OAO Raspadskaya

Unaudited interim condensed
consolidated financial statements

Six-month period ended 30 June 2009

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Report on Review of Unaudited Interim Condensed Consolidated Financial Statements

To the Shareholders and Board of Directors
of OAO Raspadskaya

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of OAO Raspadskaya and its subsidiaries ("the Group") as at June 30, 2009 and the related interim condensed consolidated statements of comprehensive income, cash flows and changes in equity 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

September 24, 2009

OAO Raspadskaya

Unaudited interim consolidated statement of comprehensive income

Six-month period ended 30 June 2009

	Notes	2009 US$000	2008 US$000
Revenue			
Sale of goods		**140,480**	602,957
Rendering of services		**7,224**	3,656
	4	**147,704**	606,613
Cost of sales		**(99,622)**	(189,695)
Gross profit		**48,082**	416,918
Selling and distribution costs		**(480)**	(3,490)
General and administrative expenses		**(20,215)**	(33,026)
Social and social infrastructure maintenance expenses		**(2,825)**	(12,679)
Loss on disposal of property, plant and equipment		**(748)**	(430)
Foreign exchange (losses)/gains		**(23,557)**	11,000
Other operating income		**743**	453
Other operating expenses		**(5,741)**	(10,656)
Operating (loss)/profit		**(4,741)**	368,090
Dividend income		**11**	–
Interest income		**5,799**	4,230
Interest expense		**(12,624)**	(13,526)
(Loss)/profit before income tax		**(11,555)**	358,794
Income tax benefit/(expense)	5	**466**	(97,009)
(Loss)/profit for the period		**(11,089)**	261,785
Other comprehensive income:			
Effect of translation to presentation currency		**(72,902)**	53,517
Net gain/(loss) on available-for-sale financial assets		**340**	(742)
Income tax		**(71)**	178
		269	(564)
Other comprehensive (loss)/income for the period, net of tax		**(72,633)**	52,953
Total comprehensive (loss)/income for the period, net of tax		**(83,722)**	314,738
(Loss)/profit for the period attributable to:			
Equity holders of the parent		**(11,247)**	261,441
Minority interests		**158**	344
		(11,089)	261,785
Total comprehensive (loss)/income attributable to:			
Equity holders of the parent		**(83,565)**	314,105
Minority interests		**(157)**	633
		(83,722)	314,738
Earnings per share: basic and diluted, for profit for the period attributable to the equity holders of the parent, US dollars ((0.48) rubles and 8.02 rubles for the six-month periods ended 30 June 2009 and 2008, respectively)	10	**(0.01)**	0.33

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

Unaudited interim consolidated statement of financial position

	Notes	30 June 2009 US$000	31 December 2008 US$000
Assets			
Non-current assets			
Property, plant and equipment	7	**1,314,499**	1,360,953
Deferred tax asset		**1,134**	949
Other non-current assets		**3,574**	3,816
		1,319,207	1,365,718
Current assets			
Inventories		**53,229**	56,056
Trade and other receivables		**57,626**	71,376
Receivables from related parties	9	**54,903**	56,979
Income tax receivable		**8,099**	8,959
Other taxes recoverable		**12,769**	15,733
Short-term bank deposits	8	**86,677**	115,045
Cash and cash equivalents	8	**63,533**	71,555
		336,836	395,703
Total assets		**1,656,043**	1,761,421
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	10	**303**	303
Additional paid-in capital		**783,862**	783,862
Reserve capital		**7**	7
Accumulated profits		**534,762**	546,009
Unrealized gain on available-for-sale investments		**787**	518
Translation difference		**(224,114)**	(151,527)
		1,095,607	1,179,172
Minority interests		**5,162**	5,319
		1,100,769	1,184,491
Non-current liabilities			
Long-term loans	11	**311,600**	314,085
Deferred income tax liabilities		**131,257**	144,184
Post-employment benefits liabilities		**16,332**	17,522
Other long-term liabilities		**1,446**	1,466
		460,635	477,257
Current liabilities			
Trade and other payables		**37,582**	43,075
Short-term loans and current portion of long-term loans	11	**42,222**	37,062
Payables to related parties	9	**2,505**	1,241
Income tax payable		**40**	293
Other taxes payable		**11,989**	9,735
Dividends payable		**301**	8,267
		94,639	99,673
Total equity and liabilities		**1,656,043**	1,761,421

