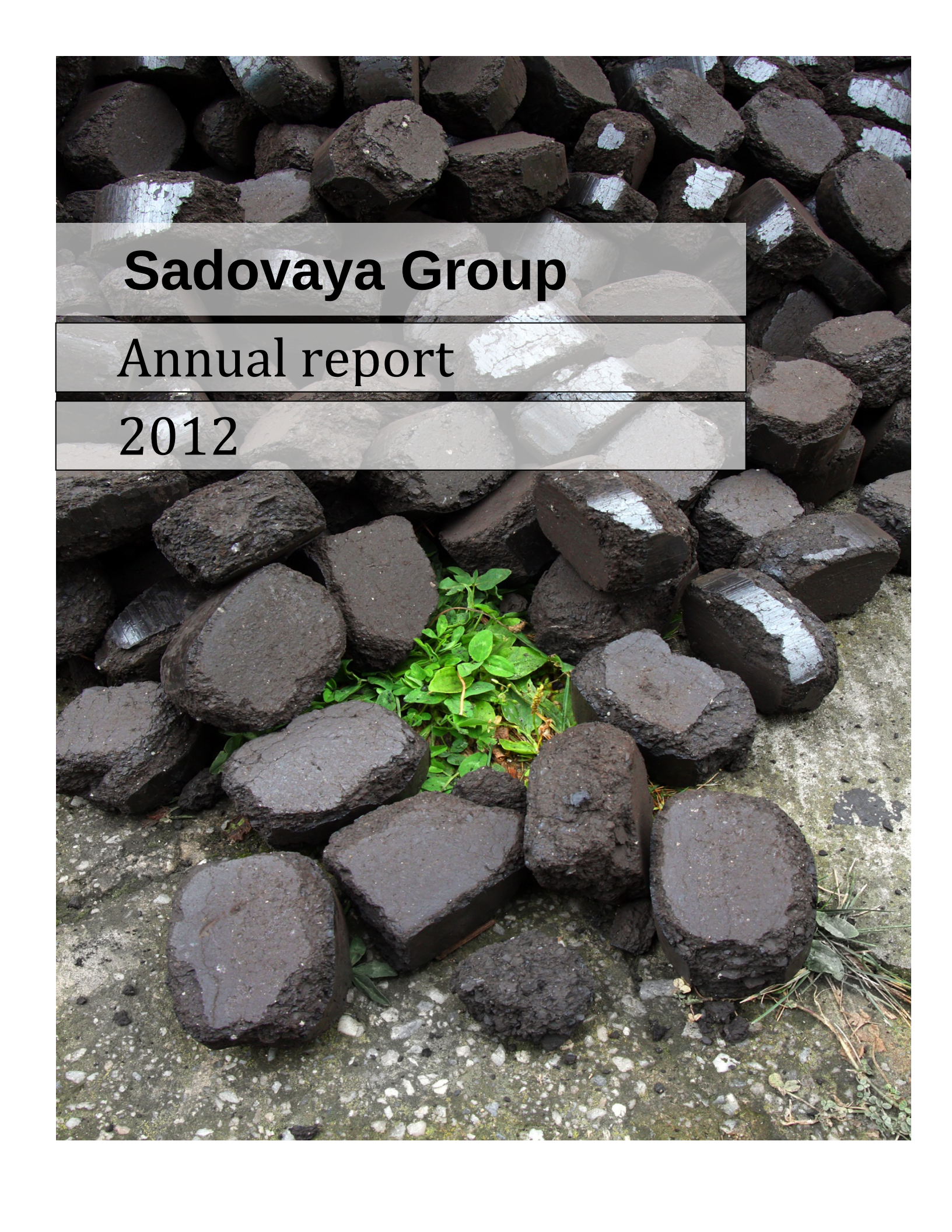




Sadovaya Group

Annual report

2012

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Dear shareholders, colleagues and partners,

The financial year of 2012 was a year of challenges for Sadovaya Group, marked both by achievements and downturns. The management of the Company was committed to meet financial and operational goals stated for the year.

Market environment in 1H2012 was in line with our expectations. However, in 2H2012 we experienced the significant deterioration of market conditions with coal demand and coal prices falling on the back of weak coal consumption by Ukrainian electricity generation industry. In 2012 our coal mining decreased by 15% year on year to 407 tones and the sales volume decreased 55% year on year to 570 tones.

In these challenging market conditions, the Company implemented the series of actions to improve the financial performance, including, cost optimization, tighter quality controls and widening of sales geography.

In 2012, we started the project on introduction of integrated system of Company's management in accordance with international standards. The project is being implemented with TUF-NORD (Germany).

As a part of long-term relationships with EBRD, Sadovay Group received USD 18 million for construction of coal recycling facilities. At the date of this report the first enrichment complex in Vakhrushevo was put into operation. In 2013 we will continue the construction of the second Enrichment facility with our partner, MBE (Germany).

Realizing that most of the difficulties we face are going to persist in 2013, we remain optimistic on the near term improvements in market conditions and further development of the coal recycling project with EBRD.

Sincerely Yours,

Alexander Tolstoukhov

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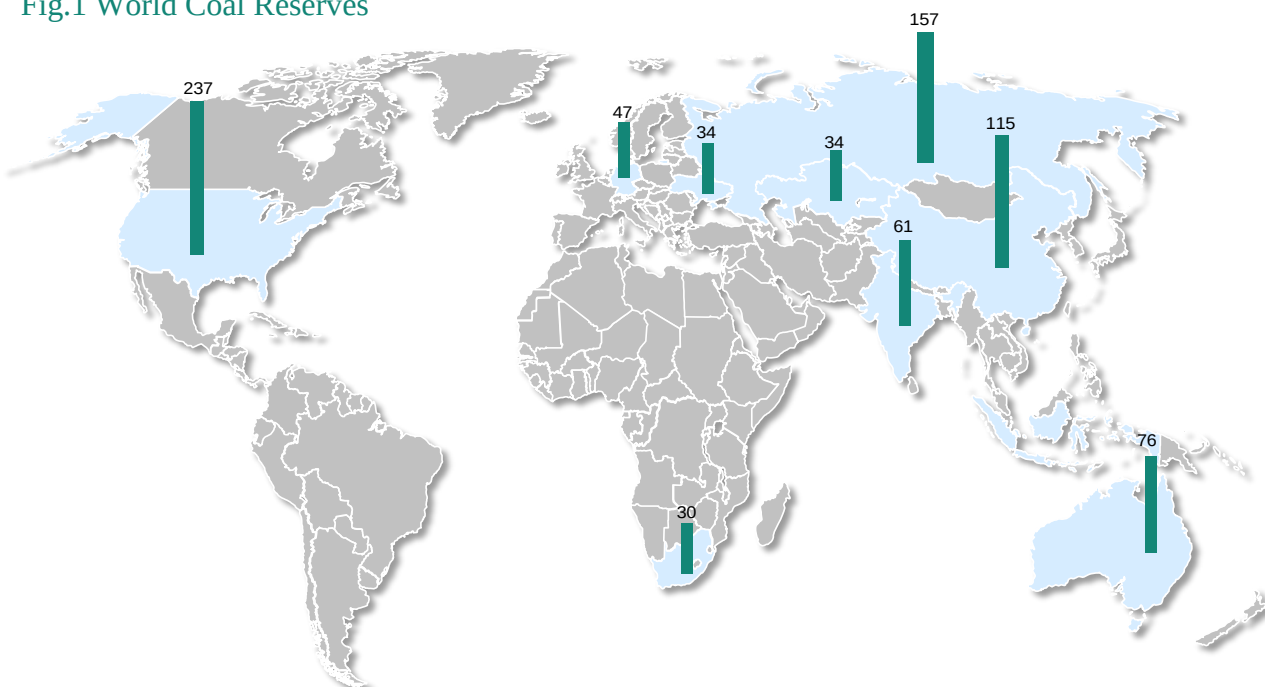
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Coal market

Ukraine has a favorable geographical location between Europe and Asia at the crossroads of major international trade routes and benefits from access to river and sea ports, developed railway and road networks.

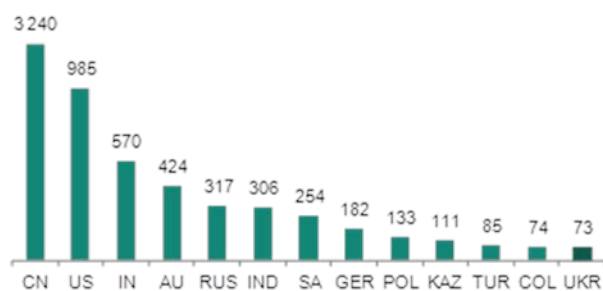
Ukraine holds the 7th largest coal reserves in the world – 34 billion tones and 3rd largest anthracite coal reserves – 5.8 billion tones. Most of the country's coal deposits are located in Donbas basin, Eastern Ukraine. In 2011, Ukraine was the 11th largest coal mining country in the world.

Fig.1 World Coal Reserves



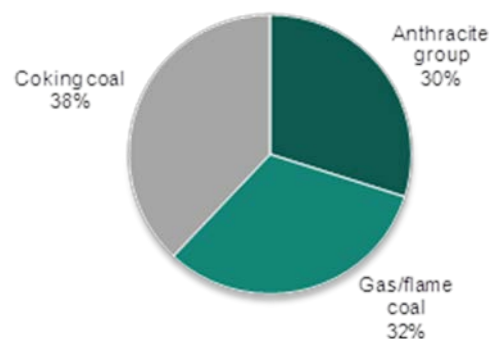
Source: BP Statistical review 2012

Fig.2 Top coal producing countries in 2010



Source: BP Statistical review 2010

Fig.3 Ukraine's coal production structure, 2011

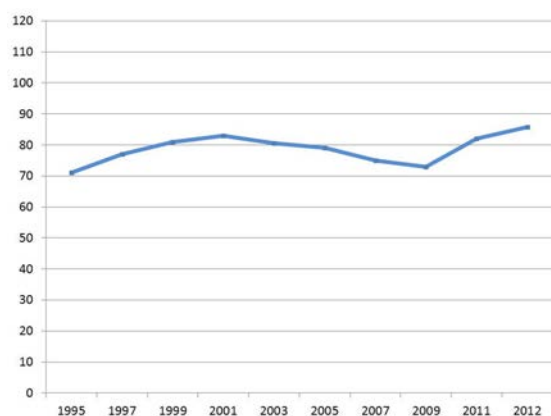


Source: Energobiznes

In 2012 in Ukraine out of 85,7 mmt of coal mined, steam coal volume amounted to 62% of total output.

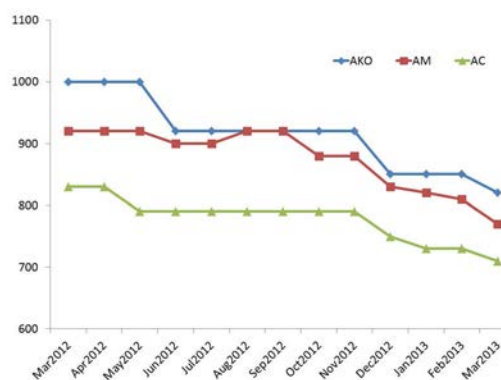
Majority of produced steam coal in Ukraine is consumed domestically for electricity production.

Fig.4 Coal production in Ukraine, mmt



Source: Ministry of Coal and Energy of Ukraine

Fig.5 Price development for Anthracite group



Source: the Metal-Expert edition

Business description and principal activities of the Group

Sadovaya Group S.A., incorporated in the Grand Duchy of Luxembourg, is a holding company for Sadovaya Group: a group of ten companies, seven of which are incorporated and operating in Ukraine in the mining industry and two are Cyprus companies (the “Group”).

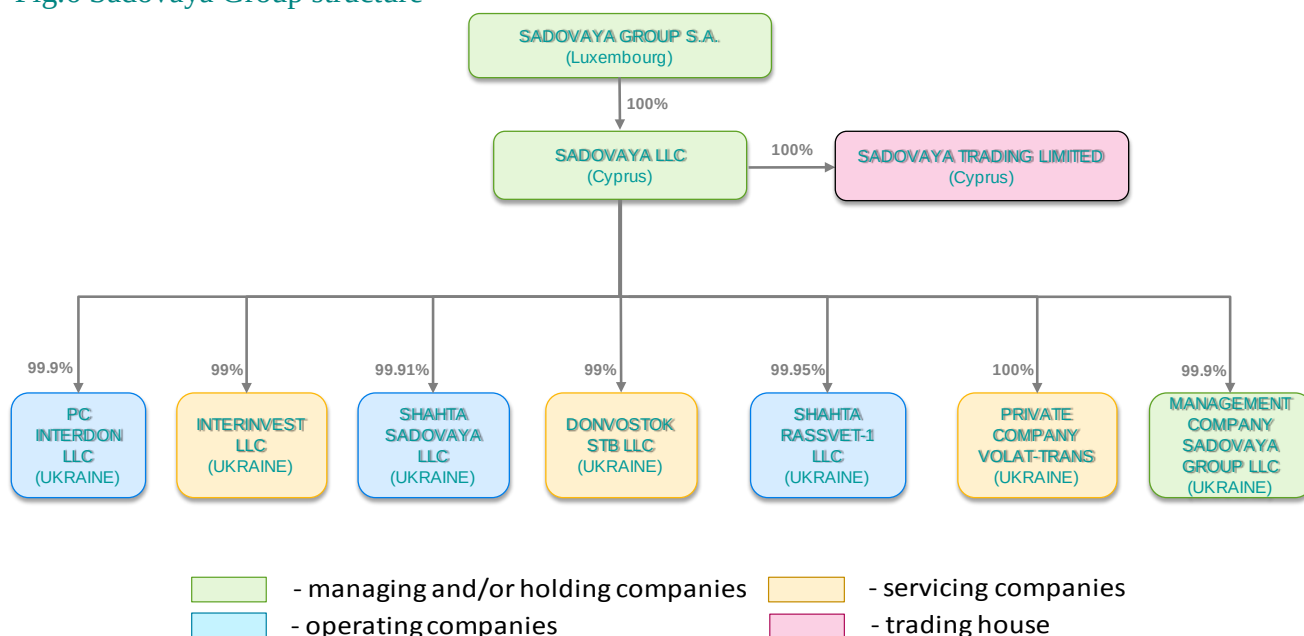
The Group comprises operating, holding, servicing and trading companies (Fig.8).

