	213,427
Treasury shares		-	(696)
Retained earnings		8,349,679	2,774,020
		8,563,106	**2,986,751**
Minority interest		**168,694**	**52,215**
Total equity		**8,731,800**	**3,038,966**
LIABILITIES			
Non-current liabilities:			
Restoration liability	13	268,708	338,050
Deferred tax liability	21	435,626	399,435
Total non-current liabilities		**704,334**	**737,485**
Current liabilities:			
Trade and other payables	15	716,315	356,934
Income tax payable		184,329	35,489
Taxes payable	16	475,085	111,692
Provision for tax claims	17	587,762	76,953
Short-term loans and borrowings	14	800,024	582,314
Total current liabilities		**2,763,515**	**1,163,382**
Total liabilities		**3,467,849**	**1,900,867**
Total equity and liabilities		**12,199,649**	**4,939,833**

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Zubitskiy E. B.
General director of management company
Industrial Metal Holding

Bocharova L.L.
Chief Accountant

16 September 2005

The accompanying notes on pages 7 to 26 are an integral part of this special purpose financial information.

(in thousands of Russian Roubles unless otherwise stated)

	Note	Year ended 31 December 2004
Revenue	18	15,033,345
Cost of sales	19	(6,183,352)
Gross profit		**8,849,993**
Distribution costs		(88,996)
General and administrative expenses	20	(721,953)
Taxes other than income tax		(225,509)
Other operating expenses		(171,493)
Operating profit		**7,642,042**
Interest income		80,327
Interest expense		(92,532)
Gains on financial assets at fair value		55,203
Share of net loss of associates	6	(44,030)
Profit before taxation		**7,641,010**
Income tax expense	21	(2,076,150)
Profit for the year		**5,564,860**
Attributable to:		
Equity holders of the Company		5,575,585
Minority interest		(10,725)
Profit for the year		**5,564,860**

The accompanying notes on pages 7 to 26 are an integral part of this special purpose financial information.

(in thousands of Russian Roubles unless otherwise stated)

	Note	Year ended 31 December 2004
Cash flows from operating activities		
Profit before taxation		**7,641,010**
Adjustments for:		
Depreciation	5	209,872
Loss on disposal of property, plant and equipment		34,229
Interest income		(80,327)
Interest expense		92,532
Gains on financial assets at fair value		(55,203)
Reversal of obsolete stock provision		(7,810)
Provisions for tax claims other than income tax		158,577
Share of net loss of associates		44,030
Other effects		63,264
Operating cash flows before working capital changes		**8,100,174**
Changes in working capital (excluding the effects of acquisition)		
Increase in trade and other receivables		(736,533)
Increase in inventories		(336,244)
Decrease in trade and other payables		(111,163)
Increase in taxes payable		354,231
Restoration expenses	13	(93,726)
Cash generated from operations		**7,176,739**
Income taxes paid		(1,817,925)
Interest paid		(6,781)
Net cash generated from operating activities		**5,352,033**
Cash flows from investing activities		
Purchase of property, plant and equipment (PP&E)		(1,503,589)
Proceeds from the sale of PP&E		90,450
Net purchase of financial assets at fair value		(793,227)
Acquisition of subsidiaries, net of cash acquired	1,22	(450,195)
Acquisition of associates	6	(259,291)
Change in restricted cash		(300,000)
Loans given	10	(1,172,775)
Loans repaid	10	313,605
Interest received		66,158
Net cash used in investing activities		**(4,008,864)**
Cash flows from financing activities		
Proceeds from borrowings		1,048,433
Repayment of borrowings		(936,827)
Net cash generated from financing activities		**111,606**
Net increase in cash and cash equivalents		**1,454,775**
Net cash and cash equivalents at the beginning of the year , including		**(171,591)**
Cash and cash equivalents	11	2,523
Overdraft	14	(174,114)
Net cash and cash equivalents at the end of the year	11	**1,283,184**

The accompanying notes on pages 7 to 26 are an integral part of this special purpose financial information.

(in thousands of Russian Roubles unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital	**Treasury shares**	**Retained earnings**	**Minority interest**	**Total equity**
Balance at 1 January 2004	**213,427**	**(696)**	**2,774,020**	**52,215**	**3,038,966**
Sale of treasury shares	-	696	74	-	**770**
Profit/(loss) for the year	-	-	5,575,585	(10,725)	**5,564,860**
Business combinations (Note 22)	-	-	-	127,204	**127,204**
Balance at 31 December 2004	**213,427**	-	**8,349,679**	**168,694**	**8,731,800**

The accompanying notes on pages 7 to 26 are an integral part of this special purpose financial information.

(in thousands of Russian Roubles unless otherwise stated)

1 The KOKS Group and its operations

OAO Koks ("the Company" or "Koks") was established as a state owned enterprise in 1924. It was incorporated as an open joint stock company in the Russian Federation on 30 July 1993 as part of the Russian Federation's privatization programme. The registered office of the Company is Stakhanovskaya ulitsa 1, 650021, Kemerovo, Russian Federation.