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

Unaudited interim consolidated statement of cash flows

Six-month period ended 30 June 2009

	Notes	2009 US$000	2008 US$000
Cash flows from operating activities			
(Loss)/profit for the period		**(11,089)**	261,785
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortization	7	**44,117**	67,716
Deferred income tax benefit	5	**(4,205)**	(9,811)
Loss on disposal of property, plant and equipment		**748**	430
Foreign exchange losses/(gains)		**23,557**	(11,000)
Dividend income		**(11)**	–
Interest income		**(5,799)**	(4,230)
Interest expense		**12,624**	13,526
Employee benefits		**(181)**	(48)
Bad debt expense		**87**	190
		59,848	318,558
Changes in working capital:			
Inventories		**(563)**	1,697
Trade and other receivables		**8,415**	(1,198)
Receivables from / payables to related parties		**(58)**	10,919
Trade and other payables		**(8,763)**	5,403
Taxes payable		**4,666**	15,617
Net cash flows from operating activities		**63,545**	350,996
Cash flows from investing activities			
Purchases of property, plant and equipment		**(74,016)**	(151,245)
Short-term deposits at banks, including interest, net		**22,478**	(40,622)
Other investing activities, net		**160**	148
Net cash flows used in investing activities		**(51,378)**	(191,719)
Cash flows from financing activities			
Proceeds from loans		**33,597**	3,299
Repayment of loans, including interest, net of government grants		**(43,330)**	(37,233)
Dividends paid		**(6,523)**	(101,019)
Payments under finance leases, including interest		**-**	(47)
Net cash flows used in financing activities		**(16,256)**	(135,000)
Effect of foreign exchange rate changes on cash and cash equivalents		**(3,933)**	4,322
Net (decrease)/increase in cash and cash equivalents		**(8,022)**	28,599
Cash and cash equivalents at the beginning of the year		**71,555**	82,311
Cash and cash equivalents at the end of the period		**63,533**	110,910
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		**12,097**	12,522
Interest received		**5,688**	3,978
Income taxes paid		**6,002**	100,290

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

OAO Raspadskaya

Unaudited interim consolidated statement of changes in equity

Six-month period ended 30 June 2009

	Attributable to the equity holders of the parent								
	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Unrealized gain on available-for-sale investments	Translation difference	Parent shareholders' equity	Minority interests	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2007	303	783,862	7	179,888	2,438	97,680	1,064,178	6,064	1,070,242
Comprehensive income	–	–	–	261,441	(564)	53,228	314,105	633	314,738
Dividends declared *(Note 10)*	–	–	–	(123,344)	–	–	(123,344)	–	(123,344)
At 30 June 2008	303	783,862	7	317,985	1,874	150,908	1,254,939	6,697	1,261,636
At 31 December 2008	**303**	**783,862**	**7**	**546,009**	**518**	**(151,527)**	**1,179,172**	**5,319**	**1,184,491**
Comprehensive income	**–**	**–**	**–**	**(11,247)**	**269**	**(72,587)**	**(83,565)**	**(157)**	**(83,722)**
Dividends declared *(Note 10)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 30 June 2009	**303**	**783,862**	**7**	**534,762**	**787**	**(224,114)**	**1,095,607**	**5,162**	**1,100,769**

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

1. Corporate information

The interim condensed consolidated financial statements of OAO Raspadskaya (the "Company") for the six-month period ended 30 June 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 24 September 2009.

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 Group S.A. (Luxembourg) ("Evraz"). The Company's shares are publicly traded.

The Company and its subsidiaries (the "Group") derive 95% of their revenues from sales of coking coal. Other revenue sources include transport-handling services, sales of other goods and rendering of other services.

In the six-month periods ended 30 June 2009 and 2008, 27% of the Group's revenues were generated in transactions with related parties. For detailed information related to such activities refer to Note 9.

2. Significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2009 have been prepared in accordance with **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 2008.