The main shareholder of Sadovaya Group S.A. is Cypriot company Connectico LLC (75%), whose final shareholders are Mr. Alexander Iurievich Tolstoukhov (51%) and Mr. Sergey Nicolaievich Stetsurin (49%).

Other 25% of shares are traded on the Warsaw Stock Exchange.

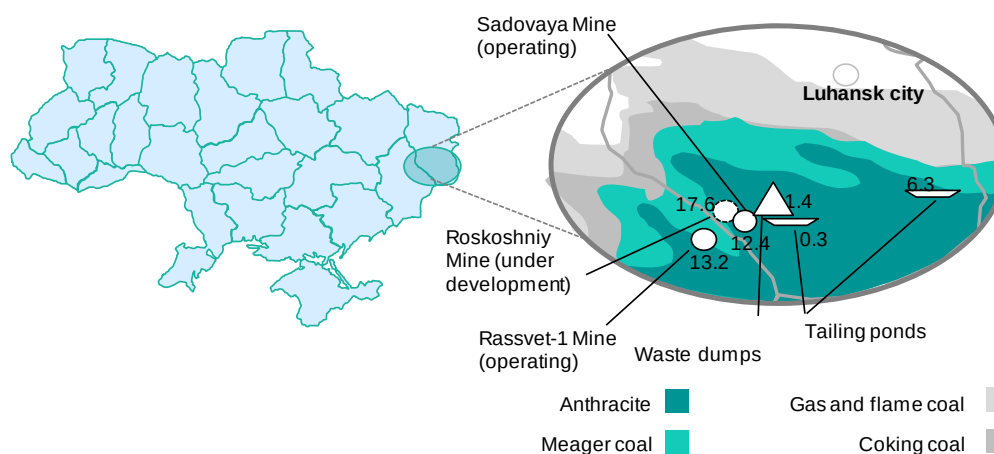
The Group’s principal activities are the preparation and marketing of coal from three main sources: own underground mining, the recovery of coal waste deposits, and third party purchases. The Group’s diversified mining and related operations are divided into the following major segments: coal mining and coal enrichment (or coal cleaning), the extraction of coal from waste deposits (or processing of waste dumps), and coal trading (or trade activities).

Fig.6 Sadovaya Group structure



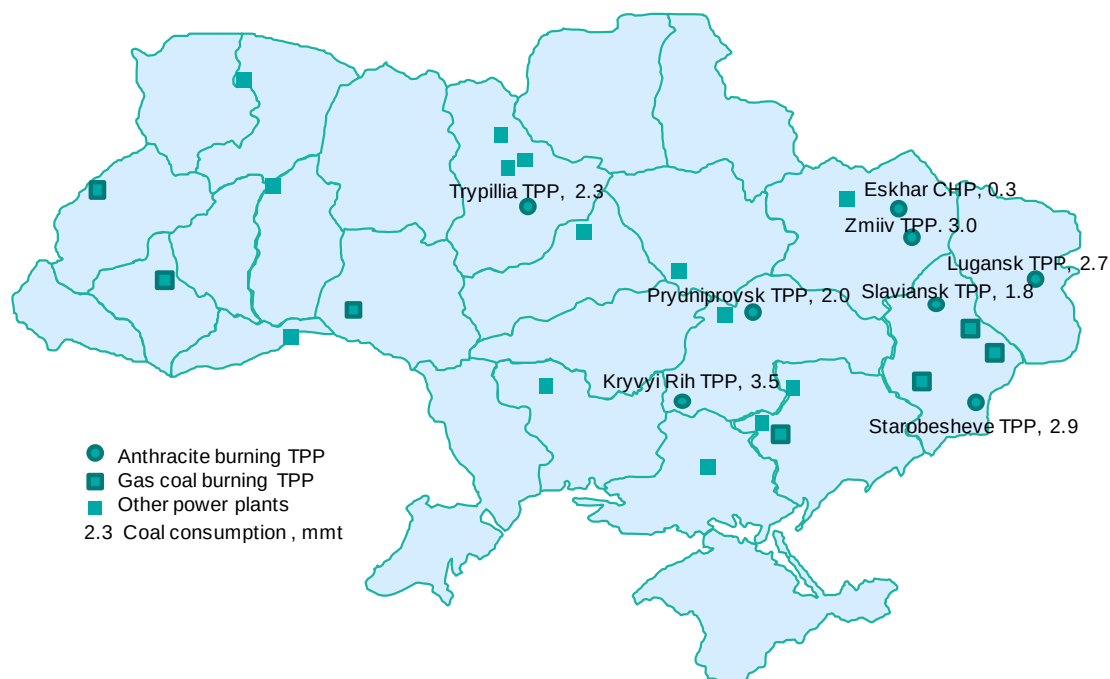
Sadovaya Group operates two full-cycle mine complexes in Ukraine's Donetsk and Luhansk Regions – Sadovaya and Rassvet-1 mines, and in March 2011 acquired a license to develop Roskoshniy mine field, natural extension of Sadovaya mine filed. Total underground resources under Group's ownership currently comprise 42.8 mmt. The Group extracts two types of coal, classified as anthracite (grade A) and semi-anthracite (grade T), which are mainly used for energy generating purposes.

Fig.7 Sadovaya Group assets in Ukraine



Geographically, the Group is optimally located, in the Donbas region near its major customers in eastern Ukraine, and with rail and water (via the Black Sea) links to the external markets. Exports accounted for 6% of total sales in 2012. However, the Group strategy implies further increasing of the export share.

Fig.8 Ukraine power plants and anthracite coal consumption in 2011, mmt



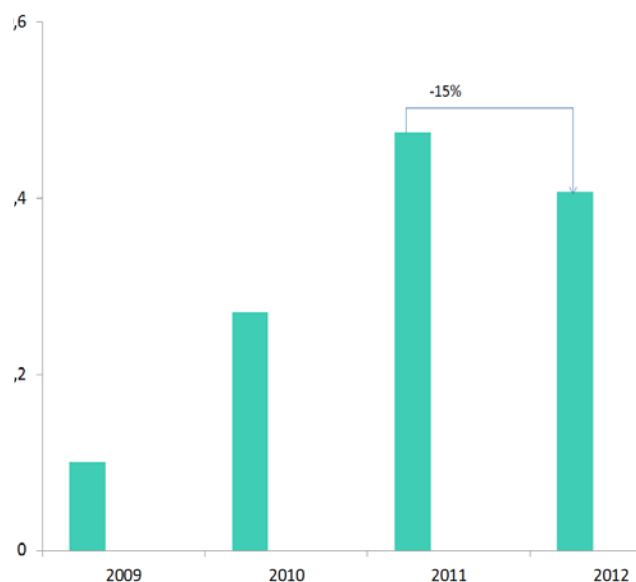
Coal mining

The Group has two mining complexes in the Donbas region with its own infrastructure. In 2012 total mining output comprised 407 ths. t or 15% lower than a year before. The coal extracted from seam thickness of between 0.55 m and 2.02 m.

Sadovaya mine extracts coal of anthracite type (grade A). Production volumes comprised 204 ths. t in 2012, -20% y-o-y. By the end of 2012 Sadovaya mine operated 3 longwalls with monthly coal output of 7-9 ths. t each.

In 2012 the preparatory works on the 4th eastern longwall launched on k₇ coal seam began. The reserves at the longwall range to 460 ths.t. Necessary amount of financing – 10 mln dollars. Planned loads at the longwall – 45 ths.t monthly. The coal extraction at the mine was stopped on 15.10.2012 because of the decrease of the demand for coal products.

Fig.9 Sadovaya Group mining results



Rassvet-1 mine extracts semi-anthracite type of coal (grade T). In 2012 coal output comprised 203 ths. t, -8% y-o-y. By the end of 2012 the mine operated 2 longwalls with monthly coal output of 15-18 ths. t each. In 2012 the preparatory works on the 11th eastern longwall launched on l₇ coal seam began. Necessary amount of financing – 1.5 mln dollars. Planned loads at the longwall – 15 ths.t monthly.

As of January 2013 the Group mines employed 1619 people.

In 2012 The Group together with RAG Company prepared the project for construction of the inclined shaft for mining the reserves of the “Roskoshniy” coal field, a natural extension of the Sadovaya field in March 2011. Total resources of "A" grade coal at "Roskoshniy" field within the bounds of the coal seams l₇, l₆, l₄, k₇ amounted to 17.6 million tons. Proven and probable reserves (2P), as confirmed by IMC under JORC code, are 9.1 million tons as of July 1, 2010. The license is issued for 20 years.

Fig.10 Sadovaya Group resources, audited by IMC Montan, as of July 2010

in tones	Resources	2P Reserves
Sadovaya field	12,380,000	9,929,000
Rassvet- 1 field	13,200,470	5,473,000
Roskoshniy field	17,617,000	9,051,000
Waste resources	7,930,735	6,745,162
	51,128,205	31,198,162

Waste recovery

Coal mining and enrichment activities in the Donbas region over the last century created on-ground waste deposits that have high coal content.

The Group occupies with the waste recovery and plans to develop this business segment. The Loan Agreement with European Bank for reconstruction and Development was concluded for partial financing of this project. This Agreement provides financing of 36 mln dollars for constructing 4 reprocessing facilities with the total capacity of 3.6 m/t (annual percentage rate LIBOR 3M +3.6% amortization period – 7 years).

The project has a number of environmental and social benefits including: processing of waste material, reduced emissions of greenhouse gases, smaller stockpiles with associated visual landscaping improvements and social-economic benefits in terms of job creation and a local economic stimulus.

Total project costs are estimated at up to USD 83 mln including up to USD 47 mln of Sadovaya's participation and up to USD 36 mln of EBRD project financing. Existing Interdon's waste coal reserve assets has already formed a part of Sadovaya's contribution.

The Group controls number of coal waste dumps and tailing ponds that are located in Luhansk region. In 2012 waste dump in Snezhnoe town and coal tailings were purchased to develop resource potential for prospective reprocessing facilities.

On the first stage of the project PC "Interdon" LLC, which occupies with coal reprocessing, has got the first loan tranche from EBRD in amount of 18 mln dollars. The construction assembly work for the first reprocessing facility in Vakhrushevo city was finished in the 4th Quarter 2012. At the end of the year the object is on the stage of commissioning. The terms of commissioning – April 2013. Object's planned capacity – reprocessing of 90 ths.t of coal wastes monthly. The high quality of the final product ensures customers' demand and stable money flow for the Group.

According to the further plan of the realization of the cooperative project with EBRD, the Company prepared the second site for factory's building – "Samsonovskiy" site. The project design work had started on 2011. The pneumofloatation equipment manufactured by MBE Company (Germany). Realization of this project will be continued this year.

Coal trading

The main products of the Group are steam coal and coal for technological and household needs sold to Ukrainian energy generating companies and metallurgical plants.

The Group's products are mainly sold in the Ukrainian market. However, the Group plans to increase its export volumes in the short-term perspective.

Key Group's customers include Donbassenergo, DTEK, Zaporizhia Ferroalloy and Nikopol Ferroalloy plants.

In 2012 the Group sold 569.575 ths t of coal or 55% less than in 2010.

Since the 4th Quarter 2012 the Group has been suffering from the difficulties with coal trading, related to the decrease of the demand at the coal market caused by significant coal stock surplus at the TPPs. As a result, the coal mining at "Sadovaya" mine was stopped.

Fig.11 Sadovaya Group sales structure, 2012

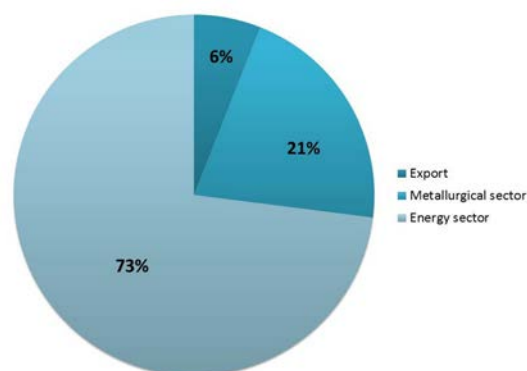
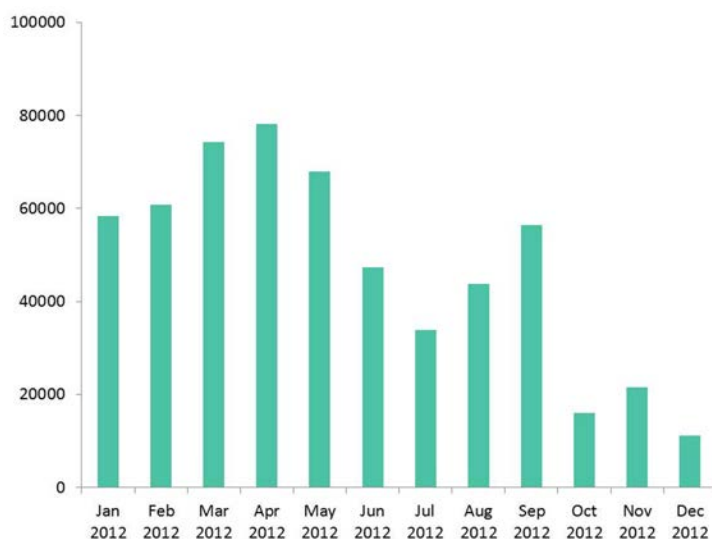


Fig.12 Sadovaya Group sales volumes, 2012, tonnes



Highlights of 2012

The 18 million USD from the first tranche of the loan agreement with the EBRD was received as a part of Coal Recycling Project



March

Passvet-1 mine began the preparation of 11th eastern longwall on l₇ coal seam



March

Enrichment complex in Vakhrushevo city are being on the stage of active construction.



April

Designing of the inclined shaft for “Sadovaya” mine was finished by RAG company.



May

Project of integrated system implementation according to the ISO 9001 ISO14001 ISO 50001 OHSAS 18001 is on the stage of realization.



May

Sadovaya Group declines its operational and financial forecast for 2012



June

As a part of Coal Recycling project the following reserves were acquired: waste heap in Sneghnoe city and tailing dumps in Samsonovka village.



March-August

Due to low coal demand coal production at Sadovaya mine was temporally stopped.



October

Construction and assembly works are finished on the first enrichment complex in Vakhrushevo city. The complex is being on the stage of operational testing.



October

Repair works has been started at Rassvet-1 mine.