OAO Koks and its subsidiaries ("the Group") principal activities include coal mining, production of coke and coal concentrate. The Group's manufacturing facilities are primarily based in the city of Kemerovo and in the Kemerovo region of the Russian Federation. The products are sold in the Russian Federation and abroad. All companies of the Group are incorporated under the Laws of the Russian Federation.

At 31 December 2004, 95% of the Company was ultimately controlled through various holding companies by Mr. Zubitskiy and his family members.

The Group main subsidiaries are:

				Percentage voting interest	
Name	**Country of incorporation**	**Activity**	**Note**	**31 December 2004**	**1 January 2004**
OAO Vanadiy Tula	Russia	Vanadium production	(1)	52%	18%
OAO Mill Berezovskaya	Russia	Production of coal concentrate		61%	61%
OOO Trade House Kemerovo-Koks	Russia	Trade activities		90%	90%
OOO Uchastok Koksoviy	Russia	Coal mining		100%	100%
OOO Gornyak	Russia	Coal mining	(2)	100%	76%
ZAO Inertnik	Russia	Production of inert dust		69%	69%
ZAO Sibirskie resursy	Russia	Coal mining		74%	74%
OOO Butovskaya mine	Russia	Coal mining		100%	63%
OOO Kruglogorski GOK	Russia	Iron ore mining	(3)	70%	0%

(1) During 2004 the Group through series of purchase transactions acquired 29 percent (33 percent of voting shares) of OAO Vanadiy Tula from related and third parties for a total consideration of RR 406,246 thousand. As a result of these transactions the Group increased its shareholding in OAO Vanadiy Tula to 44 percent (52 percent of voting shares). See Note 22.

(2) During 2004 the Group through series of purchase transactions acquired 24 percent of OOO Gornyak from various individuals for a total consideration of RR 50,767 thousand. As a result of these transactions the Group increased its shareholding in OOO Gornyak to 100 percent.

(3) In October 2004 the Group acquired 70 percent of OOO Kruglogorskiy GOK from various individuals for a total consideration of RR 31,778 thousand.

2 Summary of significant accounting policies

2.1. Basis of preparation

This special purpose financial information is prepared solely for the use of management of the Group in order to assist the Group in its conversion to International Financial Reporting Standards (IFRS) for the year ending 31 December 2005.

The financial statements of the Company as at 31 December 2003, which were issued by the Company on 30 March 2004 were prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation (Russian GAAP). These were considered to be the previous generally accepted accounting principles (GAAP) as defined in IFRS 1 "First-time Adoption of International Financial Reporting Standards" for the preparation of the preliminary opening IFRS balance sheet as at 1 January 2004. The Company also issued on 28 March 2005 its financial statements as at 31 December 2004 in accordance with Russian GAAP. Russian GAAP differs in certain respects from IFRS. In preparing this special purpose financial information management has used its best knowledge of the expected standards and interpretations, facts and circumstances, and accounting policies that will be applied when the Group prepares its first full IFRS financial statements as at 31 December 2005.

Although this special purpose financial information is based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, this may change. For example, amended or additional standards or interpretations may be issued by the International Accounting Standards Board. Therefore, until the Group prepares its first full IFRS financial statements and establishes its transition date as defined by IFRS 1, the possibility cannot be excluded that the accompanying preliminary IFRS financial information may have to be subsequently adjusted.

Reconciliations and descriptions of the adjustments from the 2003 and 2004 Russian GAAP financial statements to IFRS equity as of 1 January 2004 and 31 December 2004 and reconciliation of the 2004 Russian GAAP financial statements to 2004 IFRS profit and loss are provided in Note 4.

Because the Group is converting to IFRS for the first time, no prior period comparative figures are presented in the accompanying special purpose financial information. As IFRS requires comparative figures to be presented, this special purpose IFRS financial information is not considered to represent a complete set of financial statements.

2.2. Critical accounting estimates and assumptions

The preparation of special purpose financial information in conformity with IFRS requires management to make certain critical estimates and assumptions that affect the reported results and financial position. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of property, plant and equipment (PP&E)

The Group has recorded property, plant and equipment at fair value in its transition balance sheet. Significant judgement is required in estimating the fair values of such assets. If management's estimates of the fair value of PP&E were reduced by 10%, retained earnings would decrease by RR 133,360 thousand. An increase of 10% in fair value would increase retained earnings by the same amount.

(b) Estimated useful lives of property, plant and equipment

The Group applies a range of useful lives to the buildings, installations, plant and equipment, transport and other assets which are classified as property, plant and equipment. Significant judgement is required in estimating the useful life of such assets. If management's estimates of the useful life of all assets were reduced by 10%, profit before tax for the year would decrease by RR 24,522 thousand. An increase of 10% in useful lives would increase profit for the year by the same amount.

