

**ОАО Распадская**

Unaudited Condensed Consolidated Financial Statements

*Six-month period ended June 30, 2006*

*with Independent Accountants' Report on Review  
of Interim Condensed Consolidated Financial Statements*

ОАО Респдская

Unaudited Condensed Consolidated Financial Statements

Six-month period ended June 30, 2006

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## Report on Review of Interim Condensed Consolidated Financial Statements

The Shareholders and Board of Directors  
OAO Raspadskaya

### *Introduction*

We have reviewed the accompanying interim condensed consolidated balance sheet of OAO Raspadskaya and its subsidiaries (the "Group") as at June 30, 2006 and the interim condensed consolidated statements of income, changes in equity and cash flows for the six-month periods ended June 30, 2006 and 2005, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Ernst & Young LLC*

September 14, 2006

# OAO Raspadskaya

## Unaudited Condensed Consolidated Income Statement

*(In thousands of US dollars, except for per share information)*

	<b>Notes</b>	<b>Six-month period ended June 30,</b>	
		<b>2006</b>	<b>2005</b>
<b>Revenue</b>			
Sale of goods		\$ 216,394	\$ 310,544
Rendering of services		5,224	2,917
		221,618	313,461
Cost of revenue		(134,724)	(165,454)
<b>Gross profit</b>		86,894	148,007
Selling and distribution costs		(5,915)	(3,534)
General and administrative expenses		(16,558)	(11,382)
Social and social infrastructure maintenance expenses		(2,853)	(4,150)
Loss on disposal of property, plant and equipment		(471)	(432)
Foreign exchange gains/(losses), net		(275)	135
Other operating income/(expenses), net		(1,201)	(3,764)
<b>Profit from operations</b>		59,621	124,880
Interest income		434	2,158
Interest expense		(4,221)	(3,038)
<b>Profit before tax</b>		55,834	124,000
Income tax expense	5	(16,246)	(31,369)
<b>Net profit</b>		\$ 39,588	\$ 92,631
Attributable to:			
Equity holders of the parent entity		\$ 39,465	\$ 92,496
Minority interests		123	135
		\$ 39,588	\$ 92,631
Earnings per share:			
Basic and diluted, for profit attributable to equity holders of the parent entity, US dollars	9	\$ 0.08	\$ 0.21

*The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.*

OA O Raspadskaya

Unaudited Condensed Consolidated Balance Sheet

(In thousands of US dollars)

	Notes	June 30, 2006 <i>(Unaudited)</i>	December 31, 2005 <i>(Audited)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	\$ 1,288,147	\$ 289,258
Other non-current assets		3,080	2,582
		<u>1,291,227</u>	<u>291,840</u>
<b>Current assets</b>			
Inventories		30,777	18,552
Trade and other receivables		19,311	20,279
Prepayments		4,740	3,653
Receivables from related parties	8	3,363	11,856
Income tax receivable		267	274
Other taxes recoverable		27,377	47,004
Short-term investments and notes receivable		739	105
Cash and cash equivalents	7	61,511	26,946
		<u>148,085</u>	<u>128,669</u>
<b>Total assets</b>		<u>\$ 1,439,312</u>	<u>\$ 420,509</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Parent shareholders' equity	9		
Issued capital		\$ 259	\$ 259
Treasury shares		(1,156)	(6,627)
Additional paid-in capital		784,503	1,402
Reserve capital		7	7
Accumulated losses		(20,328)	(13,518)
Unrealised gain on investments available-for-sale		946	650
Translation difference		5,834	8,535
		<u>770,065</u>	<u>(9,292)</u>
Minority interests		4,041	3,684
		<u>774,106</u>	<u>(5,608)</u>
<b>Non-current liabilities</b>			
Long-term loans	10	12,028	17,326
Long-term loan to related parties	8	5,724	–
Deferred income tax liabilities	5	220,317	12,685
Other long-term liabilities		10,308	8,289
		<u>248,377</u>	<u>38,300</u>
<b>Current liabilities</b>			
Trade and other payables		26,046	11,794
Short-term loans and current portion of long-term loans	10	50,586	46,387
Payables to related parties	8	306,663	317,091
Income tax payable		6,483	1,125
Other taxes payable		6,244	11,420
Current portion of other long-term liabilities		972	–
Dividends payable		19,835	–
		<u>416,829</u>	<u>387,817</u>
<b>Total equity and liabilities</b>		<u>\$ 1,439,312</u>	<u>\$ 420,509</u>