December

Review of financial results of 2012

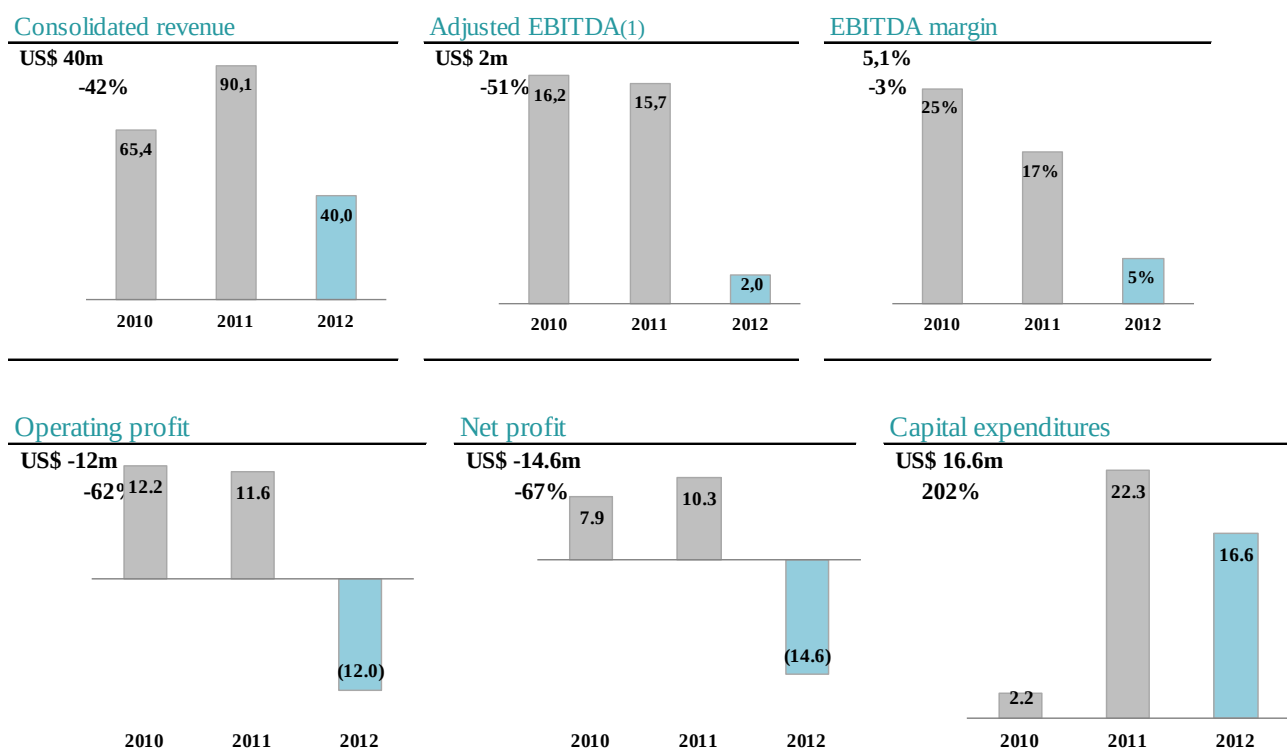


Fig.13 Key financial figures

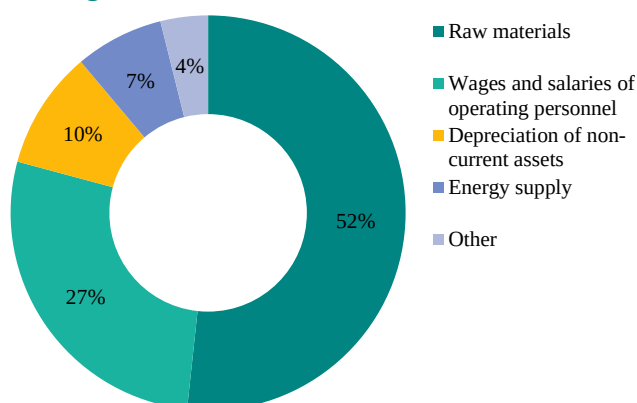
(1) EBITDA is defined as operating profit/(loss) before depreciation and amortization, gains/losses on sale of property, plant and equipment and intangible assets and revaluation gains/losses on property, plant and equipment, financial assets impairment losses/recovery recognized in income statement. EBITDA provides additional performance measure to show effects of the Company's operations which are difficult to recognize directly from the Financial Statements.

Revenue. Total revenue decreased from US\$ 90.1 million as of 31 December 2011 to US\$ 40.0 million as of 31 December 2012, revealing 42% year-on-year decrease. The decrease is caused mainly by negative tendencies in coal market, arose in 2H2012. The main part of the revenue was generated from mining and coal cleaning activities comprising more than 99% of total (US\$ 39.7 million). For information on sales segmentation please refer to Note 5 for the Consolidated financial statements.

Cost of goods sold. Cost of sales decreased from US\$ 72.6 million as of 31 December 2011 to US\$ 31.4 million as of 31 December 2012 that represents a 57% year-on-year decrease. The COS and revenues decreased on a pro rata basis.

Raw materials - 52% of total COS (US\$ 16.2 million). Comparing year to US\$50.8 million in 2011, a 68% y-o-y decrease, which reflects the decrease in sales volumes as well as the decrease in purchases from third parties.

Fig.14 COS structure in 2012



Wages and salaries – 27% of total COS (US\$ 8.6 million), slightly decreased by 9% compared to year 2011 as the Group longed to save its professional personal.

Depreciation – 10% of total COS (US\$ 3.0 million), decreased by 12% compared to year 2011 due to temporarily stoppages in Sadovaya mine operations.

For detailed information about COS structure please refer to Note 7 of the consolidated audit report.

Gross profit. Gross profit decreased from US\$ 17.5 million as of 31 December 2011 to US\$ 8.5 million as of 31 December 2012, which represents 49% of Group's 2011 consolidated gross profit. The decrease is explained by the overall decrease in sales volume and coal prices connected with the negative market conditions. However, despite of the crises, the Group managed to save its gross profit margin unchanged at 20%.

Operating expenses

Distribution costs remain US\$ 1.9 million in the financial year ended 31 December 2012 due to incurred cargo insurance costs connected with customers' requests and increase in transportation costs on domestic market (increase of railway tariff) in the reporting period.

General and administrative expenses increased from US\$ 3.8 million as of 31 December 2011 to US\$ 4.1 million as of 31 December 2012, 9% year-on-year increase. The increase is mainly explained by payments for consultancy service in respect of EBRD loan as well as payments for other professional services provided for issuer on stock market.

Fig.15 Selling and distribution expenses

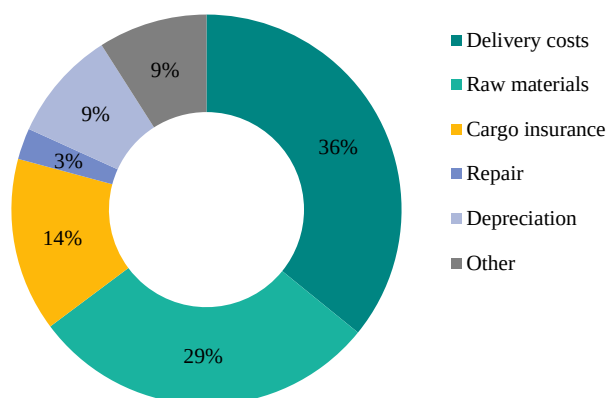
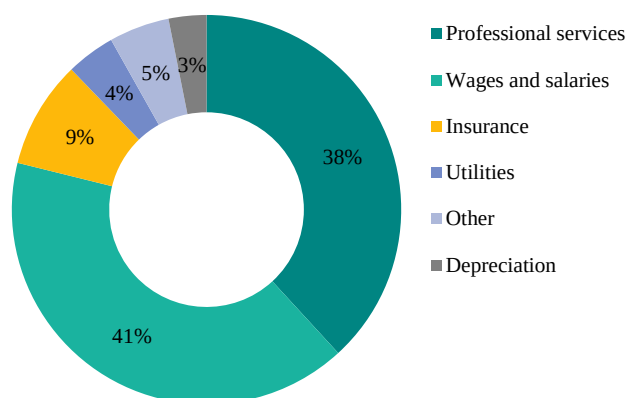


Fig.16 General and administrative expenses



Finance income and expenses

Finance costs increased from US\$ 3.0 million as of 31 December 2011 to US\$ 4.0 million as of 31 December 2012, 33% year-on-year increase. The increase is explained by several reasons. Interest expenses increased by 20% y-o-y as the Group's loan portfolio balance changed from US\$ 18.6 million to US\$ 43.0 million (including loan from EBRD, US\$ 18.0 million). Furthermore, the increase in finance expenses is explained by effect of long-term receivables discounting amortization.

Expenses from financial assets impairment

According to the accounting policy, the Group has charged the allowance for the trade and other receivables impairment for those receivables the overdue terms of which exceed 180 days. The amount of such expenses totaled to US\$ 4.0 million, which represents 34% of the total trade and other receivables balance. The delay in payments from customers is connected with the overall market decline.

According to mutual arrangements with debtors achieved in 1Q2013, receivables acquired under factoring contract was recovered in amount US\$ 446 thousand out of US\$ 1.5 million. The Group estimates the possibility of the debt settlement in full as hardly probable.

Income/(expenses) from PP&E revaluation

The Group measures its property, plant and equipment at revaluated cost.

As the result of revaluation conducted at 31 December 2012 the property fair value was assessed in accordance with the requirements of International Valuation Standards.

Revaluation increase of property, plant and equipment as a result of revaluation was recognized in other comprehensive income in the amount of US\$ 3,9 million and in the amount of US\$ 108 thousand in profits and losses in item Income/(expenses) from PP&E revaluation.

Loss from impairment of property, plant and equipment is recognized in the amount of US\$ 14,0 million in other comprehensive income and in the amount of US\$ 4,8 million in profits and losses in item Income/(expenses) from PP&E revaluation.

Factors lead to impairment of assets are uncontrollable by the Group and reflect the negative market standings.

Other expenses

Due to temporarily stoppages in operations of Sadovaya mine and repair works at Rassvet mine the Group reclassified part of its operating expenses to idle capacity expenses in amount US\$ 2,5 million.

During the year 2012, US\$ 2.1 million was recognised as an expense for inventories carried at net realisable value in line with the Group's accounting policy reflecting the decrease in coal prices.

Cash flow and financial ratios

Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-term bank facilities and lines of credit. Our bank credit lines are provided by foreign (EBRD) and domestic banking institutions (Credit-Dnepr Bank and OTP Bank). Banks provide financing to our Group either in \$ or in Hryvna. For information on material loan facilities of our Group Subsidiaries please see Note 20.

Cash inflow from operations in year ended in December 31, 2012 was US\$ 2.9million.

The positive cash flow from operations reflects the substantial discharge of trade receivables.

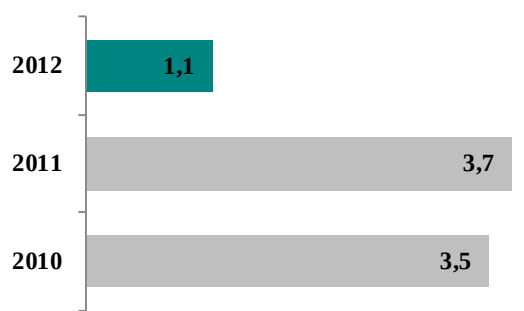
Cash used in investing activities was US\$ 19.0 million for the year ending 31 December 2012 (31 December 2011: US\$ 21.0 million), primarily reflecting the construction of modular enrichment complex Vahrushevsky and capital repairs made in year 2012.

Fig.17 Basic financial ratios

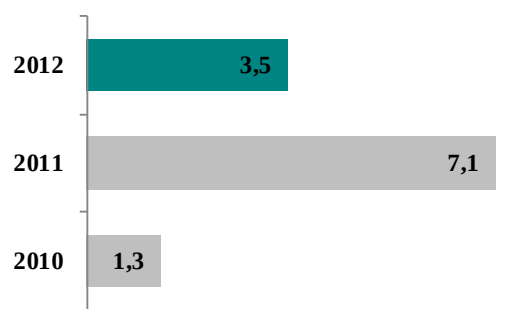
Interest coverage ratio (EBITDA to finance costs)



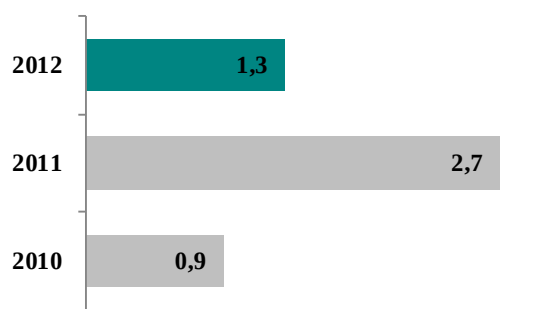
Gearing Ratio (Equity to interest-bearing debt)



Current ratio (Current assets to current liabilities)



Quick ratio (Current assets less inventory to current liabilities)



Related party transactions

Information in respect of related parties transactions is disclosed in Note 31 of the consolidated report. Total amount of proceeds from goods and services arising from such transactions doesn't exceed 1% of total revenue. The most significant transaction the Group executed with related parties in FY 2012 is an obtained interest-free loan.

Accounts payable are interest-free at each date. Such liabilities arose due to machinery lease from related parties and purchased coal. Accounts receivable from related parties at each date are interest-free as well. The sales to and purchases from related parties are made on terms equivalent to those prevailed in arm's length transactions. Provisions for impairment of accounts receivable from the related parties were not charged.

Principal risks and uncertainties

Coal price

The Group's business is dependent on the market price of coal. Level of coal prices in Ukraine is historically below world prices and is regulated by the Government. As of mid-April, the coal market situation hasn't changed significantly and the coal demand is still low. The Group expects the stabilisation tendency to commence in 2H2013.

Demand for coal products

Demand for coal is fluctuating and depends on the local and world economy, as well as on weather conditions. The Company understands this risk and is diversifying its customer base, signing long-term contracts and considering expansion into export markets. The Group expects recovery of the demand for anthracitic coal in Ukraine, fuelled by growing electricity demand, which will be satisfied primarily by an increase in thermal power plants' production.