(c) Deferred taxation

Significant judgment is frequently required in estimating provisions for deferred taxes. Increases in management's estimates of the Group's net deferred tax liabilities as at 31 December 2004 by 10% would reduce profit for the year by RR 29,394 thousand. A 10% decrease in those estimates would increase profit for the year by the same amount.

(d) Provision for tax claims

Management assessed based on its judgement and experience certain provisions for tax claims. Provisions mostly related to deductibility of the certain types of expenses for tax purposes and recovery of the outstanding amount of value added tax for purchased inventory. Significant judgement required in determination of the probability of the future outflows for each case, because Russian tax legislation is subject to varying interpretations (see Note 24). Increases in management's estimates of the Group's provision for tax claims as at 31 December 2004 by 10% would reduce profit for the year by RR 38,509 thousand. A decrease in those estimates would increase profit for the year by the same amount.

2.3. Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the Russian GAAP financial statements for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in this financial information.

2.4. Group accounting

(a) Subsidiary undertakings

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Business combinations involving entities under common control

In a business combinations involving entities under common control, when all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory, any excess of the consideration paid by the acquirer over the carrying amounts of acquired assets and liabilities recoded in the financial statements of the previous parent are recorded as a direct adjustment to the Group's equity.

(in thousands of Russian Roubles unless otherwise stated)

2.5. Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Roubles, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

2.6. Property, plant and equipment

As discussed in Note 2.1, the Group has adopted IFRS for the first time effective 1 January 2004. The Group has elected to utilize exemptions available for first-time adopters under IFRS 1 and has recorded property, plant and equipment at fair value in its transition balance sheet. The difference between the fair value of the fixed assets and construction in progress and their cost under the Russian GAAP as of 1 January 2004 is recorded as retained earnings at that date (see Note 4).

Subsequent to 1 January 2004, additions to property, plant and equipment are recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs, including overhaul expenses, are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	Useful life (years)
Buildings	60-80
Installations	20-60
Plant and equipment	10-30
Transport	10-20
Other	5-25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on disposals are determined by comparing proceeds to the carrying amount. These are included in the statement of income.

2.7. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised as a separate caption on the balance sheet. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.9. Investments

The Group classifies its investments as (a) financial assets at fair value, (b) loans and receivables, (c) held-to-maturity investments, and (d) available-for-sale financial assets. Classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 2.11).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value' category are included in the statement of income in the period in which they arise. Since the majority of the Group's investments are not publicly traded and no reliable method of fair value estimation exists for those investments, these investments are excluded from fair value valuation.

Since the majority of the Group's investments classified as available-for sale are equity instruments which are not publicly traded and no reliable method of fair value estimation exists for those investments, these investments are measured at cost less impairment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are recognized in the statement of income.

Unquoted available-for-sale equity investments are reviewed for impairment losses at every balance sheet date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash inflows. The discount rate applied is based upon the Group's weighted average cost of capital with appropriate adjustment for the risks associated with the investment under assessment. When the level of information available to calculate the net present value of expected future cash inflows makes this exercise unworkable, management uses different valuation techniques (such as net assets test) to estimate whether there is objective evidence of impairment and to determine the likely amount of impairment, if any. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

2.10.Inventories

Inventories are stated at the lower of cost or net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.11.Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of income.

2.12.Value added tax

Value added tax (VAT) recoverable balances become eligible for recovery and are transferred to the VAT receivable category upon settlement of related accounts payable for operating expenditures, and upon commissioning of capital assets into operation in case of expenditures of a capital nature. VAT receivable is available for offset against VAT payable (output VAT), or other tax liabilities due to the federal authorities, or for a cash refund from the federal budget.

2.13.Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.14.Share capital

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

2.15.Dividends

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

2.16.Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method. Borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17.Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the special purpose financial information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2.18.Employee benefits

The Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

2.19.Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are reassessed annually and changes in the provisions resulting from the passage of time are reflected in the statement of income each year within interest expense. Other changes in provisions, related to a change in the expected pattern of settlement of the obligation or in the estimated amount of the obligation or changes in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of asset retirement obligations, reflected in the statement of income.

Provision for restoration liability is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pre-tax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognized as interest expense. Changes in the provision, reassessed at each balance sheet date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

2.20.Revenue recognition

Revenue comprises the fair value for the sale of goods (primarily coke), net of value-added tax, custom duties, rebates and discounts and after elimination of sales within the Group. Revenue is recognised when the risks and rewards of ownership are transferred to the customer.

3 Basis of transition to IFRS

3.1. Application of IFRS 1

The Group’s financial statements for the year ended 31 December 2005 will be the first annual financial statements that comply with IFRS. This special purpose financial information has been prepared as described in Note 2.1 by applying the provisions of IFRS 1.

The Group’s preliminary transition date is 1 January 2004 and, accordingly, it has prepared its opening IFRS balance sheet at that date. The reporting date of this special purpose consolidated financial information is 31 December 2004.

(in thousands of Russian Roubles unless otherwise stated)

In preparing this special purpose consolidated financial information in accordance with IFRS 1, the Group has applied certain of the optional exemptions from full retrospective application of IFRS that are expected to be effective at 31 December 2005.