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

OA0 Raspadskaya

Unaudited Condensed Consolidated Cash Flow Statement

(In thousands of US dollars)

	Notes	Six-month period ended June 30,	
		2006	2005
<b>Cash flows from operating activities</b>			
Net profit		\$ 39,588	\$ 92,631
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation, depletion and amortisation	6	20,803	16,655
Deferred income tax benefit	5	(406)	(3,302)
Loss on disposal of property, plant and equipment		471	432
Foreign exchange (gains)/losses, net		275	(135)
Interest income		(434)	(2,158)
Interest expense		4,221	3,038
Bad debt expense/(recovery)		(124)	587
		<u>64,394</u>	<u>107,748</u>
Changes in working capital:			
Inventories		(6,976)	(8,277)
Trade and other receivables		3,034	(30,755)
Prepayments		96	(1,754)
Receivables from / payables to related parties		3,295	21,458
Taxes recoverable		25,919	(19,646)
Trade and other payables		8,351	(3,985)
Taxes payable		(2,680)	3,486
<b>Net cash flows from operating activities</b>		<u>95,433</u>	<u>68,275</u>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(39,777)	(44,521)
Cash acquired through acquisition of subsidiaries	4	31,947	–
Other investing activities, net		(130)	2,398
<b>Net cash flows used in investing activities</b>		<u>(7,960)</u>	<u>(42,123)</u>
<b>Cash flows from financing activities</b>			
Purchases of treasury shares	9	(1,207)	(224)
Proceeds from sale of purchased treasury shares		20,429	–
Proceeds from loans and promissory notes		286	34,239
Repayment of loans and promissory notes, including interest		(27,968)	(3,545)
Dividends paid by the parent entity to its shareholders		(46,275)	(33,544)
Payments under finance leases, including interest		(14)	–
<b>Net cash flows used in financing activities</b>		<u>(54,749)</u>	<u>(3,074)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		<u>1,841</u>	<u>(1,952)</u>
Net increase in cash and cash equivalents		34,565	21,126
Cash and cash equivalents at beginning of period		26,946	48,100
<b>Cash and cash equivalents at end of period</b>		<u>\$ 61,511</u>	<u>\$ 69,226</u>
<b>Supplementary cash flow information:</b>			
Cash flows during the period:			
Interest paid		\$ 4,167	\$ 2,734
Income taxes paid		18,417	43,082

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

OAo Raspadskaya

Unaudited Condensed Consolidated Statement of Changes in Equity

(In thousands of US dollars)

	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Accumulated profits (losses)	Unrealised gain on available-for-sale investments	Translation difference	Parent shareholders' equity	Minority interests	Total
<b>At December 31, 2005</b>	<b>\$ 259</b>	<b>\$(6,627)</b>	<b>\$ 1,402</b>	<b>\$ 7</b>	<b>\$ (13,518)</b>	<b>\$ 650</b>	<b>\$ 8,535</b>	<b>\$ (9,292)</b>	<b>\$ 3,684</b>	<b>\$ (5,608)</b>
Net gains on available-for-sale financial assets	–	–	–	–	–	296	–	296	–	296
Effect of exchange rate changes	–	–	–	–	–	–	(2,701)	(2,701)	234	(2,467)
Total income and expense for the period recognised directly in equity	–	–	–	–	–	296	(2,701)	(2,405)	234	(2,171)
Net profit	–	–	–	–	39,465	–	–	39,465	123	39,588
Total income and expense for the period	–	–	–	–	39,465	296	(2,701)	37,060	357	37,417
Issue of share capital, net of transaction costs (Note 4)	–	–	769,350	–	–	–	–	769,350	–	769,350
Purchase of treasury shares (Note 9)	–	(1,207)	–	–	–	–	–	(1,207)	–	(1,207)
Sale of treasury shares (Note 9)	–	6,678	13,751	–	–	–	–	20,429	–	20,429
Distribution to the parent entity by subsidiaries (Note 9)	–	–	–	–	(46,275)	–	–	(46,275)	–	(46,275)
<b>At June 30, 2006</b>	<b>\$ 259</b>	<b>\$(1,156)</b>	<b>\$ 784,503</b>	<b>\$ 7</b>	<b>\$ (20,328)</b>	<b>\$ 946</b>	<b>\$ 5,834</b>	<b>\$ 770,065</b>	<b>\$ 4,041</b>	<b>\$774,106</b>

