OAO Raspadskaya

Unaudited interim condensed
consolidated financial statements

Six-month period ended 30 June 2012

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Contents

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors of
OAO Raspadskaya

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OAO Raspadskaya and its subsidiaries ("the Group"), comprising the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended 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 statements 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.

Emphasis of matter

We draw attention to Note 1 to the interim condensed consolidated financial statements, which discloses a significant concentration of the Group's business with related parties.

Ernst & Young LLC

20 September 2012

OAO Raspadskaya

Unaudited interim consolidated statement of comprehensive income

Six-month period ended 30 June 2012

	Notes	2012	2011 *
		US$000	*US$000*
Revenue			
Sale of goods		**278,201**	368,720
Other sales		**6,970**	8,718
	4	**285,171**	377,438
Cost of sales		**(211,529)**	(178,876)
Gross profit		**73,642**	198,562
Selling and distribution costs		**(2,143)**	(2,542)
General and administrative expenses		**(30,506)**	(30,683)
Social expenses		**(4,314)**	(3,721)
Loss on disposal of property, plant and equipment	6	**(1,155)**	(153)
Foreign exchange gains/(losses)		**(30,641)**	13,860
Other operating income		**2,590**	1,317
Other operating expenses		**(11,777)**	(44,264)
Operating profit/(loss)		**(4,304)**	132,376
Dividend income		**50**	24
Interest income		**4,956**	8,390
Interest expense		**(20,318)**	(14,083)
Profit/(loss) before income tax		**(19,616)**	126,707
Income tax	5	**1,035**	(27,661)
Profit/(loss) for the period		**(18,581)**	99,046
Other comprehensive income/(loss):			
Effect of translation to presentation currency		**(16,668)**	130,400
Net gain on available-for-sale financial assets		**108**	75
Income tax		**(29)**	20
		79	95
Other comprehensive income/(loss) for the period, net of tax		**(16,589)**	130,495
Total comprehensive income/(loss) for the period		**(35,170)**	229,541
Profit/(loss) for the period attributable to:			
Equity holders of the parent		**(18,429)**	99,026
Non-controlling interests		**(152)**	20
		(18,581)	99,046
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent		**(34,942)**	229,087
Non-controlling interests		**(228)**	454
		(35,170)	229,541
Earnings/(loss) per share: basic and diluted, for profit/(loss) for the period attributable to the equity holders of the parent, US dollars ((0.77) rubles and 3.63 rubles for the six-month periods ended 30 June 2012 and 2011 respectively)	10	**(0.03)**	0.13

* The amounts shown here do not correspond to those in the unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2011 and reflect restatements made as detailed in Note 2.

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

OAO Raspadskaya

Unaudited interim consolidated statement of financial position

30 June 2012

	Notes	30 June 2012	31 December 2011
		US$000	*US$000*
Assets			
Non-current assets			
Property, plant and equipment	6	**1,402,938**	1,461,779
Deferred tax asset		**65,311**	49,206
Other non-current assets	7	**5,077**	5,258
		1,473,326	1,516,243
Current assets			
Inventories		**113,792**	84,046
Trade and other receivables		**57,592**	60,033
Prepayments		**6,293**	4,614
Receivables from related parties	9	**31,652**	39,785
Income tax receivable		**736**	2,763
Other taxes recoverable		**6,682**	10,361
Short-term bank deposits	8	**75,017**	80,179
Cash and cash equivalents	8	**73,274**	180,100
		365,038	461,881
Total assets		**1,838,364**	1,978,124
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	10	**303**	303
Treasury shares	10	**(396,379)**	–
Additional paid-in capital		**784,139**	784,139
Reserve capital		**7**	7
Accumulated profits		**887,003**	543,859
Unrealized gain on available-for-sale investments		**1,566**	1,487
Translation difference		**(254,168)**	(272,382)
		1,022,471	1,057,413
Non-controlling interests		**4,258**	4,486
		1,026,729	1,061,899
Non-current liabilities			
Long-term loans	11	**496,820**	1,243
Deferred income tax liabilities		**132,800**	136,242
Post-employment benefits liabilities		**24,442**	23,045
Long-term provisions		**10,489**	9,937
		664,551	170,467
Current liabilities			
Trade and other payables		**59,323**	45,863
Advances from customers		**700**	49
Short-term loans and current portion of long-term loans	11	**57,508**	304,027
Payables to related parties	9	**4,124**	2,262
Income tax payable		**1,982**	4,324
Other taxes payable		**23,375**	25,337
Share buyback liability		**–**	363,771
Dividends payable		**72**	125
		147,084	745,758
Total equity and liabilities		**1,838,364**	1,978,124