3.2. Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from retrospective application.

(a) Fair value as deemed cost exemption

The Group has elected to measure property, plant and equipment at fair value as at 1 January 2004. The application of this exemption is detailed in Notes 4 and 5.

(b) Provision for restoration liability included in the cost of property, plant and equipment exemption

The Group recognises a provision in respect of environmental liabilities relating to restoration of coal mines. The exemption provided in IFRS 1 from the full retrospective application of IFRIC 1 has been applied to determine the adjustment to PP&E in respect of the obligation to restore existing coal mines. The Group has elected to apply the exemption for provision for restoration liability. The application of this exemption is detailed in Note 4 (f).

4 Effect of the transition from Russian GAAP to IFRS on the Group's financial position and financial performance

Reconciliation of shareholders equity:

	Note	31 December 2004	1 January 2004
Company equity under Russian GAAP		**7,727,042**	**1,807,962**
Fair value adjustment on property, plant and equipment	(a)	1,333,596	1,333,596
Additional depreciation charge	(a)	(64,334)	-
Consolidation of subsidiaries previously excluded from consolidation under Russian GAAP	(b)	162,638	159,049
Minority interest	(b)	168,694	52,215
Gain on financial instruments at fair value	(c)	34,568	-
Deferred tax adjustment	(d)	(295,634)	(299,107)
Adjustment under IAS 29	(e)	187,517	187,517
Provision for restoration liability	(f)	(74,168)	(37,997)
Provision for tax claims	(g)	(376,097)	(76,953)
Provision for obsolescence of inventory	(h)	(31,718)	(39,528)
Provision for impairment of loan receivable	(i)	(27,278)	(27,278)
Effect of other adjustments		(13,026)	(20,510)
Consolidated equity under IFRS		**8,731,800**	**3,038,966**

(in thousands of Russian Roubles unless otherwise stated)

Reconciliation of the net profit for the year ended 31 December 2004:

	Note	Year ended 31 December 2004
Net profit under Russian GAAP		**5,918,328**
Additional depreciation charge	(a)	(64,334)
Consolidation of subsidiaries previously excluded from consolidation under Russian GAAP	(b)	3,589
Minority interest	(b)	(10,725)
Gain on financial instruments at fair value	(c)	34,568
Deferred tax adjustment	(d)	3,473
Provision for tax claims	(g)	(299,144)
Provision for restoration liability	(f)	(36,171)
Change in provision for obsolescence of inventory	(h)	7,810
Effect of other adjustments		7,466
Profit for the year under IFRS		**5,564,860**

Reconciliation of property, plant and equipment:

	Note	31 December 2004	1 January 2004
Carrying value under Russian GAAP		**1,417,772**	**793,368**
Fair value adjustment	(a)	1,333,596	1,333,596
Additional depreciation charge	(a)	(64,334)	-
Consolidation of subsidiaries previously excluded from consolidation under Russian GAAP	(b)	1,715,750	683,720
Provision for restoration liability	(f)	324,934	348,144
Capitalisation of development costs	(j)	129,980	47,266
Effect of other adjustments		(20,313)	(7,978)
Carrying value under IFRS		**4,837,385**	**3,198,116**

Reconciliation of charter capital:

	Note	31 December 2004	1 January 2004
Charter capital under Russian GAAP		**33,005**	**33,005**
Indexation of share capital under IAS 29	(e)	180,422	180,422
Charter capital under IFRS		**213,427**	**213,427**

(a) This is the difference between the fair value of the property, plant and equipment and its cost under Russian GAAP as of 1 January 2004.

Additional depreciation charge is due to fair value adjustment and revision of the assets' useful lives.

(b) This adjustment represents the effect of consolidation of subsidiaries previously excluded from consolidation under Russian GAAP.

(c) Effect of change in fair value of financial assets at fair value, according to IAS 39 "Financial instruments". Adjustment is due to different measurement criteria of financial instruments between Russian GAAP and IFRS.

(d) Deferred income tax adjustment is the additional recognition of deferred income tax liability in accordance with IAS 12 "Income taxes" due to different measurement criteria of assets and liabilities under Russian GAAP and IFRS, see Note 21.

(e) As discussed in Note 2.3, IFRS require restatement to the measurement unit current at the balance sheet date while Russian economy was considered hyperinflationary. No similar adjustments were required under Russian GAAP.

(in thousands of Russian Roubles unless otherwise stated)

(f) The adjustment is a result of the recognition of provision for restoration liability according to IAS 37 “Provisions, contingent liabilities and contingent assets” (IAS 37). See Note 13.

(g) The adjustment is the result of accrual of the provision for tax claims as it meets the recognition criteria for provisions under IAS 37, see Note 17.

(h) Provision created for the difference between net realisable value of inventory and its carrying value under Russian GAAP, see Note 8.

(i) The adjustment arises because the measurement of impairment provisions for loans receivable under Russian GAAP is different from IFRS, see Note 10.