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

OA0 Raspadskaya

Unaudited Condensed Consolidated Statement of Changes in Equity (continued)

(In thousands of US dollars)

	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Accumulated profits (losses)	Unrealised gain on available-for- sale	Translation difference	Parent shareholders' equity	Minority interests	Total
<b>At December 31, 2004</b>	\$ 256	\$ (5,579)	\$ 1,338	\$ 7	\$ (48,267)	\$ –	\$ 6,978	\$ (45,267)	\$ 3,681	\$ (41,586)
Net gains on available-for-sale financial assets	–	–	–	–	–	155	–	155	–	155
Effect of exchange rate changes	–	–	–	–	–	–	1,272	1,272	(121)	1,151
Total income and expense for the period recognised directly in equity	–	–	–	–	–	155	1,272	1,427	(121)	1,306
Net profit	–	–	–	–	92,496	–	–	92,496	135	92,631
Total income and expense for the period	–	–	–	–	92,496	155	1,272	93,923	14	93,937
Issue of share capital, net of transaction costs (Note 9)	3	–	–	–	–	–	–	3	–	3
Purchase of treasury shares (Note 9)	–	(224)	–	–	–	–	–	(224)	–	(224)
Acquisition of minority interests in existing subsidiaries	–	–	23	–	–	–	–	23	(24)	(1)
Dividends declared by the parent entities to its shareholders (Note 9)	–	–	–	–	(33,544)	–	–	(33,544)	–	(33,544)
<b>At June 30, 2005</b>	\$ 259	\$ (5,803)	\$ 1,361	\$ 7	\$ 10,685	\$ 155	\$ 8,250	\$ 14,914	\$ 3,671	\$ 18,585

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.



OAO Raspadskaya  
Selected Notes to Unaudited Interim Condensed Consolidated  
Financial Statements

Six-month Periods Ended June 30, 2006 and 2005

*(In thousands of US dollars, unless specified otherwise)*

**1. Corporate Information**

These consolidated financial statements of OAO Raspadskaya (OAO Raspadskaya or the “Company”) were authorised for issue in accordance with a resolution of the Board of Directors on September 14, 2006.

The Company commenced operations in 1973. It was registered as a Russian closed joint stock company following its privatization in 1991. The registered office of the Company is 106, Mira street, Mezhdurechensk, the Kemerovo region, the Russian Federation. The Company’s principal shareholder is Corber Enterprises Limited (Cyprus) (“Corber”), a 50/50 joint venture set up by Mastercroft Mining Limited, the ultimate subsidiary of Evraz Group S.A. (Luxembourg), and Adroliv Investments Limited (Cyprus) (“Adroliv”).

OAO Raspadskaya and its subsidiaries (the “Group”) derive approximately 98% of their revenues from sales of coal. Other revenue sources include transport-handling services and other non-production revenues.

In the six-month periods ended June 30, 2006 and 2005, approximately 31% and 33%, respectively, of the Group’s revenues were generated in transactions with related parties. In addition, a significant part of the Group’s purchases was made in transactions with related parties. For detailed information related to such activities refer to Note 8.