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

Unaudited interim consolidated statement of cash flows

Six-month period ended 30 June 2012

	Notes	2012	2011
		US$000	*US$000*
Operating activities			
Profit/(loss) for the period		**(18,581)**	99,046
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortization	6	**68,222**	61,839
Deferred income tax benefit	5	**(19,201)**	(8,864)
Loss on disposal of property, plant and equipment	6	**1,155**	153
Foreign exchange (gains)/losses		**30,641**	(13,860)
Dividend income		**(50)**	(24)
Interest income		**(4,956)**	(8,390)
Interest expense		**20,318**	14,083
Net employee benefit		**96**	(1,099)
Change in bad debt allowance		**576**	(626)
		78,220	142,258
Changes in working capital:			
Inventories		**(33,564)**	(16,450)
Trade and other receivables		**2,869**	(20,652)
Prepayments		**(2,379)**	2,777
Receivables from/payables to related parties		**9,946**	20,855
Trade and other payables		**15,511**	12,940
Advances from customers		**699**	(3)
Taxes payable, net of taxes receivable		**1,838**	17,911
Net cash flows from operating activities		**73,140**	159,636
Investing activities			
Purchases of property, plant and equipment		**(36,118)**	(78,441)
Bank deposits, including interest		**9,975**	10,056
Other investing activities, net		**544**	1,832
Net cash flows used in investing activities		**(25,599)**	(66,553)
Financing activities			
Proceeds from loans		**522,621**	834
Repayment of loans, including interest, net of government grants		**(322,375)**	(16,207)
Purchase of non-controlling interest in subsidiary		**–**	(555)
Purchase of treasury shares		**(396,379)**	–
Dividends paid		**(57)**	(33)
Net cash flows used in financing activities		**(196,190)**	(15,961)
Effect of foreign exchange rate changes on cash and cash equivalents		**41,823**	15,112
Net increase/(decrease) in cash and cash equivalents		**(106,826)**	92,234
Cash and cash equivalents at the beginning of the period		**180,100**	164,628
Cash and cash equivalents at the end of the period		**73,274**	256,862
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		**15,309**	11,354
Interest received		**6,957**	6,840
Income tax paid		**19,288**	36,587

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

Unaudited interim consolidated statement of changes in equity

Six-month period ended 30 June 2012

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Accumu-lated profits**	**Unrealized gain on available-for-sale investments**	**Translation difference**	**Parent share-holders' equity**	**Non-controlling interests**	**Total**
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2011	**303**	**–**	**784,139**	**7**	**543,859**	**1,487**	**(272,382)**	**1,057,413**	**4,486**	**1,061,899**
Net loss	**–**	**–**	**–**	**–**	**(18,429)**	**–**	**–**	**(18,429)**	**(152)**	**(18,581)**
Other comprehensive income/(expense)	**–**	**–**	**–**	**–**	**–**	**79**	**(16,592)**	**(16,513)**	**(76)**	**(16,589)**
Total comprehensive income/(expense)	**–**	**–**	**–**	**–**	**(18,429)**	**79**	**(16,592)**	**(34,942)**	**(228)**	**(35,170)**
Share buyback (Note 10)		**(396,379)**	**–**	**–**	**361,573**	**–**	**34,806**	**–**	**–**	**–**
At 30 June 2012	**303**	**(396,379)**	**784,139**	**7**	**887,003**	**1,566**	**(254,168)**	**1,022,471**	**4,258**	**1,026,729**
At 31 December 2010	303	–	783,862	7	907,359	2,058	(194,515)	1,499,074	5,257	1,504,331
Net profit	–	–	–	–	99,026	–	–	99,026	20	99,046
Other comprehensive income	–	–	–	–	–	95	129,966	130,061	434	130,495
Total comprehensive income	–	–	–	–	99,026	95	129,966	229,087	454	229,541
Acquisition of non-controlling interest in subsidiary	–	–	302	–	–	–	–	302	(857)	(555)
At 30 June 2011	303	–	784,164	7	1,006,385	2,153	(64,549)	1,728,463	4,854	1,733,317

