

SUEK PLC

**Consolidated interim
condensed financial statements**

**for the six months ended 30 June 2012
(unaudited)**



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Independent Auditors' Report

To the members of
SUEK PLC

Report on Review of the Consolidated Interim Condensed Financial Information

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of SUEK PLC (the "Company") and its subsidiaries (the "Group") as at 30 June 2012, the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month periods ended 30 June 2012 and 2011 and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 – "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our reviews.

Scope of review

We conducted our reviews 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 reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information as at 30 June 2012 and for the six-month periods ended 30 June 2012 and 2011 is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 - "*Interim Financial Reporting*".


ZAO KPMG

10 August 2012

SUEK PLC
Consolidated interim statement of comprehensive income for the six months ended 30 June 2012
(unaudited)
Millions of US Dollars

	Notes	Six months ended 30 June	
		2012	2011
Continuing operations			
Revenue	5	2,833	2,870
Cost of sales	6	(2,167)	(2,079)
Gross profit		666	791
Selling, general and administrative expenses	7	(63)	(92)
Other expense, net	8	(10)	(9)
Operating profit		593	690
Finance costs	9	(67)	(111)
Share of profit of associates, net		3	—
Gain from disposal of investments	15	28	—
Foreign exchange (loss)/gain		(52)	207
Profit before tax		505	786
Income tax expense			
Current income tax expense		(88)	(150)
Deferred income tax benefit/(expense)		13	(6)
Total income tax expense	20	(75)	(156)
Profit for the period from continuing operations		430	630
Discontinued operations			
Profit for the period from discontinued operations		—	28
Profit for the period		430	658
Attributable to:			
Ordinary shareholders of the parent		398	640
Non-controlling interests		32	18
Profit for the period		430	658
Other comprehensive (expense)/income			
Effective portion of changes in fair value of cash flow hedges, net of deferred tax	15	33	(10)
Transfer of changes in fair value of cash flow hedges to the income statement, net of deferred tax	15	(6)	42
Change in fair value of available for sale investments, net of deferred tax		(17)	6
Translation difference		(33)	182
Total other comprehensive (expense)/income		(23)	220
Total comprehensive income for the period		407	878
Basic and diluted earnings per share from continuing operations (in US Dollars)		1	2
Basic and diluted earnings per share from discontinued operations (in US Dollars)		—	—



Viktoriya Nidzelska
Director

10 August 2012

The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 23.

SUEK PLC
Consolidated interim statement of financial position as at 30 June 2012
(unaudited)

Millions of US Dollars

	<u>Notes</u>	<u>30 June 2012</u>	<u>31 December 2011</u>
ASSETS			
Non-current assets		3,780	3,477
Property, plant and equipment	10	3,196	3,071
Long-term receivables	21	300	300
Investment in associates	11	148	48
Other assets		111	45
Deferred tax assets		25	13
Current assets		1,409	1,336
Inventories	12	380	364
Trade accounts and other receivables	13	591	625
Prepaid and recoverable taxes	14	293	204
Derivative financial assets	15	36	25
Cash and cash equivalents	16	109	118
Total assets		5,189	4,813
EQUITY AND LIABILITIES			
Equity		900	511
Share capital	17	—	—
Share premium		7,151	7,151
Other equity		(8,145)	(8,145)
Hedging reserve		6	(19)
Translation reserve		(54)	(24)
Retained earnings		1,846	1,467
Attributable to ordinary shareholders of the parent		804	430
Non-controlling interests		96	81
Non-current liabilities		2,843	2,990
Long-term borrowings	18	2,506	2,651
Deferred tax liabilities		214	218
Other liabilities		123	121
Current liabilities		1,446	1,312
Short-term borrowings	18	867	306
Trade accounts and other payables	19	327	691
Derivative financial liabilities	15	208	242
Taxes payable		44	73
Total shareholders' equity and liabilities		5,189	4,813

The consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 23.