(j) Expenses directly attributable to mine development (purchase of licences) were capitalized according to IAS 16 “Property, plant and equipment”.

5 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land	Buildings	Installations	Plant and equipment	Transport	Other	Assets under construction	Total
Cost								
Cost at 1 January 2004	**374,210**	**743,835**	**346,924**	**2,174,857**	**219,213**	**536,012**	**518,158**	**4,913,209**
Additions through acquisitions	-	155,452	37,827	133,828	8,757	20,936	43,021	399,821
Additions	373	100,779	2,002	283,611	140,729	101,667	980,183	1,609,344
Transfers	-	8,383	61,716	88,186	10,360	13,984	(182,629)	-
Disposals	-	(3,144)	(5,409)	(26,773)	(9,735)	(86,662)	(19,643)	(151,366)
Cost at 31 December 2004	**374,583**	**1,005,305**	**443,060**	**2,653,709**	**369,324**	**585,937**	**1,339,090**	**6,771,008**
Accumulated depreciation								
Accumulated depreciation at 1 January 2004	-	**(323,719)**	**(180,151)**	**(1,138,695)**	**(29,683)**	**(42,845)**	-	**(1,715,093)**
Depreciation charges	-	(10,416)	(10,882)	(153,856)	(43,556)	(26,507)	-	(245,217)
Accumulated depreciation related to disposed assets	-	1,577	2,626	20,104	2,380	-	-	26,687
Accumulated depreciation at 31 December 2004	-	**(332,558)**	**(188,407)**	**(1,272,447)**	**(70,859)**	**(69,352)**	-	**(1,933,623)**
Net Book Value at 1 January 2004	**374,210**	**420,116**	**166,773**	**1,036,162**	**189,530**	**493,167**	**518,158**	**3,198,116**
Net Book Value at 31 December 2004	**374,583**	**672,747**	**254,653**	**1,381,262**	**298,465**	**516,585**	**1,339,090**	**4,837,385**

Depreciation expense of RR 205,440 thousand was included in cost of sales, RR 4,431 thousand in administrative expenses and RR 35,346 thousand was capitalized during the year.

(in thousands of Russian Roubles unless otherwise stated)

6 Investments in associates

	Year ended 31 December 2004
Balance at 1 January	**-**
Reclassification from available - for - sale investments	186,835
Share of net loss of OAO Vanadiy Tula for the year	(49,685)
Reclassification to subsidiary	(137,150)
Acquisition of OAO Polema	473,280
Share of net profit of OAO Polema for the year	5,655
Balance at 31 December	**478,935**

During 2004 through series of purchase transactions the Group acquired from related and third parties a 41 percent ownership interest (43 percent of voting shares) of OAO Polema (chrome production, incorporated in Russia) of which 19 percent (20 percent of voting shares) was acquired through the purchase of OAO Vanadiy Tula.

OAO Polema assets and liabilities as at 31 December 2004 were RR 649,544 thousand and RR 365,714 thousand, respectively. Revenues and net profit for year ended 31 December 2004 were RR 514,810 thousand and RR 27,569 thousand, respectively.

Investments in associates at 31 December 2004 include goodwill of RR 379,422 thousand. Included in share of net loss of associates is a net loss incurred by OAO Vanadiy Tula of RR 49,685 thousand.

7 Available-for-sale investments

	Year ended 31 December 2004
Balance at 1 January	**932,410**
Additions through acquisition of OAO Vanadiy Tula	12,316
Reclassification to investments in associates	(186,835)
Disposals	(9,424)
Balance at 31 December	**748,467**

Included within non-current available-for-sale investments is a 17 percent interest in OAO Tulachermet with a carrying value RR 731,224 thousand as at 31 December 2004 (1 January 2004: RR 725,840 thousand).

8 Inventories

	31 December 2004	1 January 2004
Raw materials (coal)	214,335	91,760
Raw materials (for vanadium production)	254,369	-
Materials and supplies	452,146	170,483
Finished products	93,242	12,091
Total inventory	**1,014,092**	**274,334**

Materials and supplies are recorded at net realisable value, net of obsolescence provision of RR 31,718 thousand as at 31 December 2004 (1 January 2004: RR 39,528 thousand).

9 Financial assets at fair value

	31 December 2004	1 January 2004
Marketable securities	753,245	-
Non-convertible RR denominated bonds	95,520	335
Total financial assets at fair value	**848,765**	**335**

(in thousands of Russian Roubles unless otherwise stated)

Marketable securities include equity investments in various Russian listed companies' shares and bonds including a RR 593,600 thousand investment in OAO "Bank of Moscow".

As at 31 December 2004 included in non – convertible RR denominated bonds are bonds of OAO Tulachermet totaling RR 80,320 thousand (see Note 23).