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

1. Corporate information

The unaudited interim condensed consolidated financial statements of OAO Raspadskaya (the “Company”) for the six-month period ended 30 June 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 20 September 2012.

The Company is an open joint-stock company (“OAO”) registered under the Russian law. The Company commenced operations in 1973. The registered office of the Company is 106, Mira Street, Mezhdurechensk, Kemerovo region, Russia. The Company’s controlling shareholder is Corber Enterprises Limited (Cyprus) (“Corber”), a 50/50 joint venture set up by Adroliv Investments Limited (Cyprus) (“Adroliv”) owned by the Company's management, and Mastercroft Mining Limited, a subsidiary of EVRAZ plc (UK) (“Evraz”). After share buyback (Note 10), Corber owns approx. 81.95% of the Company’s shares. The Company’s shares are traded on the Russian stock exchange RTS-MICEX.

The Company and its subsidiaries (the “Group”) derive 98% of their revenues from sales of coking coal. Other revenue sources include sales of other goods, transport-handling and other services.

In the six-month period ended 30 June 2012, 22% of the Group’s revenue was generated in transactions with related parties (Note 9).

2. Significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2012 have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2011.

The interim condensed consolidated financial statements are presented in US dollars (US$) and all amounts are rounded to the nearest thousand (US$000) except when otherwise stated.

Certain reclassifications have been made to unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2011 to conform to the current period presentation, namely, certain taxes have been reclassified from general and administrative expenses to the cost of sales.

Going concern

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The current economic conditions create uncertainty particularly over (a) the level of demand and prices for the Group's products; and (b) the exchange rate between the US dollar and the Russian ruble.

In the next 12 months, the Group expects to finance its operating and investing activities primarily by cash generated from operations. If necessary, management may postpone certain investment projects and capital repairs to provide the Group with sufficient resources to manage its cash and debt position allowing the compliance with the terms of loan agreements.

Accordingly, the Group continues to adopt the going concern basis in preparing these unaudited interim condensed consolidated financial statements.

2. Significant accounting policies (continued)

Changes in accounting policies

In the preparation of the unaudited interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements for the year ended 31 December 2011, except for the revision of the existing standards:

Revised standard adopted in 2012

IFRS 7 – Disclosures – *Transfers of financial assets* (Amendment)
The amendment to IFRS 7 enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognized entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognized and their associated liabilities. If those assets are derecognized entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

The adoption of this amendment did not have any impact on the financial position or performance of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3. Seasonality of operations

There are no significant seasonal effects in the business activities of the Group.

4. Revenue

Distribution of the Group's revenue by country

	Six-month periods ended 30 June			
	2012		2011	
	Amount	Portion	Amount	Portion
	US$000		*US$000*	
Russia	**249,382**	**87%**	377,438	100%
Ukraine	**20,099**	**7%**	–	–
China	**11,454**	**4%**	–	–
Republic of Korea	**4,236**	**2%**	–	–
	285,171	**100%**	377,438	100%

Revenues from the Group's major customers

	Six-month periods ended 30 June			
	2012		2011	
	Amount	Portion	Amount	Portion
	US$000		*US$000*	
MMK	**65,949**	**23%**	89,650	24%
Evraz	**59,254**	**21%**	120,252	32%
Kemerovo-Koks	**47,060**	**17%**	82,360	22%
NLMK	**37,409**	**13%**	32,664	8%
Mechel	**22,978**	**8%**	29,623	8%
	232,650	**82%**	354,549	94%

5. Income tax

Major components of income tax

	Six-month periods ended 30 June	
	2012	**2011**
	US$000	*US$000*
Current income tax:		
Current income tax charge	**(18,166)**	(36,525)
Deferred income tax benefit:		
Relating to origination and reversal of temporary differences	**19,201**	8,864
	1,035	(27,661)

Russia was the only tax jurisdiction in which the Group's income was subject to taxation.