SUEK PLC**Consolidated interim statement of cash flows for the six months ended 30 June 2012 (unaudited)***Millions of US Dollars*

	Notes	Six months ended 30 June	
		2012	2011
Profit before tax from continuing operations		505	786
Profit before tax from discontinued operations		—	45
Adjustments to profit before tax:			
Share of profit of associates		(3)	—
Gain from disposal of investments		(28)	—
Amortisation and depreciation	10	198	220
Gain from disposal of property, plant and equipment		(1)	(1)
Finance costs	9	67	110
Foreign exchange loss/(gain)		52	(223)
Bad debt expense		3	13
Other, net		8	2
Changes in working capital items:			
Increase in inventories		(28)	(40)
Decrease/(increase) in trade accounts and other receivables		70	(174)
Increase in prepaid and recoverable taxes (other than income tax)		(30)	(103)
Decrease in trade accounts and other payables		(138)	(153)
(Decrease)/increase in taxes payable (other than income tax)		(21)	70
Net cash inflow from operations		654	552
Interest and commissions paid		(60)	(80)
Income tax paid		(167)	(227)
Net cash inflow from operating activities		427	245
Investing activities			
Purchase of property, plant and equipment		(408)	(304)
Interest received		9	4
Loans issued		(42)	1
Purchase of other long-term investments		(212)	(14)
Proceeds from disposal of non-current investments		45	2
Proceeds from disposal of property, plant and equipment		1	14
Net cash outflow from investing activities		(607)	(297)
Financing activities			
Cash proceeds from issue of shares	17	—	7,151
Cash paid to acquire OJSC "SUEK"		—	(8,145)
Purchase of additional interest in subsidiaries		(239)	—
Proceeds from long-term borrowings		331	133
Repayments of long-term borrowings		(80)	(642)
Proceeds from short-term borrowings, net		166	791
Cash inflow on de-merger of power business, net of cash disposed of		—	706
Dividends paid to non-controlling interests		(10)	(9)
Net cash inflow/(outflow) from financing activities		168	(15)
Foreign exchange effect on cash and cash equivalents		3	18
Net decrease in cash and cash equivalents		(9)	(49)
Cash and cash equivalents at the beginning of the period	16	118	271
Cash and cash equivalents at the end of the period	16	109	222

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 23.

SUEK PLC
Consolidated interim statement of changes in shareholders' equity for the six months ended 30 June 2012 (unaudited)
Millions of US Dollars

	Notes	Share capital	Share premium	Other equity	Additional paid-in capital	Hedging reserve	Retained earnings	Translation reserve	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2011		—	—	—	852	(70)	1,219	(153)	1,848	437	2,285
Profit for the period		—	—	—	—	—	640	—	640	18	658
Effective portion of changes in fair value of cash flow hedges	15	—	—	—	—	(10)	—	—	(10)	—	(10)
Transfer of changes in fair value of cash flow hedges to the profit or loss	15	—	—	—	—	42	—	—	42	—	42
Change in fair value of available for sale investments		—	—	—	—	—	6	—	6	—	6
Translation difference		—	—	—	—	(5)	—	159	154	41	195
Total comprehensive income for the period		—	—	—	—	27	646	159	832	59	891
Issue of shares	17	—	7,151	—	—	—	—	—	7,151	—	7,151
Acquisition of OJSC "SUEK"		—	—	(8,145)	—	—	—	—	(8,145)	—	(8,145)
Purchase of additional interest in subsidiaries		—	—	—	—	—	5	—	5	(11)	(6)
De-merge of power business		—	—	—	(852)	—	(108)	—	(960)	(395)	(1,355)
Recognition of option agreement for shares of OJSC "DEC"		—	—	—	—	—	(3)	—	(3)	—	(3)
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(11)	(11)
Balance at 30 June 2011		<u>—</u>	<u>7,151</u>	<u>(8,145)</u>	<u>—</u>	<u>(43)</u>	<u>1,759</u>	<u>6</u>	<u>728</u>	<u>79</u>	<u>807</u>

The consolidated interim statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 23.

SUEK PLC
Consolidated interim statement of changes in shareholders' equity for the six months ended 30 June 2012 (unaudited)
Millions of US Dollars

	<u>Notes</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Other equity</u>	<u>Additional paid-in capital</u>	<u>Hedging reserve</u>	<u>Retained earnings</u>	<u>Translation reserve</u>	<u>Attributable to ordinary shareholders of the parent</u>	<u>Non-controlling interests</u>	<u>Total</u>
Balance at 1 January 2012		—	7,151	(8,145)	—	(19)	1,467	(24)	430	81	511
Profit for the period		—	—	—	—	—	398	—	398	32	430
Effective portion of changes in fair value of cash flow hedges	15	—	—	—	—	33	—	—	33	—	33
Transfer of changes in fair value of cash flow hedges to the profit or loss	15	—	—	—	—	(6)	—	—	(6)	—	(6)
Change in fair value of available for sale investments		—	—	—	—	—	(17)	—	(17)	—	(17)
Translation difference		—	—	—	—	(2)	—	(30)	(32)	(1)	(33)
Total comprehensive income for the period		—	—	—	—	25	381	(30)	376	31	407
Purchase of additional interest in subsidiaries, net	24	—	—	—	—	—	(12)	—	(12)	(6)	(18)
Recognition of option agreement for shares of power companies with Siberian Energy Investments Limited	15	—	—	—	—	—	10	—	10	—	10
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(10)	(10)
Balance at 30 June 2012		<u>—</u>	<u>7,151</u>	<u>(8,145)</u>	<u>—</u>	<u>6</u>	<u>1,846</u>	<u>(54)</u>	<u>804</u>	<u>96</u>	<u>900</u>