Operating results for the six-month period ended 30 June 2009 are not necessary indicative of the results that may be expected for the year ending 31 December 2009.

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

Changes in 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 31 December 2008, except for the adoption of new standards and interpretations and the revision of the existing standards:

- The Group adopted **IFRS 8** *Operating segments* starting from 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group operates as a vertically integrated business and reports its activities as a single business segment. All of the Group's assets are located and capital expenditures incurred in Russia;
- The revised **IAS 1** *Presentation of Financial Statements* separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

3. Seasonality of operations

There are no significant seasonal effects in the business activities of the Group. The Group's performance depends on commodity prices. The market price of cocking coal was lower in the first half of 2009, as compared to the first half of 2008.

4. Revenue

The distribution of the Group's revenues by geographical area based on the location of the customers for the six-month periods ended 30 June was as follows:

	2009	**2008**
	US$000	*US$000*
Russia	**105,756**	441,975
Ukraine	**36,049**	133,881
Hungary	**3,042**	13,902
Japan	**2,857**	–
Romania	**–**	15,197
Bulgaria	**–**	1,658
	147,704	606,613

Revenues from our major customers were as follows for the six-month periods ended 30 June:

	2009		**2008**	
	Amount	**Portion of revenue**	**Amount**	**Portion of revenue**
	US$000		*US$000*	
Evraz	**39,178**	**28%**	167,790	28%
MMK	**23,773**	**17%**	140,930	24%
NLMK (including Altay-Koks)	**15,871**	**11%**	106,702	18%

5. Income taxes

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

	2009	**2008**
	US$000	*US$000*
Current income tax:		
Current income tax charge	**(3,739)**	(106,820)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**4,205**	9,811
Income tax expense	**466**	(97,009)

Russia was the only tax jurisdiction in which the Group's income was subject to taxation. In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate is effective from 1 January 2009.

Some of subsidiaries of the Group operate with losses in the current or preceding periods. The management of the Group is confident that the subsidiaries will be able to improve their tax position in the foreseeable future.

6. Inventories

A write down of inventories to net realizable value was reversed in the amount of US$1,124,000.

7. Property, plant and equipment

	30 June 2009	31 December 2008
	US$000	*US$000*
Cost:		
Land	**56**	60
Mining assets	**967,005**	1,021,649
Buildings and constructions	**102,816**	87,196
Machinery and equipment	**380,283**	367,399
Transport and motor vehicles	**30,410**	33,186
Other assets	**8,851**	7,941
Assets under construction	**264,184**	262,396
	1,753,605	1,779,827
Accumulated depreciation, depletion and amortization:		
Mining assets	**(176,748)**	(172,489)
Buildings and constructions	**(11,328)**	(10,055)
Machinery and equipment	**(232,810)**	(219,444)
Transport and motor vehicles	**(12,132)**	(11,251)
Other assets	**(4,666)**	(4,048)
	(437,684)	(417,287)
Government grants:		
Mining assets, net	**(1,207)**	(1,314)
Machinery and equipment, net	**(114)**	(160)
Other assets, net	**(101)**	(113)
	1,314,499	1,360,953

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$8,760,000 and US$21,207,000 as of 30 June 2009 and 31 December 2008, respectively.

Movement in property, plant and equipment

	Land	Mining assets	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2008 cost, net of accumulated depreciation, depletion and government grants	**60**	**847,846**	**77,141**	**147,795**	**21,935**	**3,780**	**262,396**	**1,360,953**
Additions	**–**	**7,304**	**–**	**–**	**–**	**–**	**72,925**	**80,229**
Assets put into operation	**–**	**–**	**19,901**	**34,498**	**333**	**1,394**	**(56,126)**	**–**
Disposals	**–**	**–**	**(98)**	**(720)**	**(59)**	**(20)**	**–**	**(897)**
Reclassification	**–**	**–**	**(2)**	**459**	**(507)**	**2**	**48**	**–**
Depreciation & depletion charge	**–**	**(13,993)**	**(1,768)**	**(26,147)**	**(1,961)**	**(875)**	**–**	**(44,744)**
Amortization of government grants	**–**	**26**	**–**	**34**	**–**	**4**	**–**	**64**
Change in site restoration provision	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Translation difference	**(4)**	**(52,133)**	**(3,686)**	**(8,560)**	**(1,463)**	**(201)**	**(15,059)**	**(81,106)**
At 30 June 2009, cost, net of accumulated depreciation, depletion and government grants	**56**	**789,050**	**91,488**	**147,359**	**18,278**	**4,084**	**264,184**	**1,314,499**