6. Property, plant and equipment

	30 June 2012	**31 December 2011**
	US$000	*US$000*
Cost:		
Land	**57**	54
Mining assets	**1,022,418**	1,035,828
Buildings and constructions	**124,668**	125,515
Machinery and equipment	**533,749**	519,707
Transport and motor vehicles	**74,687**	70,518
Other assets	**12,384**	12,788
Assets under construction	**211,973**	225,608
	1,979,936	1,990,018
Accumulated depreciation and depletion:		
Mining assets	**(229,206)**	(210,077)
Buildings and constructions	**(23,590)**	(22,028)
Machinery and equipment	**(288,295)**	(265,094)
Transport and motor vehicles	**(30,285)**	(25,718)
Other assets	**(5,622)**	(5,322)
	(576,998)	(528,239)
	1,402,938	1,461,779

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$3,583,000 and US$3,680,000 as at 30 June 2012 and 31 December 2011 respectively.

6. Property, plant and equipment (continued)

Movement in property, plant and equipment

	Land	Mining assets	Buildings and construc-tions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construc-tion	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2011, cost, net of accumulated depreciation, depletion and government grants	**54**	**825,751**	**103,487**	**254,613**	**44,800**	**7,466**	**225,608**	**1,461,779**
Additions	**–**	**5,014**	**–**	**–**	**–**	**–**	**34,142**	**39,156**
Assets put into operation	**4**	**–**	**2,335**	**32,852**	**6,836**	**517**	**(42,544)**	**–**
Disposals	**–**	**–**	**(381)**	**(1,042)**	**(191)**	**(16)**	**(19)**	**(1,649)**
Reclassification	**–**	**1,611**	**–**	**–**	**–**	**–**	**(1,611)**	**–**
Depreciation and depletion charge	**–**	**(24,746)**	**(2,437)**	**(36,460)**	**(6,164)**	**(1,104)**	**–**	**(70,911)**
Translation difference	**(1)**	**(14,418)**	**(1,926)**	**(4,509)**	**(879)**	**(101)**	**(3,603)**	**(25,437)**
At 30 June 2012, cost, net of accumulated depreciation, depletion and government grants	**57**	**793,212**	**101,078**	**245,454**	**44,402**	**6,762**	**211,973**	**1,402,938**

7. Other non-current assets

	30 June 2012	31 December 2011
	US$000	*US$000*
Available-for-sale investments:		
Quoted equity shares	**1,960**	1,862
Unquoted equity shares	**227**	231
	2,187	2,093
Loans to employees	**2,534**	2,466
Other non-current assets	**356**	699
	5,077	5,258

8. Short-term bank deposits and cash and cash equivalents

Short-term bank deposits

	30 June 2012	31 December 2011
	US$000	*US$000*
US dollars	**50,761**	60,301
Russian rubles	**24,256**	19,878
	75,017	80,179

The above short-term deposits are non-restricted deposits placed in Russian banks and affiliates of international banks with initial maturity of more than 90 days.

8. Short-term bank deposits and cash and cash equivalents (continued)

Cash and cash equivalents

	30 June 2012	31 December 2011
	US$000	*US$000*
US dollars	**68,961**	67,145
Russian rubles	**4,313**	112,955
	73,274	180,100

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

9. Related party disclosures

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.