The consolidated interim statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 8 to 23.

SUEK PLC

Notes to the consolidated interim condensed financial statements for the six months ended 30 June 2012 (unaudited)

Millions of US Dollars, unless otherwise stated

1. GENERAL INFORMATION

Organisation and principal activities. SUEK PLC (the “Company”) was founded and registered in the Republic of Cyprus (“Cyprus”) on 13 April 2011. The Company and its subsidiaries are collectively referred to as the Group. The principal activity of the Group is the extraction and sale of coal.

SUEK PLC is a subsidiary of DONALINK LIMITED (“DONALINK”), a Cyprus based holding company. The ultimate beneficiary of DONALINK is Mr. Andrey Melnichenko.

The main asset of the Company is Open Joint Stock Company (“OJSC”) “Siberian Coal Energy Company” (“SUEK”). In May 2011, DONALINK sold all SUEK shares it owned at the date of such sale (representing 87.7% of the issued capital of SUEK) to SUEK PLC. As a result of this reorganization, SUEK PLC became the immediate parent company of SUEK.

In April 2011, the most of power business was de-merged from the coal business of SUEK. As a result of de-merger income and expenses relating to de-merged entities have been presented as discontinued operations for the six months ended 30 June 2011.

SUEK PLC has its registered office at 3, Georgiou Katsounotou, KITALLIDES BUILDING, 2nd Floor, 3036, Limassol, Cyprus.

2. BASIS OF PRESENTATION

The International Financial Reporting Standards (“IFRS”) consolidated interim condensed financial statements (“consolidated interim condensed financial statements”) of the Group have been prepared in accordance with International Accounting Standard No. 34 – “*Interim Financial Reporting*”.

These consolidated interim condensed financial statements do not contain all the information required for presentation in a complete set of IFRS financial statements and therefore should be read in conjunction with SUEK PLC’s consolidated annual financial statements for the year ended 31 December 2011.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for:

- valuation of property, plant and equipment, including mineral rights, at the date of adoption of IFRS 1 – “*First Time Adoption of International Financial Reporting Standards*” (“IFRS 1”) which provides for entities to elect to measure items of property, plant and equipment, including mineral rights at fair value, and use that value as deemed cost in the future. The Group elected to measure property, plant and equipment, including mineral rights, at fair value as of 1 January 2005, which forms the deemed cost of these assets; and
- derivative financial instruments and available for sale financial assets which are stated at fair value.

Functional currency. The functional currency of the Company and its subsidiaries is the Russian Rouble (“RUR”), except for foreign trading subsidiaries.

Presentation currency. The presentation currency of the Company was changed for Dollar of United States of America (“USD”) in financial year 2012. The translation of the consolidated financial statements into the presentation currency was performed in accordance with the requirements of IAS 21 – “*The Effects of Changes in Foreign Exchange Rates*”.

SUEK PLC

Notes to the consolidated interim condensed financial statements for the six months ended 30 June 2012 (unaudited)

Millions of US Dollars, unless otherwise stated

The following exchange rates applied at 30 June and during the periods then ended (in RUR):

	USD	
	2012	2011
Period end (year end for 2011)	32.8169	32.1961
Average rate for 6 months ended 30 June	30.6390	28.6242

Seasonality of business. The business and operating results of the Group are substantially dependent on domestic and international demand. Coal markets are cyclical and exhibit fluctuations in supply and demand from year to year and are subject to numerous factors, including, but not limited to:

- Russian and global economic conditions;
- regional and global supply and demand for domestic and foreign coal and expectations regarding future supply and demand;
- fluctuations in industries with high demand for thermal coal, such as power generation companies;
- unseasonably warm or cool temperatures or other climatic conditions;
- availability and price of alternative fuels and power;
- the proximity to, capacity of, and cost of transportation facilities and
- domestic and foreign governmental regulations and taxes.