10 Trade and other receivables

	31 December 2004	1 January 2004
RR denominated loans to related parties (see Note 23)	243,635	-
Trade receivables	467,548	95,323
VAT recoverable	843,034	192,978
Prepayments to suppliers	172,951	48,040
Other RR denominated loans	217,035	-
Other receivables	160,308	60,741
Total trade and other receivables	**2,104,511**	**397,082**

Other RR denominated loans are recorded net of provision for impairment RR 27,278 thousand and RR 27,278 thousand as at 31 December 2004 and 1 January 2004, respectively.

At 31 December 2004 other receivables include interest receivable of RR 14,169 thousand (1 January 2004: nil).

11 Cash and cash equivalents

	31 December 2004	1 January 2004
RR bank deposits	1,123,500	-
RR denominated cash on hand and balances with banks	159,684	2,468
Foreign currency denominated balances with bank	-	55
Total cash and cash equivalents	**1,283,184**	**2,523**

The effective interest rate on RR bank deposits is 10% and linked to actual maturity of the deposit. Average maturity period is 6 months, but the Company is able to withdraw the money from the bank accounts subject to prior 30 day notice.

Restricted cash

Restricted cash of RR 300,000 thousand consist of deposits without right of early withdrawal.

12 Shareholders' equity

Total number of outstanding shares comprises:

	Number of shares			
	Ordinary shares	Treasury shares	Share capital	Treasury shares
At 1 January 2004	**1,650,232**	**(5,381)**	**213,427**	**(696)**
Sale of treasury shares		5,381		696
At 31 December 2004	**1,650,232**	**-**	**213,427**	**-**

(in thousands of Russian Roubles unless otherwise stated)

As at 31 December 2004 the authorised number of ordinary shares is 1,650,232 (1 January 2004: 1,650,232), with a nominal value per share of RR 129.33. All authorised shares have been issued and fully paid.

Russian GAAP financial statements of the Company are the basis for profit distribution and other appropriations. The basis of distribution is defined by Russian legislation as net profit, as calculated in accordance with Russian GAAP. For 2004, the statutory profit for the Company was RR 5,918,328 thousand and accumulated profit for previous periods totalled RR 1,775,709 thousand. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in this special purpose financial information. No dividends were declared in 2004 in respect of 2003 earnings.

13 Provision for restoration liability

Movements in the provision for restoration liability during the year were as follows:

	Year ended 31 December 2004
Balance at 1 January	**338,050**
Restoration costs incurred during the year	(93,726)
Increase in liability due to passage of time	24,384
Balance at 31 December	**268,708**

On 31 August 2002 the Group received a license #KEM00943PP to restore the Vakhrusheva coal mine. The license holder has the right to extract coal of up to 600 thousand tonnes annually. The license expires in 2006 and management intends to extend the license through 2018. Management has estimated the restoration liability through 2018 based upon their interpretation of the license agreement and the environmental legislation and, in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”.

The provision for restoration liability represents the net present value of the estimated future obligation to restore land related to the Vakhrusheva coal mine. The discount rate used to calculate the net present values of the restoration liability at 31 December 2004 was 7.21 percent (1 January 2004: 7.21 percent), which is a pre-tax real rate and considered appropriate to the Group in the economic environment of the Russian Federation at the balance sheet date.

The corresponding net book value of the related asset of RR 324,934 thousand at 31 December 2004 (1 January 2004: RR 348,144 thousand) is recorded as part of other property, plant and equipment.

14 Short – term loans and borrowings

Loans and borrowings by type may be analysed as follows:

	31 December 2004	**Effective interest rate**	**1 January 2004**	**Effective interest rate**
RR denominated bank loans, variable	-	-	315,000	11%
RR denominated bank overdraft, fixed	-	-	100,000	11%
RR denominated bank overdraft, variable	-	-	74,114	10%
Other RR denominated borrowings, fixed	572,000	7%	-	-
USD denominated bank loans, fixed	228,024	7%		
Current portion of RR denominate long-term loans, fixed	-	-	93,200	24%
Total short-term loans borrowings	**800,024**		**582,314**	

As at 31 December 2004, short-term debt totaling RR 223,584 thousand included above was secured with a floating charge over assets of the Group. As separate loan agreements do not specify individual pledged assets, the carrying amount of pledged assets is not disclosed.

(in thousands of Russian Roubles unless otherwise stated)

15 Trade and other payables

	31 December 2004	1 January 2004
Trade payables	557,486	160,194
Advances from customers	67,068	21,796
Wages and salaries payable	47,043	33,728
Promissory notes payable	30	99,849
Interest payable	7,982	236
Other payables	36,706	41,131
Total trade and other payables	**716,315**	**356,934**

16 Taxes payable

	31 December 2004	1 January 2004
VAT payable	436,464	87,858
Other taxes payable	38,621	23,834
Total taxes payable	**475,085**	**111,692**

17 Provision for tax claims

	As at 31 December 2004				As at 1 January 2004			
	Principal amount	Penalty	Interest	**Total**	Principal amount	Penalty	Interest	**Total**
Income tax	230,847	46,169	52,486	**329,502**	32,000	6,400	3,119	**41,519**
Value added tax	181,167	36,234	40,859	**258,260**	27,310	5,462	2,662	**35,434**
Total	**412,014**	**82,403**	**93,345**	**587,762**	**59,310**	**11,862**	**5,781**	**76,953**

Management has assessed, based on their interpretation of the relevant legislation that certain tax positions taken by the Group may not be sustained, accordingly, at 31 December 2004 and 1 January 2004 the Group recorded a provision for tax claims of RR 587,762 thousand and RR 76,953 thousand, respectively.