Transactions with related parties

	Sales to related parties		Purchases from related parties	
	Six-month periods ended 30 June		Six-month periods ended 30 June	
	2012	2011	2012	2011
	US$000	*US$000*	*US$000*	*US$000*
ZSMK	**35,903**	84,185	**4**	–
EvrazResource-Ukraine	**13,498**	–	**–**	–
NTMK	**9,854**	15,922	**–**	–
Southern Kuzbass	**2,798**	2,532	**–**	–
RSPK	**196**	179	**3,055**	2,216
Sibirsky Spas	**4**	4	**618**	433
TC EvrazHolding	**–**	20,145	**4,825**	5,672
Other entities	**49**	110	**830**	1,400
	62,302	123,077	**9,332**	9,721

Amounts owed by/to related parties

	Amounts due from related parties		Amounts due to related parties	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
	US$000	*US$000*	*US$000*	*US$000*
ZSMK	**19,662**	25,764	**–**	–
EvrazResource-Ukraine	**5,945**	1,530	**–**	–
NTMK	**3,737**	11,656	**–**	–
Southern Kuzbass	**519**	629	**–**	–
RSPK	**1,226**	98	**346**	316
Sibirsky Spas	**394**	105	**107**	109
TC EvrazHolding	**–**	–	**3,476**	1,539
Other entities	**169**	3	**195**	298
	31,652	39,785	**4,124**	2,262

9. Related party disclosures (continued)

Amounts owed by/to related parties (continued)

ZSMK (OAO EVRAZ United West Siberian Iron and Steel Plant) is an entity under control of Evraz. In the six-month periods ended 30 June 2012 and 2011, the Group sold to the entity raw coal and coal concentrate. These sales accounted for approx. 16% and 16% of the Group's total sales volumes of coal products during the six-month periods ended 30 June 2012 and 2011, respectively.

EvrazResource-Ukraine (OOO Trade House EvrazResource-Ukraine) is an entity under control of Evraz. In the six-month period ended 30 June 2012, the Group sold to the entity coal concentrate which accounted for approx. 6% of the Group's total sales volumes of coal products during the period.

NTMK (OAO EVRAZ Nizhny Tagil Iron and Steel Plant) is an entity under control of Evraz. In the six-month periods ended 30 June 2012 and 2011, the Group sold to the entity coal concentrate. These sales accounted for approx. 3% and 4% of the Group's total sales volumes of coal products during the six-month periods ended 30 June 2012 and 2011, respectively.

Southern Kuzbass (OAO Southern Kuzbass Coal Company), a Russian coal mining company controlled by OAO Mechel, is a minority shareholder of a subsidiary of the Group. The subsidiary renders transportation services to the Group and to Southern Kuzbass.

RSPK (OOO Raspadskaya Constructing Industrial Company) is an entity under control of the shareholders of Adroliv. The entity provides cleaning and renovating services to the Group.

Sibirsky Spas (ZAO Sibirsky Spas Insurance Company) is an entity under control of the shareholders of Adroliv. The entity provides insurance services to the Group.

TC EvrazHolding (OOO Trade Company EvrazHolding) is an entity under control of Evraz. In the six-month period ended 30 June 2011, the Group sold to the entity raw coal and coal concentrate. In February 2011 an agreement under which TC EvrazHolding purchased coal products from the Group for ZSMK and NTMK was terminated and replaced with separate agreements with these two companies. In the six-month period ended 30 June 2011, the Group sold to the entity approx. 17% of the total sales volumes of coal products. In addition, in the six-month periods ended 30 June 2012 and 2011, the Group bought from TC EvrazHolding certain steel products.

Compensation to key management personnel

Key management personnel totaled 9 people as at 30 June 2012 and 2011. Total compensation to key management personnel was included in general and administrative expenses in the statement of comprehensive income and consisted of the following:

	Six-month periods ended 30 June	
	2012	**2011**
	US$000	*US$000*
Short-term benefits:		
Salary	**2,130**	1,527
Payroll taxes	**254**	64
	2,384	1,591

10. Equity

Share capital

As at 30 June 2012 and 31 December 2011, the Company's issued and fully paid share capital consisted of 780,799,809 ordinary shares with par value 0.004 rubles each; the authorized share capital consisted of 1,478,811,096 ordinary shares.