Exposure to currency risk

The Group debt structure is mostly denominated in US dollars, whereas the main part of revenue streams is nominated in UAH. In case of shifts in USD/UAH currency rate the Group has a chance to obtain gain or loss as a result of such movement. The Group aims to balance its currency denominated assets and liabilities by increasing export share and varying its debt structure.

Delay in the launch of new facilities

The construction and launch of new facilities is a comprehensive process. The Group understands the risk that due to a variety of factors, both dependent on and independent of the Group, some forecasted dates may be shifted. However the Group will do its best to stick to the planned schedule.

Unexpected stoppages due to technological malfunctions and geological conditions

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various kinds of stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions), as well as due to unexpected geological reasons (e.g. seam rupture) that cause the development of a seam to become dangerous or impossible. The risk of an adverse effect of such stoppages is minimized by the fact that the Group extracts coal using the longwall system and its target production capacity is obtained in two mines from different walls. Additional principal risks and uncertainties faced by the Group and the steps taken to manage these risks are disclosed in Note 32 of the consolidated financial statements.

Future developments of the Group

Management has made the most conservative cashflow projections for the year 2013 based on the current market situation and external sources of information (see Table below).

Development of mining segment

At the date of this report Sadovaya mine and Rassvet-1 mine continue working in sustaining mode to maintain safety conditions of underground mining. Further development of this segment will depend on future market conditions.

Development of waste recovery segment.

The Group has finished the construction of the first enrichment complex for processing waste dumps with a total processing capacity of 150 tons/h and an annual expected coal output of 180-280 thousand tons.

The complex was put into operation in April.

The Group also intends to continue construction of an enrichment complex for processing tailing ponds deposits, with a total processing capacity of 150 tons/h and an expected annual coal output of 240-300 thousand tons. This complex is expected to be put into operation in the next year. The second stage of the project will include at least another 2 waste coal reprocessing facilities to bring total capacity up to 3.6 m/t.

Development of the coal trade segment. In 2013 the Group will focus mainly on increasing of the export share in total sales and diversifying its customer base.

Fig.18 Operating plan for 2012

'000 tons	2013F	% change, y-o-y	2012FY
Coal sales	400	-30%	570
Coal mining	247	-39%	407
Sadovaya mine	163	-20%	204
Rassvet-1 mine	84	-59%	203
Coal recovery from waste dumps	80	-	0

Events after the end of the reporting period

In March 2013, PC Interdon LLC, the Group subsidiary, fulfilled its financial obligation towards the EBRD timely and in full. Shakhta Sadovaya LLC and Shahta Rassvet-1 LLC have settled its financial arrears in part. The payment terms of the balance was prolonged under the Additional Agreements with OTP Bank.

In April 2013, the Group put into operation the first enrichment complex Vahrushevsky for processing waste dumps with a total processing capacity of 150tons/h and an annual expected coal output of 180-280 thousand tones.

In April PC “Interdon” LLC has entered into an export contract. The expected coal volume supply is April – 500 tons, in May – 2,000-5,000 tons, June – from 5,000 tons.

The market situation continues to be weak and reflects in further contracting delays with key buyers. At the date of this report, the coal prices remain unstable. The Group continues reducing all operational costs.

Corporate governance report

General information

Sadovaya Group S.A. (“the Company”) is registered in Luxembourg, registered office: 65, Boulevard Grande-Duchesse Charlotte, L-1331 Luxembourg. R.C.S Luxembourg B 153489. The shares of the Company are listed on the Warsaw Stock Exchange. The subscribed share capital is set at four hundred and thirty thousand eight hundred and fifty-six United States Dollars and ninety-three cents (USD 430,856.93), represented by forty-three million eighty-five thousand six hundred and ninety-three (43,085,693) shares with a nominal value of one cent (USD 0.01) each.

The Company declares that it follows the non-binding principles on corporate governance contained in “Ten principles of corporate governance of the Luxembourg stock exchange” approved in October 2009. Any incompliance with these principles were disclosed and explained below. Also the Company has decided to observe the majority of the WSE Corporate Governance Rules. Sadovaya Group S.A. has a clear and transparent corporate governance framework and provides relevant disclosure.

All adopted corporate governance documents and details regarding current corporate governance system of the Company are published on the Company’s website <http://sadovayagroup.com/>.

Board of Directors

The Company has a one-tier management structure consisting of the Board of Directors composed of one or more A directors (the “A Directors”) and one or more B directors (the “B Directors”). The Board of Directors is responsible for the management of the Company’s operations. It is vested with the broadest powers to take any actions necessary or useful to fulfill the Company’s corporate purpose, with the exception of actions reserved by Luxembourg law or the Articles of Association to the General Meeting of Shareholders.

The Director(s) are elected by the General Meeting, for a period not exceeding six (6) years and until their successors are elected, provided, however, that any Director may be removed at any time by a resolution taken by the General Meeting of Shareholders. In the event of vacancy in the office of a Director because of death, resignation or otherwise, the remaining Directors elected by the General Meeting may meet and elect a Director to fill such vacancy until the next General Meeting of Shareholders.

Till the Annual General Meeting of the Company held on June, 20 2012 the Board of Directors comprised of:

Mr. Alexander Tolstoukhov, A Director;
Mr. Sergey Stetsurin, A Director;
Mr. Pierre-Siffrein Guillet, B Director;
Mr. Pierre Mestdagh B Director.

Annual General Meeting of the Company held on June, 20 2012 accepted the resignation of Mr. Pierre Mestadgh, B Director and Mr. Pierre-Siffrein Guillet, B Director and appointed the new B Directors: Mr. Eriks Martinovskis, B Director and Mr. Douwe Terpstra, B Director.

Since June, 20 2012 the Board of Directors comprised of:

Mr. Alexander Tolstoukhov, A Director;
Mr. Sergey Stetsurin, A Director;
Mr. Eriks Martinovskis, B Director;
Mr. Douwe Terpstra, B Director.

The mandate of the Directors will lapse at the Annual General Meeting of the year 2015 or until their successors have been duly elected.

Audit Committee

The Audit Committee assists in supervising the activities of the Board of Directors with respect to:

- operation of internal risk management and control systems, including supervision of the enforcement of relevant legislation and regulations, and supervising the operation of codes of conduct;
- provision of financial information by the Company (choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the financial accounts, forecasts, work of internal and external auditors, etc.);
- compliance with recommendations and observations of internal and external auditors;
- the role and functioning of the Company's internal audit department;
- the Company's tax planning policy;
- the Company's relations with the external auditor, including, in particular, its independence, remuneration and non-audit services for the Company.

In the course of 2012 year members of the Audit Committee of the Company was not appointed, the entire Board of Directors dealt with the tasks and responsibilities of the Audit Committee in close collaboration with the internal and external auditors.

Nominations and Remuneration Committee

Currently the Company does not have Nominations or Remuneration committees; the need to create Nominations and/or Remuneration committees is assessed annually. The tasks and duties contemplated by the Remuneration committee and Nominations committee are performed by the entire Board of Directors. The Company does not have formal policies on board and top-management performance evaluation and remuneration at the moment.

Internal Control/Risk Management

In the course of 2012 year the Board of Directors of the Company was responsible for the system of internal risk management and control and reviewing at least annually the internal control and risk management systems, with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed.

Financial reporting process

The Group has in place common accounting policies and procedures on financial reporting and closing. Also, prepares budgets for review and approval of Board of Directors, as well as forecast of financial performance during the year. The management monitors the publication of the new reporting standards and works closely with external auditors in evaluating in advance the potential impact of these standards.

The entities of the Group maintain their accounting records in accordance with accounting standards and other statutory requirements to financial reporting in the country of their incorporation. Local statutory accounting principles and procedures differ from accounting principles generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group entities' statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS. Stand alone financial statements is issued based on maintained accounting records in accordance with local (Luxembourg) accounting standards.

Management of the Group is paying adequate attention and efforts in designing, implementing and maintaining an effective system of internal controls on financial reporting process. Financial reports are analyzed, reviewed and discussed before issuance.

The remuneration of the members of the Board of Directors

The remuneration of the members of the Board of Directors is determined by the Board of Directors and ratified by the General Meeting of shareholders.

The objective of the Group's remuneration policy is to provide a compensation program allowing for the attraction, retention and motivation of members of the Board of Directors who have the character traits, skills and background to successfully lead and manage the Company.

General Meeting practices

The General Meeting of shareholders is vested with the powers expressly reserved to it by law and by the Company's Articles of incorporation. The General Meeting of shareholders of the Company may at any time be convened by the Board of Directors. It shall also be convened upon written request of shareholders representing at least ten percent (10%) of the Company's share capital. In such case, the General Meeting of shareholders must be convened and shall be held within a period of one (1) month from receipt of such request. Further, shareholder(s) representing at least five percent (5%) of the Company's share capital may request the adjunction of one or several items to the agenda of any General Meeting of shareholders.

The annual General Meeting of shareholders shall be held in Luxembourg, at the registered office of the Company or at such other place as may be specified in the notice of such meeting, on the third Wednesday of June at 5 p.m. If such day is a legal holiday, the annual General Meeting of shareholders must be held on the next following business day. Other meetings of shareholders may be held at such place and time as may be specified in the respective notices of meeting.

Where the shares are recorded in the register of shareholders in the name of a depository or sub-depository of the former, the certificates must be received at the Company no later than the day precedent the fifth (5th) working day before the date of the general meeting unless the Company fixes a shorter period.

All proxies must be received at the Company by the same deadline.

Voting rights

Each share entitles to one (1) vote, subject to the provisions of the law. Unless otherwise required by law or by the Company's Articles of incorporation, resolutions at a General Meeting of shareholders duly convened are adopted at a simple majority of the votes validly cast, regardless of the portion of capital represented. Abstention and nil votes will not be taken into account.

A shareholder may act at any General Meeting of shareholders by appointing another person, shareholder or not, as his proxy in writing by a signed document transmitted by mail, facsimile, electronic mail or by any other means of communication. One person may represent several or even all shareholders.

Shareholder who participate in a General Meeting of shareholders by conference call, video conference or by any other means of communication which allow such shareholder's identification and which allow that all the persons taking part in the meeting hear one another on a continuous basis and may effectively participate in the meeting, are deemed to be present for the computation of quorum and majority, subject to such means of communication being made available at the place of the meeting.

Each shareholder may vote at a General Meeting of shareholders through a signed voting form sent by mail, facsimile or electronic mail to the Company's registered office or to the address specified in the convening notice. The shareholders may only use voting forms provided by the Company which contain at least the place, date and time of the meeting, the agenda of the meeting, the proposals submitted to the resolution of the meeting as well as for each proposal three boxes allowing the shareholder to vote in favour of or against the proposed resolution or to abstain from voting thereon by ticking the appropriate boxes. The Company will only take into account voting forms received prior to the General Meeting of shareholders which they relate to.

The Board of Directors may determine further conditions that must be fulfilled by the shareholders for them to take part in any General Meeting of shareholders.

Any amendments to the rights of shareholders require an amendment to the Articles of Association and are subject to the same quorum as for an extraordinary General Meeting. Any resolution to amend the Articles of Association must be taken before a Luxembourg notary and such amendments must be published in accordance with Luxembourg regulations.

Dividend rights

The General Meeting shall determine how the remainder of the annual net profits shall be disposed of and it may alone decide to pay dividends from time to time, as in its discretion believes best suits the corporate purpose and policy.

The dividends may be paid in euro or any other currency selected by the Board and they may be paid at such places and times as may be determined by the Board. The Board may decide to pay interim dividends under the conditions and within the limits laid down in the Luxembourg laws.

Share options

At the date of this annual report, the Company has no a share option plan and no share options have been granted to the members of the Board of Directors, members of Company's senior management or employees.

Information regarding deviation from the WSE Code of Best Practice for WSE Listed Companies

The Company has decided to observe the majority of the WSE Corporate Governance Rules included in the Code of Best Practice for WSE Listed Companies. However, certain principles apply to the Company accordingly, with due observance of Luxembourg laws and the Company's corporate structure, especially the single board structure as opposed to the two-tier system that the WSE Corporate Governance Rules assume. The Company does not have two separate governing bodies (supervisory board and management board) which are obligatory in Polish joint stock companies. Instead, the Board of Directors of the Company performs both the management and

supervisory functions. As a result, the Company applies those principles of the WSE Corporate Governance Rules which refer to relations between supervisory board and management board not directly, but accordingly.

In 2012 the Company did not fully comply with the following rules described in the Code of Best Practice for WSE Listed Companies as follows:

Rule	Rule status in the Company
I. Recommendations for Best Practice for Listed Companies	
1. A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular: - maintain a company website whose scope and method of presentation should be based on the model investor relations service available at http://naszmodel.gpw.pl/; - ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication; - enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website.	Complies with the reservation that the Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling on-line broadcasting. At the same time the Company supports its shareholders to exercise their voting rights by authorizing the proxies.
5. A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.	Currently the Company does not have a remuneration policy adopted; the need to create Remuneration committee is assessed annually.
6. A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company 7. Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular:	There is only one governing body in the Company, the Board of Directors.

Rule	Rule status in the Company
- refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments; - raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the company.	
9. The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.	The Company supports this recommendation however the members of the Board of Directors are appointed by General Meeting of Shareholders and therefore the compliance with this recommendation depends on the shareholders' future decisions.
II. Best Practice for Management Boards of Listed Companies	
1. A company should operate a corporate website and publish on it, in addition to information required by legal regulations: 1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies; 2) professional CVs of the members of its governing bodies; 3) current and periodic reports; 4) [deleted] 5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution; 6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board; 7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions; 8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;	Complies taking into account that there is only one governing body in the Company, the Board of Directors. The Company has not adopted rules of changing the company authorised to audit financial statements. The Company may consider the rules adoption in the future.

Rule	Rule status in the Company
9) information about breaks in a General Meetings and the grounds of those breaks; 10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions; 11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting; 12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from to its introduction; 13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published; 14) information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.	
3. Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake.	Complies taking into account that there is only one governing body in the Company, the Board of Directors.
III. Best Practice for Supervisory Board Members 1. In addition to its responsibilities laid down in legal provisions the Supervisory Board should: 1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system; 2) once a year prepare and present to the Ordinary General Meeting an evaluation of its work; 3) review and present opinions on issues subject to resolutions of the General Meeting. 2. A member of the Supervisory Board should submit to	Complies taking into account that there is only one governing body in the Company, the Board of Directors.