*Controlling Interests in Subsidiaries Transferred to the Group by a Shareholder*

In 2006 the Group went through reorganization. On April 12, 2006 one of the subsidiaries of the Company acquired 1% of shares of ZAO Razrez Raspadsky (“Razrez Raspadsky”) from OAO Mezhdurechensk Coal Company-96 (“MUK-96”), an entity under common control with Adroliv. On May 31, 2006 Corber acquired 100% shares in MUK-96 from Adroliv. MUK-96 held 99% ownership in Razrez Raspadsky (“Razrez Raspadsky”). MUK-96 and Razrez Raspadsky hold certain mineral licenses and are involved in coal mining activities. Since May 31, 2006 MUK-96 and Razrez Raspadsky were under common control with the Company.

On September 14, 2006, the Company issued its 300,650,000 ordinary shares with a par value of 0.004 roubles each to Corber in exchange for all of the ordinary shares in MUK-96.

Exchange of the Company’s ordinary shares for shares in MUK-96 is a transfer of controlling interest in a subsidiary in a transaction with an entity under common control. This transfer was part of the reorganization plan. Thus, the Company applied the pooling of interests method with respect to this transfer and presented its consolidated financial statements as if the transfer of controlling interests in this subsidiary had occurred from the date of the acquisition of the subsidiary by Corber. The nature and financial effect of the acquisition of shares in MUK-96 are disclosed in Note 4.

# ОАО Респдская

## Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

### **1. Corporate Information (continued)**

#### *Working Capital Deficit*

As of June 30, 2006, the Group had a working capital deficit arising from acquisitions of controlling interests in ООО Респдский Уголь, ЗАО Респдская Угольная Компания, ЗАО ОФ Респдская and ЗАО Респдская-Коксовая from the Group's parent in June 2006. Subsequent to June 30, 2006, the Group substituted the liability to its parent with a short-term bridge bank loan, which matures on June 30, 2007. Management plans to refinance this loan on a long-term basis.

Management believes that cash flows from operating activities will be sufficient to meet the Group's obligations as they become due.

### **2. Basis of Preparation and Accounting Policies**

#### **Basis of Preparation**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2005.

Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

#### **Significant Accounting Policies**

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for year ended December 31, 2005, except:

- IFRS 6 "Exploration for and Evaluation of Mineral Resources";
- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

The adoption of the standards, listed above, did not have significant impact on the Group's results or financial position.

## OAO Raspadskaya

### Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

#### 3. Seasonality of Operations

There are no material seasonal effects in the business activities of the Group. The Group's business depends on commodity prices. Market price of coal was significantly lower in the first half of 2006, as compared to the first half of 2005, which led to decrease in revenue.

#### 4. Acquisitions

As described in Note 1, on September 14, 2006, the Company issued its 300,650,000 ordinary shares to Corber in exchange for 100% ownership interest in MUK-96. Fair value of the issued shares by the Company was \$771,075, which represents the consideration paid by Corber to Adroliv for 100% shares in MUK-96 amounting to \$769,350 and cash consideration paid by the Group for 1% ownership in ZAO Razrez Raspadsky.

The consolidated financial position and the consolidated results of operations of MUK-96 were included in the Group's consolidated financial statements from May 31, 2006, as this was the date it became under common control with the Company. The table below sets forth the fair values of MUK-96 consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

	<b>May 31, 2006</b>
Property, plant and equipment	\$ 77,630
Mineral reserves	887,612
Inventories	3,940
Accounts and notes receivable	12,936
Taxes receivable	3,900
Cash	33,672
<b>Total assets</b>	<b>1,019,690</b>
Non-current liabilities	17,938
Deferred tax liabilities	208,062
Current liabilities	22,615
<b>Total liabilities</b>	<b>248,615</b>
<b>Net assets</b>	<b>\$ 771,075</b>
Shares issued, at fair value	769,350
Cash paid	1,725
<b>Purchase consideration</b>	<b>\$ 771,075</b>
 <i>Cash inflow on acquisition:</i>	
Net cash acquired with the subsidiary	\$ 33,672
Cash paid	(1,725)
<b>Net cash inflow</b>	<b>\$ 31,947</b>

MUK-96 consolidated net loss for the period from May 31, 2006 to June 30, 2006 amounted to \$2,804.