Revenues from coal are concentrated in the months of October to March. Costs of production are relatively stable throughout the year. During the period from April to September there is a trend for servicing and maintenance costs to increase whilst production as well as the associated variable costs decrease.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and judgements applied by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2011.

4. SEGMENTAL INFORMATION

The Group evaluates performance and makes investment and strategic decisions based upon a review of the profitability of the Group as a whole, and based on operating segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by management.

Operating segments identified by management include thermal and coking coal and power segments. Thermal coal segment represents operations of coal mining companies including extraction, washing, transportation and sales of coal; coking coal segment includes Apsatskoe green field acquired in December 2011; power segment represented operations of power generating companies including generation and sales of power as well as equity and other investments in power generating companies. In April 2011, most assets of power segment were de-merged from the Group.

SUEK PLC
**Notes to the consolidated interim condensed financial statements
for the six months ended 30 June 2012 (unaudited)**
Millions of US Dollars, unless otherwise stated

Operating segment information of the Group at 30 June 2012 and for the six months then ended is as follows:

	Thermal coal	Coking coal	Power	Inter- segment elimination	Total
<i>Segment revenue and profitability</i>					
Segment external revenues	2,833	—	—	—	2,833
Inter-segment revenues	8	—	—	(8)	—
Segment expenses	(2,167)	(8)	—	8	(2,167)
Gross profit	674	(8)	—	—	666
Share of profit of associates	1	—	2	—	3
Gain from disposal of investments	28	—	—	—	28
Amortisation and depreciation	(197)	(1)	—	—	(198)
Interest expense	(64)	—	—	—	(64)
Interest income	7	—	7	—	14
Profit/(loss) before tax	504	(9)	10	—	505
Income tax (expense)/benefit	(84)	11	(2)	—	(75)
Profit for the period	420	2	8	—	430
Capital expenditures incurred during the year	385	13	—	—	398
<i>Segment assets and liabilities</i>					
Investments in associates	135	—	13	—	148
Other segment assets	4,543	243	306	(51)	5,041
Total segment assets	4,678	243	319	(51)	5,189
Total segment liabilities	4,098	51	191	(51)	4,289

SUEK PLC**Notes to the consolidated interim condensed financial statements
for the six months ended 30 June 2012 (unaudited)***Millions of US Dollars, unless otherwise stated*

Operating segment information of the Group for the six months ended 30 June 2011 is as follows:

	<u>Coal</u>	<u>Power</u>	<u>Inter-segment elimination</u>	<u>Total</u>
<i>Segment revenue and profitability</i>				
Segment external revenues	2,656	725	—	3,381
Inter-segment revenues	214	7	(221)	—
Segment expenses	(2,079)	(689)	221	(2,547)
Gross profit	791	43	—	834
Share of profit of associates, net	—	—	—	—
Amortisation and depreciation	(159)	(61)	—	(220)
Interest expense	(83)	—	—	(83)
Interest income	6	2	—	8
Profit before tax	786	45	—	831
Income tax expense	(156)	(17)	—	(173)
Profit for the period	630	28	—	658
Capital expenditures incurred during the period	263	83	—	346

Operating segment information of the Group at 31 December 2011 is as follows:

	<u>Thermal coal</u>	<u>Coking coal</u>	<u>Power</u>	<u>Inter- segment elimination</u>	<u>Total</u>
<i>Segment assets and liabilities</i>					
Investments in associates	37	—	11	—	48
Other segment assets	4,231	243	344	(53)	4,765
Total segment assets	4,268	243	355	(53)	4,813
Total segment liabilities	4,104	53	198	(53)	4,302

Since the power segment has been classified as a discontinued operation, the results of the coal segment reconcile to the consolidated interim statement of comprehensive income as at and for the six months ended 30 June 2011.