Rule	Rule status in the Company
the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board. 3. A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting. 4. A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest. 5. A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board. 6. At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting. 7. [deleted] 8. Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors... should apply to the tasks and the operation of the committees of the Supervisory Board.	

Rule	Rule status in the Company
9. Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	
IV. Best Practices of Shareholders	
10. A company should enable its shareholders to participate in a General Meeting using electronic communication means through: 1) real-life broadcast of General Meetings; 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting; 3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary.	Complies taking into account that the Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling on-line broadcasting. At the same time the Company supports its shareholders to exercise their voting rights by authorizing the proxies.



Management Statement

This statement is provided to confirm that to the best of our knowledge the consolidated annual financial statements and comparative information have been prepared in compliance with IFRS and give a true, fair and clear view of Sadovaya Group S.A. assets, financial standing and net results and that the management report on the operations of Sadovaya Group S.A., including the business review, review of financial results, risk factors and risk management policies, related party transactions and corporate governance practice truly reflects the development, achievements and situation of the Group.

This statement is also provided to confirm that Interaudit S.a.r.l. (an independent member of Baker Tilly International), LLP BAKER TILLY UKRAINE and Baker Tilly Klitou Cyprus have been appointed in accordance with the applicable laws and performed the audit of the consolidated financial statements of Sadovaya Group S.A. for the year ended 31 December 2012, and that the entities and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with International Standards on Auditing.

Alexander Tolstoukhov,

Director A

Luxembourg,
29 April 2013



Sadovaya Group S.A.

Consolidated Financial Statements

for the year ended 31 December 2012,

31 December 2011

& INDEPENDENT AUDITOR'S REPORT

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To the Shareholders of
Sadovaya Group S.A.
65, boulevard Grande Duchesse Charlotte
L-1331 Luxembourg

Report of the Réviseur d'entreprises agréé (Independent auditor) on the consolidated financial statements at December 31, 2012

Following our appointment by the General Meeting of the Shareholders dated June 20, 2011, we have audited the accompanying consolidated financial statements of Sadovaya Group S.A. and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

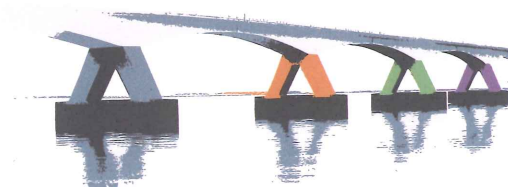
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the réviseur d'entreprises agréé's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INTERAUDIT société à responsabilité limitée au capital de 31250 €
RCS Luxembourg B 29. 501 Identification TVA LU 139 871 52
Autorisation d'établissement 103 200/A



Basis for qualified opinion

Management provided us with supporting documents and the other evidence regarding transactions with certain counterparties in respect of the formation of the cost of inventories, trade and other accounts payable. As those supporting documents could not be reconciled with third party documents, we are not able to confirm in full the cost of sales in the Group's income statement for the year ended December 31, 2012.

For the same reasons as described above, we are not able to confirm the book value of part of raw materials and a part of prepayments to suppliers included in the statement of financial position as at December 31, 2012. Consequently, we are not able to fully confirm the valuation of those assets. The maximum potential negative impact on retained earnings is estimated at USD 3,6 Mio. Management considers that the assets are correctly valued as at December 31, 2012.

Qualified Opinion

In our opinion, except for the effect on the consolidated financial statements of the matters referred to in the preceding paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2012 and of its operating results and cash flows for the year then ended in accordance with International Financial Reporting Standards by EU.

Emphasis of matter

Without further qualifying our opinion, we draw attention to:

The consolidated financial statements which explain a material decline of the financial results (see statements of consolidated income) and a material change in the financial position (see consolidated statement of cash flows) of the Group for the year ended December 31, 2012 compared with year ended December 31, 2011. These conditions, along with the other matters described in Note 2.1 Basis of preparation, indicate the existence of a material uncertainty about the Group's ability to continue as a going concern.

Interpretation of the transactions described in Note 3 "Significant accounting judgments, estimates and assumption" and Note 27 "Contingent assets and liabilities" by the Ukrainian tax authorities may differ from their understanding by the Group, which may result in additional income tax and value added tax obligations.

Report on other legal and regulatory requirements

The management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, April 29, 2013

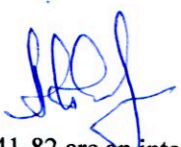
INTERAUDIT S.à r.l.
Cabinet de révision agréé



Edward KOSTKA

Consolidated income statement
for the year ended 31 December 2012, 2011

	Note	2012 (audited)	2011 (audited)
Revenue	6	39,954,202	90,085,544
Cost of sales	7	<u>(31,425,235)</u>	<u>(72,560,870)</u>
Gross profit		8,528,967	17,524,674
Selling and distribution expenses	8	(1,919,824)	(1,862,793)
General administrative expenses	9	(4,101,200)	(3,749,237)
Expenses from financial assets impairment	10	(5,041,750)	(80,523)
Income/(expenses) from PP&E revaluation, net		(4,678,062)	-
Other income/(expenses), net	11	<u>(4,766,176)</u>	<u>(202,782)</u>
Operating profit/ (loss)		(11,978,045)	11,629,339
Finance expenses	12	(3,947,029)	(2,961,423)
Finance income	13	380,845	1,039,143
Non-operating foreign currency translation gain/(loss)		<u>18,052</u>	<u>(119,800)</u>
Profit/ (loss) before tax		(15,526,177)	9,587,259
Income tax benefit		<u>929,271</u>	<u>744,249</u>
Profit/ (loss) for the period		(14,596,906)	10,331,508
Weighted average number of ordinary shares		43,085,693	43,085,693
Earnings per share		(0.34)	0.24

Director A 

Notes on pages 41-82 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income
for the year ended 31 December 2012, 2011

	2012 (audited)	2011 (audited)
Profit/ (loss) for the period	(14,596,906)	10,331,508
<i>Other comprehensive income/(expenses)</i>		
Non-current assets revaluation	(10,224,717)	-
Deferred tax effect	1,637,686	-
Exchange differences on translation in presentation currency	(13,905)	(187,337)
Other comprehensive income/(expenses) for the period	(8,600,936)	(187,337)
Total comprehensive income/(expenses) for the period	(23,197,842)	10,144,171
Profit/loss attributable to:		
Equity holders of the parent	(14,606,223)	10,324,865
Non-controlling interests	9,317	6,641
Other comprehensive income/expenses attributable to:		
Equity holders of the parent	(8,591,303)	(187,217)
Non-controlling interests	(9,633)	(120)

Director A 

Notes on pages 41-82 are an integral part of these consolidated financial statements

Consolidated statement of financial position

as at 31 December 2012, 2011

	Note	as at 31/12/2012 (audited)	as at 31/12/2011 (audited)
Assets			
Non-current assets			
Property, plant and equipment	17	44,863,027	47,410,902
Intangible assets	18	950,513	972,828
Other financial assets	19	2,510,887	4,673,451
Deferred tax assets	16	1,496,558	667,157
		49,820,985	53,724,338
Current assets			
Inventories	22	31,239,835	24,225,258
Trade and other receivables	23	11,850,232	16,082,996
Prepayments and deferred expenses	24	4,615,268	7,298,772
Income tax prepayment		124,658	-
Other financial assets	19	2,626,403	-
Cash and cash equivalents	25	256,223	1,204,740
		50,712,619	48,811,766
Total assets		100,533,604	102,536,104
Equity and liabilities			
Equity			
Share capital	26	430,857	430,857
Share premium		28,525,902	28,525,902
Retained earnings		18,965,451	32,205,067
Revaluation reserve		7,586,747	17,622,143
Effect of foreign currency translation		(9,210,495)	(9,229,006)
		46,298,462	69,495,988
Equity attributable to the parent		46,298,462	69,495,988
Non-controlling interest		58,659	58,975
		46,357,121	69,554,963
Non-current liabilities			
Loans and borrowings	20	34,251,774	17,904,938
Employee benefit liability	27	2,832,642	1,575,556
Provisions	29	1,350,690	1,139,846
Deferred tax liability	16	1,074,261	3,122,724
		39,509,367	23,743,064
Current liabilities			
Trade and other payables	28	5,879,225	8,271,121
Loans and borrowings	20	8,664,199	695,867
Provisions	29	118,177	211,795
Income tax payable		5,515	59,294
		14,667,116	9,238,077
		54,176,483	32,981,141
Total equity and liabilities		100,533,604	102,536,104

Director A 

Notes on pages 41-82 are an integral part of these consolidated financial statements



Consolidated statement of changes in equity
for the year ended 31 December 2012, 2011

	Share capital	Share premium	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total	NCI	Total equity
As at 01 January 2011	430,857	28,525,902	20,117,983	18,997,970	(8,954,734)	59,117,979	292,815	59,410,794
Profit for the period	-	-	10,324,865	-	-	10,324,865	6,641	10,331,506
Other comprehensive income	-	-	-	-	(187,217)	(187,217)	(120)	(187,337)
Depreciation transfer	-	-	1,560,266	(1,560,266)	-	-	-	-
Total comprehensive income	-	-	11,885,131	(1,560,266)	(187,217)	10,137,648	6,521	10,144,169
Changes in shares in subsidiaries	-	-	190,670	104,332	(54,640)	240,361	(240,361)	-
As at 31 December 2011	430,857	28,525,902	32,193,783	17,542,036	(9,196,590)	69,495,988	58,975	69,554,963
Profit for the period	-	-	(14,606,223)	-	-	(14,606,223)	9,317	(14,596,906)
Other comprehensive income	-	-	-	(8,577,398)	(13,905)	(8,591,303)	(9,633)	(8,600,936)
Depreciation transfer	-	-	1,377,891	(1,377,891)	-	-	-	-
Total comprehensive income	-	-	(13,228,332)	(9,955,289)	(13,905)	(23,197,526)	(316)	(23,197,842)
As at 31 December 2012	430,857	28,525,902	18,965,451	7,586,747	(9,210,495)	46,298,462	58,659	46,357,121

Director A 

Notes on pages 41-82 are the integral part of these consolidated financial statements

Consolidated statement of cash flows
 for the year ended 31 December 2012, 2011

	2012 (audited)	2011 (audited)
Operating activities		
Loss before tax	(15,526,177)	9,587,259
<i>Non-cash adjustment to reconcile profit before tax to net cash flows:</i>		
Depreciation and amortization	4,263,421	4,186,108
Loss on disposal of property, plant and equipment and intangible assets	37,401	103,867
Impairment of PP&E	4,678,062	-
Impairment of financial assets	5,041,750	80,502
Shortages and losses from impairment of inventory	2,156,632	106,338
Currency exchange differences	4,867	(424,003)
Finance expenses	3,947,029	2,961,423
Finance income	(380,845)	(1,039,143)
Movements in provisions, pensions	1,345,634	60,416
<i>Working capital adjustments:</i>		
Movements in provisions, pensions (cash part)	(178,523)	(115,491)
Decrease/(Increase) in trade and other receivables and prepayments	2,936,400	(11,193,625)
Increase in inventories	(9,182,562)	(8,363,387)
Decrease in trade and other payables	3,489,465	(4,624,000)
Cash used in operations	2,632,554	(8,673,736)
Interest received	92,325	2,675
Income tax paid	(489,036)	(616,276)
Net cash flows used in operating activities	2,235,843	(9,287,337)
Investing activities		
Proceeds from sale of property, plant, equipment and intangible asset	-	279,954
Placing of deposit	(2,180,533)	-
Purchase of property, plant, equipment and intangible asset	(16,590,495)	(21,779,550)
Proceeds from financial assets	472,569	536,194
Net cash flows used in investing activities	(18,298,459)	(20,963,402)
Financing activities		
Proceeds from borrowings	24,556,921	18,496,127
Repayment of borrowings	(6,022,949)	(16,894,505)
Interest paid	(3,418,329)	(2,638,239)
Net cash flows from/(used in) financing activities	15,115,643	(1,036,617)
Net increase/(decrease) in cash and cash equivalents	(946,973)	(31,287,356)
Net foreign exchange difference	(1,544)	40,081
Cash and cash equivalents at 1 January	1,204,740	32,452,015
Cash and cash equivalents at 31 December	256,223	1,204,740

 Director A 

Notes on pages 41-82 are the integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General information

SADOVAYA GROUP S.A. (the Parent or "SADOVAYA GROUP S.A."), a public limited company registered under the laws of Luxembourg, was formed on 31 May 2010 for an unlimited period of time. SADOVAYA GROUP S.A. was formed to serve as the ultimate holding company of SADOVA LIMITED (Cyprus) and its subsidiaries. The registered address of SADOVAYA GROUP S.A. is Luxembourg 65, Boulevard Grande Duchesse Charlotte, L-1331 Luxembourg, Grand-Duchy of Luxembourg.

The financial year begins on January 1 of each year and terminates on December 31 of each year. It's register number within the Registre de Commerce et des Sociétés du Luxembourg is RCS Lu B153489.

Theses Group consolidated accounts are public and available for consultation at <http://sadovayagroup.com/en/investor/in3/> or at its registered office.

The Sadovaya Group S.A. ("the Group") comprises 10 companies, operating in spheres indicated below. These consolidated financial statements include financial statements of the Group's Companies. Mr. Tolstoukhov A.Y. and Mr. Stetsurin S.N. are ultimate Group's owners.

Group's Company	Country of incorporation	Type of activity
Sadovaya Group S.A.	Luxembourg	Parent company
Sadovaya LLC	Cyprus	Intermediate holding company
Sadovaya Trading Ltd	Cyprus	Trading activity
"Shahta"Sadovaya" LTD	Ukraine	Mining and sale of coal, wholesale of coal
"Shahta"Rassvet-1" LTD	Ukraine	Mining and sale of coal, wholesale of coal
"Volat Trans" PE	Ukraine	Transportation
"Interinvest" LTD	Ukraine	The Company has machinery which is used by the Group
"PC Interdon" LLC	Ukraine	Processing of waste dumps
"Donvostok" LTD	Ukraine	The Company has machinery which is used by the Group
"Sadovaya Group MC" LLC	Ukraine	Managerial authority for Ukrainian companies

Sadovaya Group S.A. is wholly owned by a Cypriot company Connektico LLC, whose final shareholders are Mr. Alexander Iurievich Tolstoukhov (51%) and Mr. Sergey Nicolaievich Stetsurin (49%) (the "Final Owners").