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

Short-term bank deposits

	30 June 2009	31 December 2008
	US$000	*US$000*
Russian rubles	**30,690**	93,565
US dollars	**40,172**	21,480
Euro	**15,815**	–
	86,677	115,045

The above short-term deposits are represented by non-restricted deposits placed in reputable Russian banks and affiliates of international banks and maturing in the next 12 months.

Cash and cash equivalents

	30 June 2009	31 December 2008
	US$000	*US$000*
Russian rubles	**53,872**	64,349
US dollars	**9,077**	7,206
Euro	**584**	–
	63,533	71,555

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

9. 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

	Amounts due from related parties		Amounts due to related parties	
	30 June 2009	31 December 2008	30 June 2009	31 December 2008
	US$000	*US$000*	*US$000*	*US$000*
OOO Trade House EvrazResource	**35,012**	56,438	**–**	–
OOO EvrazResource Ukraine	**12,379**	3	**–**	–
OOO Trade Company EvrazHolding	**7,081**	–	**2,316**	1,027
OAO Yuzhny Kuzbass	**189**	212	**–**	18
OOO Raspadskaya Constructing Industrial Company	**106**	5	**119**	137
Other entities	**136**	321	**70**	59
	54,903	56,979	**2,505**	1,241

9.Related party disclosures (continued)

Assets under construction include prepayments to related parties – constructors and suppliers of property, plant and equipment in the amount of US$nil and US$1,082,000 as at 30 June 2009 and 31 December 2008, respectively.

Transactions with related parties

	Sales to related parties		Purchases from related parties	
	Six-month periods ended 30 June		Six-month periods ended 30 June	
	2009	2008	2009	2008
	US$000	*US$000*	*US$000*	*US$000*
OOO Trade House EvrazResource	**15,209**	88,786	–	–
OOO EvrazResource Ukraine	**18,267**	27,495	**–**	–
OOO Trade Company EvrazHolding	**5,701**	–	**5,520**	–
OAO Yuzhny Kuzbass	**1,275**	2,536	**–**	–
OOO Raspadskaya Constructing Industrial Company	**–**	31	**23**	7,939
Greyridge Coal and Shipping	**–**	47,261	**–**	–
Other entities	**19**	435	**71**	349
	40,471	166,544	**5,614**	8,288

OOO Trade House EvrazResource ("EvrazResource") is an entity under control of Evraz. During the six-month periods ended 30 June 2009 and 2008, the Group sold to EvrazResource approximately 10% and 15% of sales volumes of coal and coal concentrate, respectively.

OOO EvrazResource Ukraine is an entity under control of Evraz. During the six-month periods ended 30 June 2009 and 2008, the Group sold to the entity approximately 15% and 5% of sales volumes of coal concentrate, respectively.

OOO Trade Company EvrazHolding ("EvrazHolding") is an entity under control of Evraz. During the six-month period ended 30 June 2009, EvrazHolding sold to the Group certain steel products and bought from the Group coal concentrate.

OAO Yuzhny Kuzbass ("Yuzhny Kuzbass"), a Russian coal mining company, is a minority shareholder of OAO TPTU, a subsidiary of the Group. Yuzhny Kuzbass exercises a significant influence over that subsidiary. OAO TPTU sells transportation services to Yuzhny Kuzbass.

OOO Raspadskaya Constructing Industrial Company ("RSPK") is an entity under control of the shareholders of Adroliv. RSPK provided construction services to the Group.

Greyridge Coal and Shipping is an entity under control of Evraz. During the six-month periods ended 30 June 2009 and 2008, the Group sold to the entity approximately 0% and 7% of sales volumes of coal and coal concentrate, respectively.