OA0 Raspadskaya

Selected Notes to Unaudited Condensed Consolidated  
Financial Statements (continued)

(In thousands of US dollars, unless specified otherwise)

**4. Acquisitions (continued)**

The acquisition of MUK-96 was accounted for based on provisional values as the subsidiary, at the date of issuance of these financial statements, has not completed purchase price allocation.

If the acquisition had occurred in the beginning of the year, revenues and net profit of the combined entity would be \$216,394 and \$47,051, respectively.

**5. Income Taxes**

Major components of income tax expense for the periods ended June 30 were as follows:

	<u>2006</u>	<u>2005</u>
<i>Current income tax expense</i>	\$ (16,652)	\$ (34,671)
<i>Deferred income tax (expense)/benefit</i>		
Relating to origination and reversal of temporary differences	406	3,302
Income tax expense reported in the consolidated income statement	<u>\$ (16,246)</u>	<u>\$ (31,369)</u>

Deferred income tax liabilities were \$220,317 as at June 30, 2006 and \$12,685 as at December 31, 2005. Increase in deferred income tax liabilities relates to deferred income tax liability recognised in the acquisition of subsidiary (Note 4).

**6. Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Cost:		
Land	\$ 43	\$ 41
Buildings and constructions	67,000	57,591
Machinery and equipment	265,135	158,885
Transport and motor vehicles	23,481	5,827
Mining assets	1,019,094	119,718
Other assets	2,645	2,003
Assets under construction	90,552	58,596
	<u>1,467,950</u>	402,661
Accumulated depreciation, depletion and amortisation:		
Buildings and constructions	(4,233)	(1,379)
Machinery and equipment	(120,030)	(67,096)
Transport and motor vehicles	(4,473)	(1,590)
Mining assets	(47,808)	(40,059)
Other assets	(654)	(399)
	<u>(177,198)</u>	(110,523)
Government grants:		
Machinery and equipment, net	(2,605)	(2,880)
	<u>\$ 1,288,147</u>	<u>\$ 289,258</u>

## OAO Raspadskaya

### Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

#### 6. Property, Plant and Equipment (continued)

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of \$18,442 and \$5,986 as of June 30, 2006 and December 31, 2005. Prepayments to constructors and suppliers as of December 31, 2006 include \$3,561 prepayment to OOO Raspadskaya Trade Company, an entity under common control with the Company's shareholder.

The movement in property, plant and equipment for the six-month period ended June 30, 2006 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2005 cost, net of accumulated depreciation and government grants	\$ 41	\$ 56,212	\$ 88,909	\$ 4,237	\$ 79,659	\$ 1,604	\$ 58,596	\$ 289,258
Additions	-	-	-	-	6,582	188	32,549	39,319
Assets acquired in business combination	-	4,848	45,522	8,663	887,612	64	18,533	965,242
Assets put into operation	-	211	15,703	6,642	-	281	(22,837)	-
Disposals	-	(121)	(322)	(17)	-	(61)	(145)	(666)
Reclassification	-	(738)	738	-	-	-	-	-
Depreciation & depletion charge	-	(1,126)	(14,021)	(726)	(5,186)	(191)	-	(21,250)
Amortisation of government grants	-	-	447	-	-	-	-	447
Change in site restoration provision	-	-	-	-	602	-	-	602
Translation difference	2	3,481	5,524	209	2,017	106	3,856	15,195
At June 30, 2006, cost, net of accumulated depreciation and government grants	\$ 43	\$ 62,767	\$ 142,500	\$ 19,008	\$ 971,286	\$ 1,991	\$ 90,552	\$ 1,288,147

As of June 30, 2006 and December 31, 2005 certain items of production equipment with an approximate carrying value of \$62,005 and \$34,719, respectively, were pledged to banks as collateral against loans to the Group.