"Shahta"Sadovaya" LTD is an enterprise registered on 7 June 1995 as "Olvin Trade" LTD. In 2007 name of the company was altered to "Shahta"Sadovaya" LTD. Today "Shahta"Sadovaya" LTD is a highly-developed company, which operates in such areas as mining of Anthracite rank coal, processing and wholesale of coal. Mining is carried out under the ground. There are 4 production and 8 development faces.

"Shahta"Rassvet-1" LTD has been founded on the bases of "Shahta"Rassvet-1" State OJSK GP SHC "Zhovtenuhillya" and was registered on 18 May 2007. Basic activity of the Company is mining and coal cleaning. The Company does not have its own processing plant, that's why in future it plans to buy a dry cleaning coal machine that will give possibility to dispatch qualitative coal in competitive prices.

"Volat Trans" PE was founded on 25 January 2006. Basic type of services rendered is lease of vehicles. In 2008, there was a significant increase in property, plant and equipment that allows to develop scope of work and to take competitive position at the market. Today companies comprising the Group are principal contractors for the Enterprise.

“Interinvest” LTD was founded on 24 October 2002. The Company has machinery which is used by the Group.

“PC Interdon” LLC was registered on 12 May 1997. The Company processes waste dumps and trades coal.

“Donvostok” LTD was founded on 05 March 2007. The Company has machinery which is used by the Group.

Property of the Group, and its management are concentrated in Ukraine. Head office is located in Alchevsk, 6 Moskovskaya street.

Sadovaya Trading Ltd was registered on 19 April 2011. The company was created as a trading house of the Sadovaya Group responsible for trading with international markets.

Management Company Sadovaya Group LLC (Ukraine) was incorporated on 22 August 2011. This company will act solely as managerial authority for Ukrainian companies.

2.1 Basis of preparation

This report is intended solely for the purpose of performing and provisions the Consolidated financial statements for year 2012 of Sadovaya Group S.A. to the Warsaw Stock Exchange.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by EU.

Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the

subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Preparation of financial statements on a going concern basis

The consolidated financial statements have been prepared on a going concern basis. At the date of signing of consolidated financial statements there are material uncertainties about conditions that cast substantial doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Group has recognized net loss after tax to USD 14,597 thousand and suffers from significant sales decrease in 2012 due to weak demand for energy coal. Sadovaya mine has temporary discontinued mining operations, Rassvet-1 mine conduct planned repair works. Future development and performance of the Group substantially depends of sales to key customers.

After reporting date Management of the Group set up several contractual arrangements that are essential to the business of the Group. At the date of consolidated financial statement signing actual sales based on these contractual arrangements are not started.

Based on operating plan (see Management report page 20) for the year ended 31 December 2013 directors has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual consolidated financial statements of the Group.

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year.

2.2 Summary of significant accounting policies

a) Foreign currency translation

Functional currency for the Ukrainian entities is the Ukrainian Hrivnia ("UAH"), for Cyprus and Luxembourg - USD.

Presentation currency of the consolidated financial statements is the US Dollar.

The principal UAH exchange rates used in the preparation of consolidated financial statements are as follows:

Average 2012	31 December 2012	Average 2011	31 December 2011
7,99	7,99	7,97	7,99

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

ii) Translation into presentation currency

The results and financial position of all the Group entities are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the official rate at the date of the balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates on the dates of the transactions;
- (c) share capital is translated at historical exchange rate;
- (d) revaluation reserve is translated at historical exchange rate;
- (e) all resulting exchange differences are recognized as a separate component of other comprehensive income;
- (f) line items of the statement of cash flows are translated at average exchange rates of the appropriate reporting period.

b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The moment of the risk's and property passing is defined according with the conditions of the contract.

Rendering of services

Revenue from the rendering services is recognised by reference to the stage of completion. The revenue includes freight services, operating lease and others.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

c) Taxes***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Value added tax

Revenues, expenses and assets are recognised net of the amount of VAT except for:

where the value added tax arising on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;

receivables and payables are measured with the amount of VAT included.

d) Property, plant and equipment

Property, plant and equipment are measured at fair value, net of accumulated depreciation and/or accumulated impairment losses, recognised after the date of revaluation. Revaluation is conducted with sufficient frequency to provide confidence that fair value of a revalued asset does not differ materially from its carrying amount, but at least every 3 years.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is recalculated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals to its revalued amount.

Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings	20 to 50 years
- Machinery	5 to 12 years
- Vehicles	4 to 7 years
- Furniture, fittings and equipment	3 to 7 years
- Others	3 to 10 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included to the other incomes (expenses) in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Construction-in-progress includes expenses connected with construction, creating of necessary infrastructure and machinery. Finance costs incurred during the construction which is financed due to debt funds are included to construction-in-progress costs. Charge of depreciation starts from the moment when an asset is ready for service.

e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in other expenses in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Amortization is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Rights and licenses 5 to 20 years
- Software 3 to 5 years
- Other intangible assets 3 to 5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income in other income (expenses) when the asset is derecognised.

f) Leases

The determination of whether the contract is, or contains criteria of a lease is based on the substance of the contract as at the date when contract commences, one should determine, whether fulfilment of the contract is dependent on the use of a specific asset or assets and whether the contract conveys a right to use the asset.

Group as a lessee

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest calculated using effective interest rate method, financial expenses, relating to financial lease, exchange differences, connected with borrowings in foreign currency, to the extent they compensate for reduction of interest costs .

Income, received from investing of borrowing of funds for acquisition of qualifying assets is deducted from the borrowing costs.

All others borrowing costs are recognised in gains and losses as incurred.

h) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

The Group determines the classification of its financial assets on initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the income statement in finance costs.

Impairment costs are recognised in other operating expenses in the statement of comprehensive income. When the Group calculates impairment it uses an allowance account of valuation reserve.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity.

The reclassification to instruments held to maturity is permitted only when the entity has the ability and intent to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR.

If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the income statement.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

The rights to receive cash flows from the asset have expired;

The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance cost in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

iii) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

When term of overdue payment on an individually insignificant financial asset exceeds 180 days, the Group impairs it on 50%. When term of overdue payment is more than 360 days – impairment is on the whole amount.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement in other operating expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases

because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in other operating expenses in the income statement. In year 2012, the impairment loss is recognised as separate item that does not alter previous year results.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.

Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

i) Advance payments

Advance payments are stated at cost, net of value added tax and impairment reserve. Prepayments made refer to intangible assets, when goods and services prepaid will be received in a year or later, or when advances are referred to an asset, which after initial recognition will be referred to intangible assets. Advance payments for acquisition of assets are referred to the carrying amount of the asset when the Group receives control and it is probable that the Group will receive future economic benefits, relating to these assets. When there is evidence that assets, goods and services will not be received, carrying amount of advance payments reduces and appropriate impairment loss refers to the financial result. Prepayments made for property, plant and equipment is included in property plant and equipment.

j) Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The writing-off of inventories is reflected on FIFO basis.

l) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in the income statement, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

m) Obligations on employee benefits**i) Defined contribution plans**

The Group makes definite payments to the Social security contribution for benefit of the employees. Payments are calculated as an interest of current gross amount of wages and salaries and are recognised in expenses as incurred.

ii) Defined benefit plans

Some Group's companies take part in state defined benefit plan which provides early retirement of employees, who work with hazardous and dangerous work conditions.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the defined benefit obligation at the date. The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

Net expenses (incomes) of plan are recognised in sales cost.

n) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position include cash in banks and in hand.

o) Accounts payable

Accounts payable are accounted at the fair value of the consideration due to in future for goods and services which were received.

p) Provisions**General**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Land restoration and abandoning of mines

The Group has environmental protection obligations which connected with operating activity in the past and necessity of restoration of its mines. According to the Code of Mineral Resources, Land Code of Ukraine, Mining Law, Law of Protection of Land and other legislation documents, the Group is responsible for site restoration and soil rehabilitation upon abandoning of its mines.

Obligations on environmental activity costs are recognised when there is probability of liquidation of damage for the environment from the Group's activity, outflow of economic benefits, which is required for settlement of the obligation, is probable and reliable assessment of this obligation can be received.

Charged amount is the most exact assessment of expenses, necessary for regulation of this obligation at the end of the reporting period.

Provisions are assessed at the present value of expenses, which can appear for settlement of obligations by use of rate, which reflects current market assessment of the risks connected with these obligations. Changes in provision on processing waste dump are recognised in coal mining cost. Amount of provision on mine abandon and dismantling of machinery are included to the initial value of asset after its recognition. Increasing of provisions is recognised by charging interests expenses.

3. Significant accounting judgments, estimates and assumptions

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revaluation of property, plant and equipment

The Group measures its property, plant and equipment at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2008 and as at 31 December 2012. Comparative method was used for valuation of the machinery, substitution method – for valuation of buildings.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the the expected future cash inflows used for the discounted cash flow model as well as the discount rate and the growth rate used for extrapolation purposes.

Net realisable value of inventories

Inventories are written down to net realisable value item by item. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

Estimates of net realisable value also take into consideration the purpose for which the inventory is held. The net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

On 2 December 2010 a new Tax Code was adopted in Ukraine with most of the changes introduced being effective from 1 January 2011. Among the main changes are a change in the rates for corporate income tax from 25% to 16% which is introduced in several stages during 2011-2014 and a change in the methodology for determining the base for VAT and corporate income tax application. As at 31 December 2012 the Group estimated 16% income tax rate for the purpose of deferred tax determination relates to property plant and equipment.

Pension benefits

The cost of defined benefit pension plans is determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on management estimates and expected future inflation rates.

Further details about the assumptions used are given in Note 27.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. New and amended standards and interpretations

Adoption of new IFRS standards, amendments and interpretations applicable in 2012 did not have any material impact on the consolidated financial statements of the Group.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2012. Those which may be relevant to the Group are set out below.

The Group does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU:

- IFRS 7 (Amendments) "Financial Instruments: Disclosures"- "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2014).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2014).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 (Amendments) "Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012). (Impact that the standard will have on the entity's financial statements in the period of initial application)
- IAS 27 (Revised) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2014).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).

5. Operating segment information

Operating segments are determined on the basis of the internal reports, which are regularly analysed by the Group's management.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profit or loss.

Management of the Group determined such operating segments:

- Trade activities, including resale of coal;
- Mining and coal cleaning, including mining at own mines and coal cleaning activities;
- Processing of waste dumps, including processing of waste rock;
- Others, this segment comprise activities not attributable to the previous three segments.

For the purposes of presentation of the above operating segments, operating segments were not combined.

Transaction prices between operating segments are not always set on an arm's length basis.

Inter-segment revenues are eliminated on consolidation.

Profit for each operating segment does not include selling and distribution expenses, administrative expenses, foreign currency translation loss and other expenses.

Segment assets do not include cash and cash equivalents, other financial assets, deferred tax assets, income tax prepayment, trade and other receivables, as these assets are managed on a group basis.

Segment liabilities do not include income tax payable, trade and other payables, deferred tax liabilities, allowance as these liabilities are managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment.

Year ended 31 December 2012	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	-	39,666,390	182,599	105,213	-	39,954,202
Inter-segment		369,062	814,163		(1,183,225)	-
Revenue-total	-	40,035,452	996,762	105,213	(1,183,225)	39,954,202
Gross profit		7,799,829	729,138	-	-	8,528,967
Financial results						
Interest income	-	565	107,734	-	-	108,299
Interest expenses	-	(2,004,001)	(752,488)	-	-	(2,756,489)
Other material non-cash items:						
Depreciation and amortization	-	(3,870,784)	(87,642)		(304,995)	(4,263,421)
Income from assets revaluation	-	97,969	10,292	-	-	108,261
Expenses from assets revaluation		(3,761,511)	(1,024,812)	-	-	(4,786,323)
Losses from inventories impairment	-	(2,075,494)	-	-	-	(2,075,494)
(Expenses)/reversal of expenses on covering sums, return of which is doubtful		(4,001,260)	1,371	-	-	(3,999,889)
Segment loss before tax	-	(6,264,440)	(1,238,980)	-	(8,022,757)	(15,526,177)
Operating assets	103,758	55,964,690	27,788,330		16,676,826	100,533,604
Operating liabilities	-	(33,954,171)	(18,194,298)	-	(2,028,014)	(54,176,483)
Other disclosures						
Capital expenditure	-	8,196,269	8,386,890	-	-	16,583,159

Year ended 31 December 2011	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	6,174,356	82,149,797	1,723,331	38,060	-	90,085,544
Inter-segment				2,450,079	(2,450,079)	-
Revenue-total	6,174,356	82,149,797	1,723,331	2,488,139	(2,450,079)	90,085,544
Gross profit	1,520,769	14,176,820	1,827,084	-	-	17,524,674
Interest income		2,675				2,675
Interest expenses		(2,300,990)				(2,300,990)
Other material non-cash items:						
Depreciation and amortization	-	(3,852,546)	(77,724)	(93,142)	(162,696)	(4,186,108)
Expenses on covering of sums, return of which is doubtful		(77,773)	(2,750)			(80,523)
Segment profit	1,520,769	11,335,515	1,754,894	-	(5,023,958)	9,587,221
Operating assets	441,985	66,092,030	13,373,433	1,961,668	22,628,655	102,536,104
Operating liabilities	-	(28,908,591)	(167,926)	-	(3,904,624)	(32,981,141)
Other disclosures						
Capital expenditure	-	18,330,201	1,997,519	1,984,751	-	22,312,471

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items:

	2012	2011
Revenues		
Total revenue for reportable segments	41,036,179	91,172,069
Elimination of inter-segment revenue	(1,081,977)	(1,086,525)
Consolidated revenue	39,954,202	90,085,544
Profit or loss		
Total profit or loss for reportable segments	(7,417,772)	14,611,158
Income from borrowings and receivables at amortized cost	272,546	1,036,468
Net income/(expenses) from operational exchange differences	(22,919)	543,800
Income from sale of foreign currency	89,754	28,511
Non-operating foreign currency translation gain/(loss)	18,052	(119,800)
General administrative expenses	(4,101,200)	(3,749,237)
Selling and distribution expenses	(1,919,824)	(1,862,793)
Finance expenses	(1,190,540)	(660,433)
Impairment of receivables acquired under factoring contract	(1,041,861)	
Other operating income/expenses net	(212,413)	(240,415)
Consolidated profit before tax	(15,526,177)	9,587,259
Assets		
Total assets for reportable segments	83,872,139	79,907,448
Cash and cash equivalents	256,223	1,204,740
Trade and other receivables	11,826,736	16,083,308
Income tax prepayment	124,658	
Deferred tax assets	1,496,558	667,157
Receivables acquired under factoring contract	446,403	
Other financial assets	2,510,887	4,673,451
Consolidated assets	100,533,604	102,536,104
Liabilities		
Total liabilities for reportable segments	(52,148,469)	(29,076,517)
Trade and other payables	(830,061)	(510,811)
Deferred tax liabilities	(1,074,261)	(3,122,724)
Provisions	(118,177)	(211,795)
Income tax payable	(5,515)	(59,294)
Consolidated liabilities	(54,176,483)	(32,981,141)