Movements in provision for tax claims during the year were as follows:

	Year ended 31 December 2004
Balance at 1 January	**76,953**
Business combination (see Note 22)	175,395
Charged to income statement:	
Taxes other than income tax	158,577
Interest expense	53,621
Income tax (see Note 21)	123,216
Balance at 31 December	**587,762**

18 Revenue

	Year ended 31 December 2004
Domestic sales of coke	12,275,117
Export sales of coke	929,173
Domestic sales of coal concentrate	823,969
Domestic sales of by-products	348,664
Domestic sales of coal processing services	232,067
Sales of vanadium	334,521
Other domestic sales	89,834
Total sales	**15,033,345**

(in thousands of Russian Roubles unless otherwise stated)

19 Cost of sales

	Year ended 31 December 2004
Raw materials and supplies	5,173,273
Wages and salaries including associated taxes	492,709
Depreciation	205,440
Energy	139,631
Purchased services	83,455
Other costs	94,532
Change in balance of finished goods (coke)	(5,688)
Total cost of sales	**6,183,352**

20 General and administrative expenses

	Year ended 31 December 2004
Wages and salaries including associated taxes	138,149
Purchased management services (see Note 23)	523,216
Other purchased services	22,387
Depreciation	4,431
Materials	17,983
Other expenses	15,787
Total general and administrative expenses	**721,953**

21 Income tax expense

	Year ended 31 December 2004
Current income tax expense	1,966,765
Provision for income tax claims (see Note 17)	123,216
Deferred income tax benefit	(13,831)
Income tax expense	**2,076,150**

Profit before taxation for financial reporting purposes is reconciled to tax expense as follows:

	Year ended 31 December 2004
Profit before taxation	**7,641,010**
Theoretical tax charge at statutory rate of 24%	1,833,842
Tax effect of items which are not deductible for taxation purposes:	
Provision for income and other taxes (see Note 17)	174,143
Charity and social payments	27,126
Other non-deductible expenses	41,039
Income tax expense	**2,076,150**

(in thousands of Russian Roubles unless otherwise stated)

Differences between IFRS and Russian statutory tax accounting give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24 percent.

	1 January 2004	Charge to statement of income	Acquisition of subsidiary	31 December 2004
Deferred tax liabilities:				
Property, plant and equipment	398,044	(26,331)	50,149	421,862
Financial instruments at fair value	-	8,287	-	8,287
Inventories	917	3,301	-	4,218
Other	474	785	-	1,259
Total deferred tax liabilities	**399,435**	**(13,958)**	**50,149**	**435,626**
Deferred tax assets:				
Restoration liability	(81,132)	16,642	-	(64,490)
Losses carried forward	(7,155)	(15,103)	-	(22,258)
Inventories	(8,153)	3,715	-	(4,438)
Accounts receivable	(7,271)	(501)	-	(7,772)
Other	(7,806)	(4,626)	(3,433)	(15,865)
Total deferred tax assets	**(111,517)**	**127**	**(3,433)**	**(114,823)**
Net deferred tax liability	**287,918**	**(13,831)**	**46,716**	**320,803**

22 Business combinations

During 2004, the Group, through series of transactions with related and external parties acquired an additional 29 percent ownership interest (33 percent of voting shares) in OAO Vanadiy Tula increasing its ownership interest to 44 percent (52 percent of voting shares). Total consideration was RR 593,081 thousand and was paid during 2003 and 2004. The control was obtained on 7 December 2004, and accordingly, the purchase method of accounting has been applied for this date. The acquired business contributed revenues of RR 334,521 thousand and net loss of RR 92,347 thousand for the period from 7 December 2004 to 31 December 2004. If the acquisition had occurred on 1 January 2004 the Group revenue would have been RR 18,690,390 thousand and profit before taxation would have been RR 7,598,587 thousand.

The goodwill is attributable to expected high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of OAO Vanady Tula.

The preliminary fair value of the assets and liabilities acquired is as follows. These values approximate their IFRS carrying value:

	Fair value
Property, plant and equipment	399,821
Investments in associates	213,989
Available for sale investments	12,316
Inventories	395,703
Trade and other receivables	496,058
Cash and cash equivalents	38,597
Trade and other payables	(462,564)
Taxes payable	(9,161)
Provisions for taxes	(175,395)
Short-term borrowings	(635,660)
Net deferred tax liabilities	(46,716)
Net assets	**226,988**
Minority interest (56 percent)	(127,237)
Net assets acquired	**99,751**

(in thousands of Russian Roubles unless otherwise stated)

Carrying value before acquisition (Note 6)	137,150
Incremental purchase consideration	406,246
Fair value of net assets acquired	(99,751)
Goodwill	**443,645**

23 Balances and transactions with related parties

For the purposes of this financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Company and its subsidiaries are ultimately controlled and operated within the vertically integrated metal and coke business operated by the Zubitskiy family.