#### 7. Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2006	December 31, 2005
Russian roubles	\$ 57,010	\$ 26,929
US dollars	4,501	17
	<u>\$ 61,511</u>	<u>\$ 26,946</u>

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

# OAO Raspadskaya

## Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

### 8. Related Party Disclosures

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

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

Amounts owed by/to related parties were as follows:

	<b>Amounts due from related parties</b>		<b>Amounts due to related parties</b>	
	<b>June 30, 2006</b>	<b>December 31, 2005</b>	<b>June 30, 2006</b>	<b>December 31, 2005</b>
OOO Trade House Evrazresource	\$ 3,153	\$ 2,674	\$ –	\$ –
ZAO Razrez Raspadsky	–	7,181	–	21,016
ZAO Raspadskaya				
Financial Industrial Company	36	671	11	7,114
OAO MUK-96	–	16		10
Other entities	174	1,314	119	238
Loans receivable/payable from/to related parties	–	–	6,178	–
Liabilities to Corber for transfers of ownership interests in subsidiaries	–	–	306,079	288,713
	<b>\$ 3,363</b>	<b>\$ 11,856</b>	<b>\$ 312,387</b>	<b>\$ 317,091</b>

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of \$3,017 as of June 30, 2006 from related parties.

Transactions with related parties were as follows in the six-month periods ended June 30:

	<b>Sales to related parties</b>		<b>Purchases from related parties</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
OOO Trade House Evrazresource	\$ 46,336	\$ 102,847	\$ –	\$ –
ZAO Razrez Raspadsky	792	487	37,749	52,673
ZAO Raspadskaya				
Financial Industrial Company	20,482	110	28,883	44,810
OAO MUK-96	518	502	–	108
Other entities	26	–	597	441
	<b>\$ 68,154</b>	<b>\$ 103,946</b>	<b>\$ 67,229</b>	<b>\$ 98,032</b>

# ОАО Респдская

## Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

### 8. Related Party Disclosures (continued)

ООО Trade House Evrazresource is an entity under common control with the Company's shareholder. During the six-month periods ended June 30, 2006 and 2005, the Group sold to the entity approximately 20% and 34% of sales volumes of coal and coal concentrate, respectively. The transactions were made on terms equivalent to those that prevail in arm's length transactions.

ZAO Razrez Rapsdsky was an entity under control of the Company's shareholder. The Group purchased mining and coal processing services from ZAO Razrez Rapsdsky.

ZAO Rapsdskaya Financial Industrial Company ("RFPK") is an entity under control of the Company's shareholder. RFPK sold coal concentrate to the Group and operated as the Group's sales agent.

ОАО Mezhdurechensk Coal Company-96 ("MUK-96") was an entity under control of the Company's shareholder. MUK-96 purchases coal and coal concentrate from ZAO Rapsdskaya.

#### *Compensation to Key Management Personnel*

Key management personnel totalled 2 persons as at June 30, 2006 and 2005. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following in the six-month periods ended June 30:

	<b>2006</b>	<b>2005</b>
Salary	\$ 550	\$ 564
Social security taxes	20	31
	<b>\$ 570</b>	<b>\$ 595</b>

### 9. Equity

#### *Share Capital*

At the Shareholders Meeting on March 20, 2006, shareholder approval was obtained to reorganize the Company from closed joint-stock company into an open joint stock company. On the same date, the Company's ordinary shares were subdivided in the ratio of one thousand for one share (the "Share Split") with a par value of 0.004 roubles each.

# OAO Raspadskaya

## Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

### 9. Equity (continued)

#### *Share Capital (continued)*

As of December 31, 2005 the Company's authorised and issued share capital consisted of 480,000,000 ordinary shares with par value 0.004 roubles each. On June 8, 2006 the Annual Shareholders Meeting resolved to increase the Company's authorised share capital by 310,560,000 ordinary shares. As of June 30, 2006, the Company's authorised and issued share capital consisted of 790,560,000 and 480,000,000 ordinary shares, respectively. On September 14, 2006, the Company issued 301,988,713 ordinary shares with par value 0.004 roubles each.

#### *Treasury Shares*

In the six-month periods ended June 30, 2006 and 2005, the Group purchased 1,278,442 and 2,539,000 ordinary shares, for \$1,207 and \$224, respectively.