Issued and fully paid share capital

	Number of outstanding ordinary shares	Number of treasury shares	Issued capital	Treasury shares
			US$000	*US$000*
At 31 December 2011	**780,799,809**	**–**	**303**	**–**
Share buyback	**(77,608,366)**	**77,608,366**	**–**	**396,379**
At 30 June 2012	**703,191,443**	**77,608,366**	**303**	**396,379**

From 20 February to 20 April 2012 the Company bought back 77,608,366 of its ordinary shares for 11,641,254,900 rubles (150 rubles per share) or, US$396,379,000 at exchange rates at the date of each transaction. Translation gain of US$34,806,000 arising on the amount of liability recognized at 31 December 2011 and the amount actually paid was charged directly to equity. In the second half of 2012 the Company plans to cancel the treasury shares, thus its issued and fully paid share capital will be reduced.

Earnings per share

Earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Company has no potentially dilutive ordinary shares therefore the diluted earnings per share is equal to the basic earnings per share.

	Six-month periods ended 30 June	
	2012	**2011**
Profit for the period attributable to equity holders of the parent, *US$000*	**(18,429)**	99,026
Weighted average number of outstanding ordinary shares	**731,861,421**	780,799,809
Basic and diluted earnings/(loss) per share:		
US$	**(0.03)**	0.13
rubles	**(0.77)**	3.63

Final dividends for 2011

On 29 June 2012, shareholders of the Company approved no final dividends for 2011.

11. Loans and borrowings

Loans and borrowings by source

	30 June 2012	31 December 2011
	US$000	*US$000*
7.75% notes due 2017	**396,416**	–
Raiffeisenbank	**150,000**	–
7.5% notes due 2012	**–**	299,846
Russian banks	**2,038**	2,923
Interest payable	**5,874**	2,501
	554,328	305,270

11. Loans and borrowings (continued)

Loans and borrowings by source (continued)

On 17 May 2007 the Group issued loan participation notes amounting to US$300,000,000. The notes bore an interest of 7.5% per annum payable semi-annually and matured on 22 May 2012. To repay those notes and finance its operating activities, on 27 April 2012 the Group issued loan participation notes amounting to US$400,000,000. The new notes bear an interest of 7.75% per annum payable semi-annually and mature on 27 April 2017. The terms and conditions of the 7.75% notes provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and a financial ratio in respect of indebtedness and profitability. As at 30 June 2012 and for the six-month period then ended, the Group complied with all the covenants.

Average annual interest rates

	Six-month periods ended 30 June			
	2012		**2011**	
	Short-term	**Long-term**	**Short-term**	**Long-term**
US dollars	**–**	**7.2%**	–	7.5%
Euro	**–**	**4.8%**	–	4.2%

Loans and borrowings by currency

	30 June 2012	**31 December 2011**
	US$000	*US$000*
US dollars	**552,290**	302,346
Euro	**2,016**	2,901
Russian rubles	**22**	23
	554,328	305,270

Loans and borrowings by period of repayment

	30 June 2012	**31 December 2011**
	US$000	*US$000*
Not more than one year	**57,508**	304,027
After one year but not more than two years	**100,404**	1,243
After two years but not more than five years	**396,416**	–
	554,328	305,270

12. Commitments and contingencies

Operating environment of the Group

The Group is one of the biggest coking coal producers in Russia. 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 on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

12. Commitments and contingencies (continued)

Taxation

The 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 Russia suggest that 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. As such, significant additional taxes, fines and penalties may be assessed.

Management believes that its interpretations of the relevant legislation are appropriate and that it has paid or accrued all taxes that are applicable. Where an 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.

Contractual commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works in the amount of US$17,492,000 as at 30 June 2012.

Social commitments

The Group is involved in a number of social programs aimed to support education, health care and social infrastructure development in the towns where the Group's assets are located. In the second half of 2012 the Group plans to spend US$4,502,000 under these programs.

Environmental protection

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. Under the Plan on environmental protection for the years 2011-2015 authorized by management, the Group expects to spend US$28,821,000 starting 1 July 2012.

Insurance policies

The Group maintains obligatory insurance policies required by the Russian law. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

13. Subsequent events

There were no subsequent events that require disclosure.