The Group has significant transactions with related parties under common management and common control. Because of these relationships, it is possible that the Group may have entered into transactions, which unrelated parties might not, and it is possible that terms of these transactions are not the same as those that would have resulted from transactions with unrelated parties.

Balances with related parties as of 31 December 2004 and 1 January 2004 and transactions with related parties for the year ended 31 December 2004 consist of the following:

Balances with related parties

	31 December 2004	1 January 2004
Trade and other receivables:		
Trade receivables	361,468	39,929
Loans given to related parties	243,635	-
Other receivables	33,812	5,098
Non-convertible RR denominated bonds	80,320	-
Current accounts payable:		
Trade payables	412,120	2,698
Promissory notes payable	-	50,500

As at 31 December 2004, the weighted average interest rate on Russian rouble denominated loans to related parties was 10.5 percent. These related party loans are unsecured and repayable in 2005. Included in loans given to related parties are loans receivable from associate of RR 166,000 thousand with a corresponding interest receivable of RR 14,169 thousand.

Transactions with related parties

	Year ended 31 December 2004
Sales of goods:	
Sales of coke and coal concentrate	8,987,634
Sales of vanadium	246,825
Purchases of goods and services:	
Purchase of management services	523,216
Purchase of raw materials	329,948
Purchase of other services	23,766
Purchase of goods	1,705

Key management personnel payments

Payments to key management personnel included in general and administrative expenses in the statement of income amounted to RR 13,220 thousand for the year ended 31 December 2004.

Guarantees issued

At 1 January 2004 and 31 December 2004, guarantees issued to related parties totalled RR 411,182 thousand and RR 394,241 thousand, respectively.

24 Contingencies, commitments and operating risks

Contractual commitments and guarantees

As at 31 December 2004, the Group had no material contractual commitments for the purchase of property, plant and equipment.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2004 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in this special purpose financial information.

Insurance policies

At 31 December 2004 the Group held limited insurance policies in relation to its assets and operations, or in respect of public liability or other insurable risks.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as plaintiff and defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in this special purpose financial information.

Licenses

The Group is subject to periodic reviews of its activities by governmental authorities with respect to compliance with the requirements of its coal mining licenses. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the Group's financial position, statements of income or cash flows.

The Group's coal fields are situated on land belonging to the Kemerovo Regional Administration. Licenses are issued by the Russian Ministry of Natural Resources and the Group pays unified production tax to explore and produce coal from these fields.

License holder	Field	Expiry date	Coal reserves: ABC1C2 (in million tonnes)
OOO Gornyak	Abramovsky area of Glushinsky coal field (mine Romanovskya-1)	April 2022	22
OOO Butovskaya mine	Butovskoe-Zapadnoe and Chesnokovskoe areas of Kemerovo coal field (Mine Butovskaya)	January 2014	79
ZAO Sibirskie resursy	Kedrovsko-Krohalevskoe coal field (Mine Vladimirskaya)	March 2021	10
OOO Uchastok Koksoviy	Koksovuy area (Mine Vakhrusheva)	August 2006	7

Management believes the Group has the right to extend its licenses beyond the initial expiration date and intends to exercise this right.

Operating environment of the Group

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

25 Financial risks

Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables and loans receivable. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term borrowings offset by interest-bearing short-term loans receivable.

Fair values

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date. In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

The estimated fair value of financial assets carried at amortised cost is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments. Fair value of these financial assets did not materially differ from their carrying amount at 31 December 2004 and 1 January 2004. At 31 December 2004 and 1 January 2004, the fair value of financial liabilities which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, did not materially differ from the carrying amount of these financial liabilities.

The carrying amounts of financial assets and liabilities with maturity of less than one year are assumed to approximate their fair values.

26 Post balance sheet events

License acquisition

On 27 June 2005, the Group acquired, through a competitive tender, the right to use the coal mining field Nikitinskiy-2 in the Kemerovo region with reserves, estimated in accordance with Russian ABC1C2 categorization of approximately 109 million tonnes for consideration of RR 2,040 million. The Group expects to pay for the licence from existing funds and/or additional borrowings.

Acquisition of subsidiary

In 2005, the Group, through a series of purchase transactions, increased its interest in OAO Polema from 41 percent (43 voting interest) to 75 percent (76 voting interest) for total consideration of RR 546,930 thousand. Management are currently reviewing their fair value allocations for this transaction and consequently believe it is not practicable to disclose such information at this time.

Acquisition of associate

During 2005, the Group increased its interest in OAO Tulachermet from 17 percent (15 percent voting interest) to 31 percent (30 percent voting interest). This purchase was from an entity under common control of the shareholders of the Group at a price approximating to the entity's carrying value.