SUEK PLC**Notes to the consolidated interim condensed financial statements
for the six months ended 30 June 2012 (unaudited)***Millions of US Dollars, unless otherwise stated*

	Six months ended 30 June	
	2012	2011
5. REVENUE		
Coal sales	2,777	2,798
Pacific region	1,162	1,080
Atlantic region	774	844
Russian Federation	841	874
Other	56	72
Total	2,833	2,870
6. COST OF SALES		
Transportation	1,057	989
Labour	279	274
Consumables and spares	200	165
Amortisation and depreciation	198	159
Coal purchased from third parties	116	183
Repairs and maintenance services	61	63
Purchased power	48	52
Tax on mining	25	33
Fire and rescue brigades expenses	17	17
Property tax	15	15
Land rent	15	17
Other	136	112
Total	2,167	2,079
7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries	38	53
Charitable donations	8	8
Consulting, legal, audit and other professional services	5	20
Office rent	6	6
Customs duties	1	4
Other	5	1
Total	63	92
8. OTHER EXPENSE, NET		
Bad debt expense	3	5
Gain from disposal of property, plant and equipment	(1)	—
Penalties	1	8
Other	7	(4)
Total	10	9

SUEK PLC**Notes to the consolidated interim condensed financial statements
for the six months ended 30 June 2012 (unaudited)***Millions of US Dollars, unless otherwise stated*

	Six months ended 30 June	
	2012	2011
9. FINANCE COSTS		
Interest expense	64	83
Change in fair value of derivatives, other than hedging (see note 15)	(2)	17
Bank commissions and charges	14	14
Unwinding of discount on environmental obligation	5	3
Interest income	(14)	(6)
Total	67	111

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral rights	Buildings, structures and utilities	Machinery, equipment, transport and other	Construc- tion-in- progress	Total
Net book value at 31 December 2010	869	2,429	1,591	527	5,416
Additions	9	—	—	337	346
Transfers	—	36	187	(223)	—
Disposals	—	(2)	(11)	(2)	(15)
Amortisation and depreciation	(17)	(56)	(147)	—	(220)
Discontinuing operations	—	(1,833)	(590)	(487)	(2,910)
Effect of translation to presentation currency	74	219	140	51	484
Net book value at 30 June 2011	935	793	1,170	203	3,101
Net book value at 31 December 2011	1,041	731	1,122	177	3,071
Additions	13	—	—	385	398
Transfers	3	19	188	(210)	—
Disposals	—	—	(3)	—	(3)
Amortisation and depreciation	(20)	(35)	(143)	—	(198)
Effect of translation to presentation currency	(19)	(14)	(24)	(15)	(72)
Net book value at 30 June 2012	1,018	701	1,140	337	3,196

Group assets with a net book value of 10 million USD have been pledged as security for borrowings (31 December 2011 – 25 million USD).

During six months ended 30 June 2012 borrowing costs of 3 million USD were capitalized into Group assets (six months ended 30 June 2011 – 3 million USD).

Group assets include advances issued for capital expenditures of 132 million USD (31 December 2011 – 145 million USD).

SUEK PLC**Notes to the consolidated interim condensed financial statements
for the six months ended 30 June 2012 (unaudited)***Millions of US Dollars, unless otherwise stated***11. INVESTMENT IN ASSOCIATES**

Details of the Group's investment in associates are as follows:

Name of associate	% held		Carrying value	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
OJSC "Murmansk Commercial Seaport"	24.9%	—	96	—
LLC "Stividornaya Kompaniya Malyi port"	49.9%	49.9%	39	37
OJSC "Kuzbass power sales company"	25%	25%	13	11
Total			148	48

Purchase of OJSC "Murmansk Commercial Seaport" ("MMTP"). In February 2012, the Group acquired 24.9% of MMTP for 106 million USD from a third party.

12. INVENTORIES

	30 June 2012	31 December 2011
Coal stock	237	231
Consumable stores and materials	157	144
Less: Allowance for obsolescence	14	11
Net consumable stores and materials	143	133
Total	380	364

13. TRADE ACCOUNTS AND OTHER RECEIVABLES

Trade accounts receivable	291	342
Loans issued	193	151
Advances issued	112	119
Other receivables	16	30
Subtotal	612	642
Less: Allowance for doubtful debts	21	17
Total	591	625

Loan issued to a related party. In March 2012, SUEK issued a 42 million USD loan to DONALINK. The loan bears interest at 4.5% and is repayable in March 2013.

SUEK PLC**Notes to the consolidated interim condensed financial statements
for the six months ended 30 June 2012 (unaudited)***Millions of US Dollars, unless otherwise stated*

	30 June 2012	31 December 2011
14. PREPAID AND RECOVERABLE TAXES		
Value added tax recoverable	177	147
Income tax receivable	113	50
Prepaid other taxes	3	7
Total	293	204

15. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2012		31 December 2011	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Option agreements for shares of power companies	—	191	—	194
Coal swaps	23	—	20	—
Freight swaps	—	17	—	12
Forward exchange contracts	—	—	—	32
Option agreement for shares of OJSC “DEC”	—	—	—	4
Other derivatives	13	—	5	—
Total	36	208	25	242

Option agreements for shares of power companies. At 31 December 2011, SUEK held put-call option agreements with third parties to acquire 13.79% in OJSC “Kuzbassenergo” (“Kuzbassenergo”) and 10.09% in OJSC “Enisei territorial generation company (TGC-13)” (“TGC-13”).