Geographic information

Revenue from external customer:

	2012	2011
Ukraine	37,330,910	84,407,865
Export	2,623,292	5,677,679
	39,954,202	90,085,544

Clients, revenue from which is more than 10% are presented in table below:

	2012
Client 1	18,315,205
Client 2	4,758,474

6. Revenue

	2012	2011
Revenue from sales of finished goods	39,848,989	83,873,128
Revenue from sales of merchandise	-	6,174,356
Revenue from rendering of services	105,213	38,060
	39,954,202	90,085,544

7. Cost of sales

	2012	2011
Change in finished goods and work-in-progress	4,033,708	1,446,555
Raw materials	(20,280,729)	(52,240,531)
Wages and salaries of operating personnel	(8,635,450)	(9,540,726)
Depreciation of non-current assets	(3,040,728)	(3,470,918)
Energy supply	(2,279,915)	(2,336,660)
Held for resale merchandise	-	(4,653,587)
Subcontractors services	(772,481)	(1,101,688)
Taxes and obligatory payments	(194,370)	(194,556)
Repair and current maintenance	(255,270)	(468,759)
	(31,425,235)	(72,560,870)

8. Selling and distribution expenses

	2012	2011
Delivery costs	(688,239)	(789,416)
Raw materials	(555,414)	(597,677)
Cargo insurance	(276,626)	-
Repair and current maintenance	(49,733)	(132,968)
Depreciation of non-current assets	(176,358)	(167,938)
Wages and salaries of distribution personnel	(145,777)	(140,451)
Other expenses	(27,677)	(34,343)
	(1,919,824)	(1,862,793)

9. Administrative expenses

	2012	2011
Professional services	(1,565,741)	(950,633)
Wages and salaries of administrative personnel	(1,668,676)	(2,096,718)
Insurance	(365,920)	(297,817)
Utilities	(166,539)	(73,047)
Other expenses	(129,009)	(78,208)
Depreciation of non-current assets	(128,627)	(55,189)
Tax other than income tax	(76,688)	(177,268)
Cost of transportation	-	(20,357)
	(4,101,200)	(3,749,237)

10. Expenses from financial assets impairment

	2012	2011
Impairment of accounts receivable	(3,999,889)	(80,523)
Impairment of receivables acquired under factoring contract	(1,041,861)	-
	(5,041,750)	(80,523)

11. Other income/(expenses), net

	2012	2011
Income from sale of foreign currency	89,754	28,511
Net income/(expenses) from operational exchange differences	(22,919)	543,800
Profit/(loss) from sale of property, plant and equipment	(9,109)	44,030
Fines and penalties (accrued)/received	(80,811)	1,218
Shortages and losses from impairment of inventories	(2,156,632)	(106,339)
Charity	(18,021)	(14,903)
Writing-off of non-current assets	(28,292)	(147,897)
Cost of idle capacity	(2,545,104)	(534,678)
Other income/(expenses)	4,958	(16,524)
	(4,766,176)	(202,782)

As at 31 December 2012, cost of idle capacity includes: wages in amount of USD 1,100,974 (as at 31 December 2011: USD 4,827).

12. Finance expenses

	2012	2011
Interest expenses	(2,756,489)	(2,300,990)
Borrowing costs	(520,768)	(483,936)
Expenses from borrowings and receivables at amortized cost	(461,115)	-
Effect of provision discounting	(208,657)	(176,497)
	(3,947,029)	(2,961,423)

13. Finance income

	2012	2011
Income from borrowings and receivables at amortized cost	272,546	1,036,468
Interest income	108,299	2,675
	380,845	1,039,143

14. Depreciation of non-current assets

	2012	2011
<i>Depreciation of property, plant and equipment, recognized in:</i>		
cost of sales	(3,003,920)	(3,438,102)
administrative expenses	(116,050)	(44,069)
selling and distribution expenses	(176,358)	(167,938)
other expenses (temporarily idle capacity)	(894,085)	(468,929)
<i>Amortization of intangible assets, recognized in:</i>		
cost of sales	(36,808)	(32,816)
administrative expenses	(12,577)	(11,120)
other expenses (temporarily idle capacity)	(23,623)	(23,134)
	(4,263,421)	(4,186,108)

15. Employee benefit expenses

	2012	2011
Wages and salaries	(7,896,113)	(9,638,290)
Social security contributions and similar taxes	(3,267,377)	(3,795,441)
Net plan expenses	(1,401,776)	80,254
	(12,565,266)	(13,353,477)
 Average number of employees, persons	 1,619	 1,653
 Wages and salaries of operating personnel	 (7,233,701)	 (9,620,980)
Wages and salaries of administrative personnel	(1,668,676)	(2,096,718)
Wages and salaries of distribution personnel	(145,777)	(140,451)
Wages and salaries of non-operating personnel	-	-
Wages related to idle periods	(1,100,974)	-
Wages and salaries of personnel involved in production of property, plant and equipment	(991,027)	(1,524,006)
Wages and salaries of personnel recognized as deferred expenses	(23,335)	(51,576)
Net plan expenses	(1,401,776)	80,254
	(12,565,266)	(13,353,477)

16. Income tax

The major components of income tax expense for the years ended 31 December are:

Consolidated income statement

	2012	2011
Current income tax charge	(310,622)	(584,441)
Deferred income tax benefit/(loss) relating to origination and reversal of temporary differences	1,239,893	1,328,690
Income tax expense reported in the income statement	929,271	744,249

Reconciliation between income tax expense and accounting profit multiplied by income tax rate for the year ended 31 December:

	2012	2011
Accounting profit before tax	(15,526,177)	9,587,259
At Ukraine's statutory income tax rate of 21-23,5%	3,260,497	(2,205,070)
Effect of changes in Ukrainian tax legislation	-	-
Effect of permanent differences	(2,331,226)	2,949,319
At the effective income tax rate	929,271	744,249

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	Consolidated statement of comprehensive income
	2012	2011	2012	2012
Deferred tax assets				
Inventories	424,970		425,074	
Other financial assets	173,136		173,178	
Trade receivables	-	36,862	(36,856)	-
Provisions	216,111	182,375	33,817	-
Defined benefit plan obligations	480,543	277,887	202,817	-
Charged vacation expenses	201,798	170,033	31,841	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(1,074,261)	(2,909,754)	197,090	1,637,686
Other financial assets	-	(212,970)	212,931	-
Deferred income tax (expenses)/benefits			1,239,893	1,637,686
Net deferred tax asset/(liability)	422,297	(2,455,567)		

	Consolidated statement of financial position		Consolidated income statement	Consolidated statement of comprehensive income
	2011	2010	2011	2011
Deferred tax assets				
Advances received	-	8,115	(8,115)	-
Trade receivables	36,862	19,136	17,726	-
Provisions	182,375	154,403	27,972	-
Defined benefit plan obligations	277,887	308,923	(31,036)	-
Charged vacation expenses	170,033	83,655	86,378	-
Charged but not paid interest expenses	-	34,526	(34,526)	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(2,909,754)	(3,874,139)	964,385	-
Inventories	-	(456,012)	456,012	-
Prepayments and deferred expenses	-	96,892	(96,892)	-
Other financial assets	(212,970)	(169,477)	(43,493)	-
Effect of translation into presentation currency			(9,721)	-
Deferred income tax (expenses)/benefits			1,328,690	-
Net deferred tax asset/(liability)	(2,455,567)	(3,793,978)		

Reconciliation of deferred tax assets/ (liabilities):

As at 31 December 2010	(3,793,978)
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	1,328,690
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	-
Effect of translation into presentation currency	9,721
As at 31 December 2011	(2,455,567)
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	1,239,893
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	1,637,686
Effect of translation into presentation currency	285
As at 31 December 2012	422,297

17. Property, plant and equipment

The Group measures its property, plant and equipment at revaluated amounts with changes in fair value being recognised in the income statement as Expenses/income from PP&E revaluation and other comprehensive income.

The Group engaged an independent valuation expert to assess the fair value as at 31 December 2012 in accordance with the requirements of International Valuation Standards.

Comparative method was used for valuation of machinery, substitution method – for valuation of buildings; income approach was conducted to confirm the recoverable amounts.

Management has made the cashflow projections for the period of five years based on the past experience of the Group and external sources of information.

Key assumptions used in projections were as follows:

- Average sales price growth rate 5.78%;
- Sales volumes fixed at figures for the year 2012, revealing the conservative approach;
- Production cost is based on overall average for previous periods.

While measuring value in use of assets cash flows were discounted at rate 24%, while revaluation as at 31 December 2008 discount rate used 17-19 %.

Revaluation increase of property, plant and equipment as a result of revaluation was recognized in other comprehensive income in the amount of USD 3,851,354 and in the amount of USD 108,261 in profits and losses in item Income/(expenses) from PP&E revaluation.

Loss from impairment of property, plant and equipment is recognized in the amount of USD 14,066,438 in other comprehensive income and in the amount of USD 4,786,323 in profits and losses in item Income/(expenses) from PP&E revaluation.

Carrying amount of temporarily idle capacity as at 31 December 2012 was USD 31,117,878 (as at 31 December 2011 – USD 2,049,182).

As at 31 December 2012, bank loans were secured by property, plant and equipment with carrying amount of USD 24,923,997 (as at 31 December 2011 - USD 25,146,491).

Under Loan Agreement with EBRD, the Group has started the procedure of pledging property, plant and equipment related to MEC Vahrushevsky in amount USD 5,487,580.

The Group has capitalised USD 748,013 borrowing costs under the targeted loan obtained from EBRD.

Movement of property, plant and equipment for the period ended 31 December 2012 and 2011 was as follows:

	Land and Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in- progress	Total
<i>Cost</i>							
As at 31 December 2010	28,527,520	13,271,940	806,234	97,365	167,649	1,445,369	44,316,077
Additions	6,670,235	3,344,331	2,181,194	29,643	232,486	9,854,583	22,312,472
Disposals	-	(856,863)	-	(3,621)	(278,052)	-	(1,138,536)
Effect of translation into presentation currency	(89,638)	(113,652)	48,062	2,942	(1,993)	(48,063)	(202,342)
As at 31 December 2011	35,108,117	15,645,756	3,035,490	126,329	120,090	11,251,888	65,287,670
Additions	8,756,459	2,831,376	68,085	137,609	83,784	4,705,846	16,583,160
Disposals	(34,306)	(132,399)	(9,661)	-	(75,571)	-	(251,937)
Transfers	9,145,931	2,266,898	10,988	-	39,041	(11,462,859)	-
Revaluations	(20,608,504)	(531,846)	773,060	12,863	(7,546)	(1,306,946)	(21,668,920)
Effect of translation into presentation currency	(2,438)	(477)	(1,232)	(84)	(60)	(1,996)	(6,287)
As at 31 December 2012	32,365,260	20,079,309	3,876,729	276,717	159,738	3,185,934	59,943,687
<i>Accumulated depreciation</i>							
As at 31 December 2010	(7,381,793)	(6,594,606)	(376,902)	(48,897)	(160,123)	-	(14,562,321)
Additions	(2,265,754)	(1,599,708)	(226,854)	(16,109)	(10,613)	-	(4,119,038)
Disposals	-	585,294	-	3,042	156,513	-	744,849
Effect of translation into presentation currency	32,291	65,495	(35,111)	(3,038)	105	-	59,742
As at 31 December 2011	(9,615,256)	(7,543,525)	(638,867)	(65,002)	(14,118)	-	(17,876,768)
Charge for the period	(2,253,389)	(1,483,395)	(347,451)	(28,469)	(96,302)	-	(4,209,006)
Disposals	20,125	120,410	9,288	-	73,175	-	222,999
Revaluations	6,001,309	1,072,719	(284,280)	(9,913)	(4,062)	-	6,775,773
Effect of translation into presentation currency	2,797	3,091	407	35	12	-	6,343
As at 31 December 2012	(5,844,414)	(7,830,699)	(1,260,903)	(103,349)	(41,295)	-	(15,080,659)
<i>Net carrying amount</i>							
As at 31 December 2010	21,145,727	6,677,334	429,332	48,468	7,526	1,445,369	29,753,756
As at 31 December 2011	25,492,861	8,102,231	2,396,623	61,327	105,972	11,251,888	47,410,902
As at 31 December 2012	26,520,846	12,248,610	2,615,826	173,368	118,443	3,185,934	44,863,027

If land and buildings, machinery, vehicles, office equipment and other assets were reflected at cost, amounts in the financial statements would be as follows:

	Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in- progress	Total
As at 31 December 2010							
Cost	2,308,178	3,285,757	768,836	3,123,936	167,463	1,281,299	10,935,469
Accumulated depreciation	(535,160)	(2,601,315)	(345,859)	(41,137)	(161,910)	-	(3,685,381)
As at 31 December 2011							
Cost	11,268,999	8,966,017	3,008,639	115,422	124,812	11,278,081	34,761,970
Accumulated depreciation	(3,434,105)	(3,207,652)	(622,641)	(55,901)	(16,295)	-	(7,336,594)
As at 31 December 2012							
Cost	29,199,199	13,633,768	3,058,427	247,008	247,388	3,332,439	49,718,229
Accumulated depreciation	(4,260,252)	(3,871,469)	(927,405)	(81,045)	(40,702)	-	(9,180,873)
Net carrying amount							
As at 31 December 2010	1,773,018	684,442	422,977	3,082,799	5,553	1,281,299	7,250,088
As at 31 December 2011	7,834,894	5,758,365	2,385,998	59,521	108,517	11,278,081	27,425,376
As at 31 December 2012	24,938,947	9,762,299	2,131,022	165,963	206,686	3,332,439	40,537,356

18. Intangible assets

Intangible assets of “Shahta “Sadovaya” LLC as at 31 December 2012 represent:

- special permission for subsurface use #4488 dated 08 November 2007 issued by the Ministry of Ecology and Natural Resources of Ukraine for 19 years. Carrying amount of this permission as at 31 December 2012 equals to USD 98,316 (as at 31 December 2011 equals to USD 114,748).