9.Related party disclosures (continued)

Compensation to key management personnel

Key management personnel totalled 9 persons as at 30 June 2009 and 2008. Total compensation to key management personnel was included in general and administrative expenses in the income statement and consisted of the following in the six-month periods ended 30 June:

	2009	2008
	US$000	*US$000*
Short-term benefits:		
Salary	**947**	1,173
Bonus	**–**	630
Social security taxes	**50**	79
	997	1,882

10. Equity

Share capital

As at 30 June 2009 and 31 December 2008, the Company's issued and fully paid number of shares 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.

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 is equal to the basic earnings per share.

Dividends declared and paid

On 2 June 2008, shareholders of the Company approved the payment of final dividends for 2007 in the amount of US$123,344,000, or 3.75 rubles per share.

On 24 December 2008, shareholders of the Company approved the payment of interim dividends for 2008 in the amount of US$41,333,000, or 1.50 rubles per share.

On 2 June 2009, shareholders of the Company decided to pay no final dividends for 2008.

11. Loans and borrowings

Loans and borrowings by source

	30 June 2009	31 December 2008
	US$000	*US$000*
7.50% notes due 2012	**300,000**	300,000
BSGV	**22,855**	35,901
Raiffeisenbank	**29,552**	11,255
Other Russian banks	**22**	2,748
Interest payable	**2,567**	2,710
Unamortized debt issue costs	**(1,174)**	(1,467)
	353,822	351,147

11. Loans and borrowings (continued)

On 17 May 2007 the Group issued loan participation notes amounting to US$300,000,000. The notes bear the interest of 7.5% per annum payable semi-annually and mature on 22 May 2012. The terms and conditions of the 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.

Average annual interest rates

	Six-month period ended 30 June 2009		Six-month period ended 30 June 2008	
	Short-term	**Long-term**	**Short-term**	**Long-term**
RUB	**n/a**	**n/a**	n/a	8.0%
USD	**n/a**	**7.2%**	8.7%	7.5%
EUR	**n/a**	**4.5%**	7.6%	6.7%

Loans and borrowings by currency

	30 June 2009	31 December 2008
	US$000	*US$000*
Russian rubles	**23**	25
US dollars	**325,334**	341,331
Euro	**29,639**	11,258
Unamortized debt issue costs	**(1,174)**	(1,467)
	353,822	351,147

Loans and borrowings by period of repayment

	30 June 2009	31 December 2008
	US$000	*US$000*
Not more than one year	**42,331**	37,085
After one year but not more than two years	**12,665**	14,122
After two years but not more than five years	**300,000**	301,407
Unamortized debt issue costs	**(1,174)**	(1,467)
	353,822	351,147

12. Commitments and contingencies

Operating environment of the Group

The Group is one of the biggest coking coal producers in Russia. Russia is considered as developing market with higher economic and political risks. The Russian economy is characterised by relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of the country. The country continues economic reforms and development of 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. The developing economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

12. Commitments and contingencies (continued)

The Group sells its coal concentrate and raw coal to steel mills and coking plants, all of which have reported substantially lower customer demand due to the slowing global economy. In addition to the slackening demand by the end customers, some of the Group's customers are experiencing difficulty in obtaining credit, which has further reduced their purchases from the Group even beyond that resulting from the decline in their sales. The duration of the difficulties and the recovery of these companies will have a significant impact on the Group.

The worldwide financial crisis may result in a further reduction of the available credit facilities as well as substantially higher interest rates. The reduced cash from operations and the reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures. These factors may also negatively impact the Group's ability to make acquisitions.

While the stabilisation measures aimed at providing liquidity and supporting debt refinancing have been introduced by the government, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. The unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

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 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, penalties and interest 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 uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Possible liabilities, which were identified by management at the statement of financial position date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to $2,834,000.

Contractual commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US$45,916,000 as at 30 June 2009.

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 six-month period ended 30 June 2009, the Group spent US$2,825,000. In the second half of 2009 the Group plans to spend US$3,000,000 under these programs.

12. Commitments and contingencies (continued)

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.

During the next three years, the Group expects to spend US$38,846,000 under the Plan on environmental protection for the years 2009-2011 authorized by management. As of 30 June 2009, the Group has spent US$493,000.

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.