In April 2012, certain assets of Kuzbassenergo and TGC-13 were spun off into separate legal entities under control of Sibenergy Investments Limited, an entity under common control. As a result of the spin-off, the option agreements were amended into put-call option agreements enabling SUEK to acquire all of the following: 13.79% in Kuzbassenergo, OJSC “Kuznetskaya TETS”, OJSC “Barnaulskaya TETS-3”, OJSC “Barnaulskaya Generation”, OJSC “Kemerovskaya Generation”, OJSC “Novo-Kemerovskaya TETS” and 10.09% in TGC-13, OJSC “Krasnoyarskaya Heat Transportation Company”, OJSC “Nazarovskaya GRES”, OJSC “Krasnoyarskaya TETS-1”. The total aggregated exercise price of the put-call option agreements with the third parties remained unchanged and amounts to 292 million USD.

In June 2012 SUEK signed a number of put-call option agreements for the same pool of shares with Sibenergy Investments Limited for the total exercise price of 89 million USD. The signing of the options resulted in a contribution of 10 million USD recognized in retained earnings.

Both the put-call option agreements with third parties and those with Sibenergy Investments Limited have been valued at 30 June 2012 at fair value. The following key assumptions were applied in determination of the fair value of the options: contractual time to expiry – 6 – 8 months, risk-free rate – 1.67%.

The fair value of the underlying quoted securities (Kuzbassenergo and TGC-13) was determined by reference to the quotations on MICEX, whereas the fair value of the underlying unquoted securities was determined by reference to the valuation model, after adjusting the present value of the cash flows for the lack of marketability and control.

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At the date when these financial statements were signed off none of options held as at 30 June 2012 had been executed. The Group expects that both types of option agreements will be exercised simultaneously.

Details of effective portion of changes in fair value of cash flow hedges were as follows:

	6 months ended 30 June 2012		6 months ended 30 June 2011	
	Gain recognised in comprehensive income	Gain recycled from comprehensive income to the profit and loss	Loss recognised in comprehensive income	Loss recycled from comprehensive income to the profit and loss
Effective portion of changes in fair value of cash flow hedges	38	(5)	(11)	47
Deferred tax	(5)	(1)	1	(5)
Total	33	(6)	(10)	42

Coal swaps. The Group uses coal swaps to hedge the coal price index used in index price coal sales contracts. Details of the coal swaps and collar options designated as cash flow hedges were as follows:

	30 June 2012		31 December 2011	
	Volume ('000 tons)	Derivative assets	Volume ('000 tons)	Derivative liability
0 – 3 months	1,245	11	585	8
3 – 6 months	945	12	375	4
6 – 9 months	45	—	375	4
9 – 12 months	30	—	375	4
Total	2,265	23	1,710	20

The average coal price under the coal swaps was 103 USD per ton (31 December 2011 – 123 USD per ton).

Forward exchange contracts. The average strike exchange rate under the forward exchange contracts was 32.03 RUR per 1 USD (31 December 2011 – 29.21 RUR per 1 USD).

Freight swaps. The Group uses freight swaps to hedge the time-charter equivalent index used in determining the price of freight. At 30 June 2012, the notional amount of the hedged facilities amounted to 3,054 freight days (31 December 2011 – 3,437 freight days).

Option agreement for shares of OJSC “DEC”. At 31 December 2011, DONALINK held option agreement to buy 7.1% shares of OJSC “DEC” (“DEC”) owned by the Group. Option was recognized as a financial liability at fair value through profit or loss. The market for the derivative was not active, therefore the Group measured fair value using Black–Scholes Model. In March 2012, the Group sold to DONALINK 7.1% of DEC for 42 million USD, which was accounted for as other assets as at 31 December 2011. This transaction resulted in a gain of 28 million USD.