In the six-month period ended June 30, 2006, the Group sold 25,370,558 ordinary shares to the Company's parent for \$20,429. The difference between cost of these shares and sale price amounting to \$13,751 was recorded as additional paid-in capital.

#### *Earnings per Share*

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

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

	<b>Six-month period ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Weighted average number of ordinary shares in issue	<b>507,730,796</b>	445,505,829
Profit for the year attributable to equity holders of the parent	<b>\$ 39,465</b>	\$ 92,496
Basic and diluted earnings per share, US dollars	<b>0.08</b>	0.21



# ОАО Raspadskaya

## Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

### 9. Equity (continued)

#### *Earnings per Share (continued)*

The weighted average number of ordinary shares for the six months ended June 30, 2006 included the effect of the 300,650,000 shares as having been issued by the Company on May 31, 2006 in connection with the Company's acquisition of MUK-96, which is described in Note 4. This is consistent with the IAS 33 "Earnings per Share" requirement for the acquirer to include the shares issued as part of the cost of a business combination in the weighted average number of shares from the same date it incorporates into its income statement the acquiree's profits and losses.

#### *Distribution to the Parent Entity by Subsidiaries*

In the six-month periods ended June 30, 2006 and 2005, certain subsidiaries of the Group, accounted for under the pooling of interests method, declared dividends in the amount of \$46,275 and \$33,544 payable to the Company's parent, respectively.

### 10. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Russian banks	\$ 60,789	\$ 61,416
Ministry of Finance of the Russian Federation	1,710	2,138
Interest payable	115	159
	<b>\$ 62,614</b>	<b>\$ 63,713</b>

As of June 30, 2006 and December 31, 2005, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of \$5,360 and \$17,292, respectively, and long-term loans and borrowings in the amount of \$57,139 and \$46,262, respectively, including the current portion of long-term liabilities of \$45,111 and \$28,936, respectively.

In the six-month period ended June 30, 2006, average annual interest rates were 10.8% for short-term loans denominated in roubles, and 11.4% and 9.2% for long-term loans denominated in roubles and US dollars, respectively.

In the six-month period ended June 30, 2005, average annual interest rates were 10.9% for short-term loans denominated in roubles, and 11.7% and 9.0% for long-term loans denominated in roubles and US dollars, respectively.

# ОАО Распадская

## Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

### 10. Loans and Borrowings (continued)

The liabilities are denominated in the following currencies:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Roubles	\$ 49,547	\$ 61,510
US dollars	13,067	2,203
	<b>\$ 62,614</b>	<b>\$ 63,713</b>

The liabilities are contractually repayable after the balance sheet date as follows:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
Less than one year	\$ 50,586	\$ 46,387
Between one year and two years	9,776	16,898
Between two years and five years	2,252	428
	<b>\$ 62,614</b>	<b>\$ 63,713</b>

### 11. Commitments and Contingencies

#### *Operating Environment of the Group*

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

#### *Taxation*

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. 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.

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

## ОАО Raspadskaya

### Selected Notes to Unaudited Condensed Consolidated Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

#### **11. Commitments and Contingencies (continued)**

##### *Contractual Commitments*

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of \$4,968 as of June 30, 2006.

##### *Social Commitments*

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. As of June 30, 2006, the Group's commitments under these programmes were \$4,200 which are planned to be incurred in the second half of 2006.

##### *Environmental Protection*

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

##### *Credit Risk*

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash, short-term deposits in banks and trade accounts receivable.

The Group maintains its available cash in Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash. The Group constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

##### *Fair Value of Financial Instruments*

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable and promissory notes approximate their fair value.

##### *Insurance Policies*

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

ОАО Респдская

Selected Notes to Unaudited Condensed Consolidated  
Financial Statements (continued)

*(In thousands of US dollars, unless specified otherwise)*

**12. Subsequent Events**

*Borrowings*

Subsequent to June 30, 2006, the Group signed a short-term bank loan agreement for \$300,000.