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		<u>30 June 2012</u>	<u>31 December 2011</u>
16. CASH AND CASH EQUIVALENTS			
Current accounts	- foreign currency	57	35
	- RUR	19	22
Other cash and cash equivalents	- RUR	12	38
	- foreign currency	7	9
Restricted cash under coal swaps	- foreign currency	14	14
Total		<u>109</u>	<u>118</u>

17. SHARE CAPITAL AND RESERVES

	<u>Number of shares, in thousands</u>		<u>30 June 2012</u>	<u>31 December 2011</u>
	<u>30 June 2012</u>	<u>31 December 2011</u>		
Authorised share capital				
Ordinary shares	<u>550,000</u>	<u>550,000</u>	<u>—</u>	<u>—</u>
Issued share capital				
Ordinary shares	<u>410,000</u>	<u>410,000</u>	<u>—</u>	<u>—</u>
Total	<u>410,000</u>	<u>410,000</u>	<u>—</u>	<u>—</u>

Ordinary shares have a par value of 0.0005 USD. All issued shares were fully paid.

Issued capital. In April 2011, the Company issued 205 million ordinary shares with a nominal value of 0.0005 USD per share for a total consideration of 102,500 USD. In May 2011, the Company issued 205 million ordinary shares with a nominal value of 0.0005 USD per share for a total consideration of 7,151 million USD.

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	Effective interest rate	30 June 2012	31 December 2011
<i>Long-term borrowings</i>			
Variable rate borrowings		2,576	2,566
US dollar denominated borrowings	One month EURIBOR + 1.10% to One month LIBOR + 4.25%	2,378	2,406
Euro denominated borrowings	Six month EURIBOR + 0.7% to One month EURIBOR + 3.25%	198	160
Fixed rate borrowings		541	326
Bonds	9.35%	318	325
US dollar denominated borrowings	4.0%	220	—
Other borrowings		3	1
Subtotal		3,117	2,892
Less: Current portion of long-term borrowings		611	241
Total long-term borrowings		2,506	2,651
<i>Short-term borrowings</i>			
USD denominated variable rate borrowings	Three month LIBOR + 1.5% to One month LIBOR + 2.95%	256	45
USD denominated fixed rate borrowings	1.1%	—	20
Subtotal		256	65
Current portion of long-term borrowings		611	241
Total short-term borrowings		867	306

The Group's long-term borrowings have restrictive covenants including, but not limited to, the requirement to maintain minimum ratios associated with the following items:

- consolidated net indebtedness to earnings before interest, tax, depreciation and amortisation ("EBITDA"); and
- EBITDA to consolidated interest expense.

The covenants are calculated based on the IFRS financial statements of the Group on a semi-annual basis. The Group was in compliance with all such covenants.

The Group's short-term borrowings are secured by export sales and related receivables.

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	30 June 2012	31 December 2011
19. TRADE ACCOUNTS AND OTHER PAYABLES		
Trade accounts payable and accruals	128	144
Advances from customers	53	145
Accrual for vacation payments	46	42
Wages and salaries	36	35
Payable for long-term investments	12	246
Other creditors	52	79
Total	327	691

Option agreements for shares of OJSC “SUEK-Krasnoyarsk”, OJSC “SUEK-Kuzbass” and OJSC “Primorskugol”. In October 2011, SUEK entered into a number of put and call option agreements with third parties to acquire 10% of OJSC “SUEK-Krasnoyarsk” (“SUEK-Krasnoyarsk”), 10% of OJSC “SUEK-Kuzbass” (“SUEK-Kuzbass”) and 10% of OJSC “Primorskugol” (“Primorskugol”). Since third parties have the right to sell non-controlling interests to the SUEK, these options were recognised as a decrease of non-controlling interests as if they had been exercised, and a respective liability at the exercise price of 246 million USD.

In April and May 2012, the put and call option agreements for 10% of SUEK-Kuzbass and 10% of SUEK-Krasnoyarsk were terminated (see note 24).

At the date when these financial statements were signed off options for 10% of Primorskugol held as at 30 June 2012 had not been executed.

20. TAXATION

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, the primary location of the Group’s production entities, to the amount of actual income tax expense recorded in the statement of comprehensive income is as follows:

	Six months ended 30 June	
	2012	2011
Profit before tax	505	786
Theoretical income tax expense at 20%	101	157
Impact of specific tax rates	(10)	(9)
Change in estimates	(24)	—
Tax effect of other non-deductible expenses	8	8
Total income tax expense	75	156

21. RELATED PARTIES TRANSACTIONS

Related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Transactions with related parties are not always performed under conditions that would be available for parties not related to the Group.

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Transactions with related parties not dealt with elsewhere in the consolidated financial statements are as follows:

	Six months ended 30 June 2012			Six months ended 30 June 2011		
	Power companies	Other companies	Total	Power companies	Other companies	Total
Revenue from Kuzbassenergo and TGC-13	351	—	351	302	—	302
Revenue from associates of DONALINK	132	—	132	150	—	150
Interest income	7	4	11	—	—	—
Sale of accounting and IT services	6	—	6	6	—	6
Transshipment services rendered by associates	—	22	22	—	4	4
Other purchases	9	—	9	—	—	—
Purchases of electricity	1	—	1	11	—	11
Interest expense	—	—	—	—	1	1

The remuneration of the Board of Directors and the Management Board' members was as follows:

	Six months ended 30 June	
	2012	2011
Salaries and other short-term employee benefits	3	9

The outstanding balances with related parties are as follows:

	30 June 2012			31 December 2011		
	Power companies	Other companies	Total	Power companies	Other companies	Total
Long-term receivables	300	—	300	300	—	300
Loans issued to DONALINK and it's parent	—	191	191	—	145	145
Trade accounts and other receivables from Kuzbassenergo and TGC-13	53	—	53	67	—	67
Trade accounts and other receivables from associates of DONALINK	22	—	22	34	—	34
Trade accounts and other payables	4	4	8	—	—	—

Long-term receivables represent receivables from Siberian Energy Investments Limited in respect of acquisition of power business.

Other related parties transactions are disclosed in the notes 13 and 15.

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22. COMMITMENTS

Capital commitments. Management has approved the following capital expenditures:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Contracted	116	147
Not yet contracted	374	254
Total	<u>490</u>	<u>401</u>

23. CONTINGENCIES

Insurance. The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available. The Group has limited coverage for its mining, processing, transportation and power generating facilities for business interruption or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Litigation. The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation. 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 activities 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 their 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. It is therefore possible that 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 such liabilities.

Management believes that it has provided adequately for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations, and the effect could be significant.

Environmental matters. The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve disturbance of land, discharge of materials and contaminants into the environment, potential impact to flora and fauna, and other environmental concerns.

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The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Russian Federation risk. Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy.

Furthermore, substantially all privatisations in the Russian Federation in the early 1990's were flawed in some manner, with the result that even minor administrative flaws in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation.

The stability and success of the Group's business will depend upon the Russian Federation Government's ability to institute supervisory, judicial and other regulatory reforms.

24. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

<u>Subsidiaries by country of incorporation</u>	<u>Principal activity</u>	<u>30 June 2012</u>	<u>31 December 2011</u>
Russian Federation			
Moscow			
OJSC "SUEK"	Holding company	100%	100%
Kemerovo			
OJSC "SUEK-Kuzbass"	Coal extraction	99%	89%
Krasnoyarsk			
OJSC "SUEK-Krasnoyarsk"	Coal extraction	98%	88%
Buryatiya and Zabaikaliye			
OJSC "Razrez Tugnuiskiy"	Coal extraction	100%	100%
OJSC "Razrez Kharanorskiy"	Coal extraction	100%	100%
LLC "Arcticheskie razrabotki"	Coal extraction	100%	100%
Khakasiya			
LLC "SUEK-Khakasya"	Coal extraction	100%	100%
Far East			
OJSC "Primorskugol"	Coal extraction	84%	84%
OJSC "Urgalugol"	Coal extraction	82%	82%
CJSC "Daltransugol"	Port facilities	100%	100%
Switzerland			
SUEK AG	Export sales of coal	100%	100%

Effective share of SUEK PLC in SUEK. In May 2011, SUEK and one of its subsidiaries acquired 31,155,000 SUEK ordinary shares from DONALINK for 986 million USD. Thus at the balance sheet date immediate share of SUEK PLC in SUEK totalled 87.7%, remaining 12.3% being in treasury possession of SUEK and its subsidiaries, thus making SUEK PLC an effective owner of 100% of SUEK shares.

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Transactions with non-controlling interest. In April and May 2012, SUEK acquired 10% of SUEK-Kuzbass and 10.5% of SUEK-Krasnoyarsk for 239 million USD. The put and call option agreements for 10% of SUEK-Kuzbass and 10% of SUEK-Krasnoyarsk were terminated (see note 19). Net effect of these transactions was a decrease of retained earnings by 12 million USD and non-controlling interests by 6 million USD.

25. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

USD 200 million credit facility. In July 2012, the Group entered into long-term USD 200 million credit facility agreement.