- special permission for subsurface use #5259 dated 27 December 2010 issued by the Ministry of Ecology and Natural Resources of Ukraine for 20 years. Carrying amount at 31 December 2012 equals to USD 425,109 (as at 31 December 2011 equals to USD 438,559).

A special permission for subsurface use #4982 dated 11 June 2009 for 20 years comprises intangible assets of “Shahta”Rassvet-1“LTD. Carrying amount of this permission as at 31 December 2012 equals to USD 246,806 (as at 31 December 2011 equals to USD 261,429).

Movement of intangible assets for the period ended 31 December 2012 and 2011 was as follows:

	Computer software	Licenses and rights to use natural resource	Expenses on acquisition of intangible assets	Total
Cost				
As at 31 December 2011	50,762	961,954	112,045	1,124,761
Additions	6,292	96,714	-	103,006
Disposals	-	-	(52,403)	(52,403)
Effect of translation into presentation currency	(22)	(695)	444	(273)
As at 31 December 2012	57,032	1,057,973	60,086	1,175,091
Accumulated amortization				
As at 31 December 2011	(12,410)	(139,523)	-	(151,933)
Charge for the period	(12,578)	(60,430)	-	(73,008)
Effect of translation into presentation currency	8	355	-	363
As at 31 December 2012	(24,980)	(199,598)	-	(224,578)
Net carrying amount				
As at 31 December 2011	38,352	822,431	112,045	972,828
As at 31 December 2012	32,052	858,375	60,086	950,513

19. Other financial assets

	at 31/12/2012	at 31/12/2011
Receivables acquired under factoring contract	-	1,604,012
Long term receivables	2,510,887	3,069,439
Total non-current	2,510,887	4,673,451
Receivables acquired under factoring contract	446,403	-
Deposits (from 3 to 6 months)	2,180,000	-
Total current	2,626,403	-

Receivables acquired under factoring contract

Receivables acquired under factoring agreement comprise receivables of "Thermal Power Plant-2" ESHAR" SE which were acquired from "Atomenergokomplekt" OJSC and "Harimpeks" OJSK in December 2007.

From the date of acquisition of this financial instrument and on the date of approval of these financial statements The Law of Ukraine "On measures aimed at safeguarding the stable functioning of the fuel and energy complex enterprises" №2711-IV dated 23.06.05 is effective, which relieves fuel and energy complex enterprises from discharge of obligations up to 01 January 2013.

In the 1st quarter year 2013, according to preliminary arrangement receivables acquired under factoring contract will be discharged in amount USD 446,403.

Long term receivables

Receivables under agreements with State entity "Shakhtarskantracit", State entity "Donbassantracit" and State OJSC "Shakhta Rassvet". According to The Law of Ukraine "On measures aimed at safeguarding the stable functioning of the fuel and energy complex enterprises" №2711-IV dated 23.06.05 is effective, which relieves fuel and energy complex enterprises from discharge of obligations up to 01 January 2013.

In March 2013, the amendment sections to the Law were introduced in regard to prolongation of the relief until 1 January 2015.

The Group expects that receivables will be discharged in whole amount in January 2015 and provision for impairment wasn't charged.

Deposits (from 3 to 6 months)

Deposits comprise funds placed by Interdon PC with PJSC "OTP Bank". The deposit is nominated in USD, interest rate is 4 %, maturity date is 4 February 2013.

The funds are under the pledge according to Agreement CR 12-049/28-2 dd 28.04.2012 with PJSC "OTP Bank".

Under Amendments dd 15 March 2013, the depositing term was extended to 30 December 2013, interest rate 2.5% per annum.

20. Loans and borrowings

The balances of the Group's loans and borrowings were as follows:

	at 31/12/2012	at 31/12/2011
Non-current loans and borrowings		
Bank loans	39,648,516	18,600,806
	39,648,516	18,600,806
Deducting current portion of long-term borrowings		
Current portion of long-term bank loans	(5,396,742)	(695,869)
Total non-current loans and borrowings	34,251,774	17,904,937
Current loans and borrowings		
Bank loans	2,996,210	-
Interest free financial liabilities	250,219	-
Promissory notes	21,028	-
Current portion of long-term bank loans	5,396,742	695,868
	8,664,199	695,868
	42,915,973	18,600,805

	at 31/12/2012			at 31/12/2011	
	Currency	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	USD	3M LIBOR+6.5%	18,000,000	-	-
Loan 2	USD	1M LIBOR+8.5%	21,293,720	1M LIBOR+8.5%	17,996,747
Loan 3	UAH	16%	279,850	16%	435,364
Loan 4	UAH	18%	74,946	18%	168,694
Loan 5	UAH	14%	1,119,568	-	-
Loan 6	USD	7%	1,876,642	-	-
Loan 7	UAH	0%	250,219	-	-
Promissory notes	UAH	0%	21,028	-	-
			42,915,973		18,600,805

Loan 1

Loan was received in March 2012 from European Bank for Reconstruction and Development regarding to Loan agreement #42621 dated 30/12/2011. The borrower is "PC Interdon" LTD. Maturity date is 28 December 2018. On February 15, 2012, the Parent Company entered into a Deed of guarantee and indemnity in order to secure the loan concluded between the Group company.

Production Company Interdon LLC and the European Bank for Reconstruction and Development (EBRD) for an amount of USD 36,000,000. Pursuant to the share pledge agreement as of February 15, 2012, the main shareholder of the Company, Connektico Ventures Ltd, has pledged 17.50% of its shares held in the Company in favor of EBRD.

Loan 2

Loan was received in December 2011 from PJSC "OTP Bank" according to agreement #CR 11-321/28-2 dated 09/12/2011. The Borrowers are "Shahta Sadovaya" LTD and "Shahta Rassvet-1" LTD. Maturity date is 30 October 2016. Obligations under the credit contract are guaranteed by property, plant and equipment of "Interinvest" LTD, "Shahta Sadovaya" LTD, "Shahta Rassvet-1" LTD and "Donvostok" LTD.

The Loan is secured by 100% shares held by main shareholders of "Shahta Sadovaya" LTD and "Shahta Rassvet-1" LTD, Sadovaya Ltd and Connektico Ventures Ltd, in these Companies as well as property rights on cash which will be obtained from DTEK LLC according to agreements with "Shahta Sadovaya" LTD and "Shahta Rassvet-1" LTD.

Loan 3

Loan was received in June 2011 from SB "Credit-Dnepr" under agreement #150611-K dated 15/06/2011. The borrower is "Volat Trans" PE. Maturity date is 14/06/2014. The Loan is secured by property rights according to sale-purchase agreement #20AK/04-11 dated 22.04.2011, between Volat Trans PE and "Car company "Dinas-Service" LLC in amount USD 746,339 (UAH 5,963,100).

Loan 4

Loan was received in March 2011 from SB "Credit-Dnepr" under agreement #280311-K dated 28/03/2011. The borrower is "Volat Trans" PE. Maturity date is 28/03/2014. The Loan is secured by property rights according to sale-purchase agreement #2011/2 dated 17.02.2011, between Volat Trans PE and "Amkodori-Ukrspetsmash" LLC in amount USD 312,398 (UAH 2,496,000) and guaranteed by Guarantee agreement of "Shakhta Sadovaya" LLC #280311-II dated 28.03.2011.

Loan 5

Loan was received in December 2012 from PJSC "First Ukrainian International Bank" according to agreement #196/59.2 dated 19/12/2012. The borrower is "Shahta Rassvet-1" LTD. Loan is secured by trade receivables of DTEK TRADING LLC in amount of USD 1,492,758. Maturity date is 18/12/2013.

Loan 6

Loan was received in April 2012 from PJSC "OTP Bank" according to agreement CR12-049/28-2 dated 28/04/2012. The borrower is "Shahta Rassvet-1" LTD. Maturity date is 27/01/2013.

Loan 7

Loan was received in January 2012 from Gornoe Oborudovanie LLC. The loan is unsecured and interest-free. Maturity date is 30/06/2013.

21 Fair value

The fair value of the financial assets and liabilities carried in the financial statements represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Fair value of cash and short-term deposits, trade receivables and trade payables, and other current liabilities is approximately equal to their carrying amount mainly due to the fact that these instruments will be repaid in the nearest future.

Fair value of loans from banks and other financial liabilities, bills is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

There were no material differences between carrying amounts and fair values of financial instruments as at the reporting date.

22. Inventories

	at 31/12/2012	at 31/12/2011
Raw materials	27,298,724	19,998,886
Finished goods	3,422,866	3,534,402
Other inventories	238,074	79,092
Merchandise	103,758	441,985
Spare parts	176,413	170,893
	31,239,835	24,225,258

During the year 2012, USD 2,075,494 was recognised as an expense for inventories carried at net realisable value.

At 31 December 2012, carrying amount of such inventories was: raw materials - USD 2,276,186 , finished goods - USD 1,598,013.

23. Trade and other receivables

	at 31/12/2012	at 31/12/2011
Trade receivables	12,912,619	14,821,350
Provision for impairment of trade receivables	(4,078,477)	(93,501)
VAT recoverable	2,790,465	1,269,878
Receivables from shareholders	-	-
Other receivables	215,022	71,371
Prepayments for other taxes	10,603	13,898
	11,850,232	16,082,996

For terms and conditions relating to related party receivables, refer to Note 31.

Trade receivables are non-interest bearing and are generally due in 90-180 day terms.

See below for the movements in the provision for impairment of receivables (see credit risk disclosure Note 32 for further guidance).

	Trade receivables
As at 31 December 2010	83,543
Charge for the year	77,172
Utilised	-
Unused amounts recovered	(66,806)
Effect of translation into presentation currency	(408)
As at 31 December 2011	93,501
Charge for the year	4,012,611
Utilised	(12,801)
Unused amounts recovered	(13,823)
Effect of translation into presentation currency	(1,011)
As at 31 December 2012	4,078,477

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total	Undue and not impaired	Past due and partly impaired	Past due, but not impaired			
				< 60 days	60-180 days	180-360 days	> 360 days
2012	9,049,164	4,522,598	2,160,198	1,184,334	1,070,616	95,551	15,867
2011	14,741,747	8,889,061	36,265	3,191,972	2,611,043	7,526	5,880

As at 31 December 2012, receivables of USD 4,005,160 (as at 31 December 2011: USD 88,868) were impaired by recognition of provision for impairment according to the accounting policy of the Group (Note 2.2 (h) financial instruments – initial recognition and subsequent measurement).

Expenses related to provision charge are reflected as expenses from impairment of financial assets in the Income statement.

Trade receivables from DTEK Trading in amount of USD 1,492.758 is under the pledge according to Agreement #196/59.2 dated 19/12/2012 with PJSC "FIRST UKRAINIAN INTERNATIONAL BANK".

24. Prepayments and deferred expenses

	at 31/12/2012	at 31/12/2011
Prepayments to suppliers	4,145,226	6,706,839
Provisions for impairment of prepayments	(81,813)	(82,031)
Deferred expenses	551,855	673,964
	4,615,268	7,298,772

See below for the movements in the provision for impairment of prepayments:

	2012	2011
As at 1 January	82,031	12,044
Charge for the year	2,801	84,459
Utilised	(1,310)	-
Unused amounts recovered	(1,700)	(14,302)
Effect of translation into presentation currency	(9)	(170)
As at 31 December	81,813	82,031

25. Cash and cash equivalents

		at 31/12/2012	at 31/12/2011
Cash at banks	UAH	14,316	371,480
	USD	224,853	812,908
	EUR	17,054	20,352
		256,223	1,204,740

26. Share capital

		2012		2011
	%	Amount	%	Amount
Connektico Ltd	75	323,143	75	323,143
Free float	25	107,714	25	107,714
		430,857		430,857

As at 31 December 2011, 2012 all shares issued by the Group are fully paid. There are no shares bought out by the owners.

27. Employees benefits obligations

The Group has juridical obligation to refund to the State Pension Fund of Ukraine additional pensions, which are paid to definite category of personnel after their retirement.

This pension plan is not financed.

Changes in the present value of the defined benefit obligations are as follows:

	2012	2011
Defined benefit plan obligations as at 1 January	3,452,289	2,949,891
Current services cost	801,542	458,852
Interests expenses	509,697	436,419
Actuarial (gain)/loss	(1,774,773)	1,374,549
Paid benefits	(107,512)	(75,967)
Past service costs	-	(1,676,146)
Effect of translation into presentation currency	(1,073)	(15,309)
Defined benefit obligation as at 31 December	2,880,170	3,452,289

Amounts recognized in consolidated statement of financial position:

	2012	2011
Present value of defined benefit plan, not secured by funds	2,880,169	3,452,289
Unrecognized net actuarial (gain)/loss	(286,225)	(2,247,381)
Unrecognized cost of past services	382,485	478,273
Defined benefit plan obligations as at 31 December	2,976,429	1,683,181
Long- term	2,832,642	1,575,556
Short-term	143,787	107,625

Net plan expenses (recognised in cost of sales)

	2012	2011
Current service costs	801,738	460,106
Recognized actuarial loss	185,962	64,217
Interests expenses	509,697	436,419
Recognized cost of past services	(95,621)	(1,040,996)
	1,401,776	(80,254)

Changes in present value of liabilities recognized in consolidated statement of financial position

	2012	2011
As at 1 January	1,683,181	1,845,674
Paid-up remuneration	(107,512)	(75,967)
Net expenses in consolidated income statement	1,401,776	(80,254)
Effect of translation into presentation currency	(1,018)	(6,272)
As at 31 December	2,976,429	1,683,181

Basic actuarial assumptions:

	2012	2011
Discounting rate	14%	15%

Wage increase parameter for 2013 is expected at 0%. For all subsequent years wages' increase is set at 5%.
Employee turnover increase is anticipated by 11%.

28. Trade and other payables

	at 31/12/2012	at 31/12/2011
Trade payables	2,302,333	5,767,150
Accrued salaries, wages and related taxes	1,657,753	909,554
Provision for unused vacations	1,062,393	1,062,921
Accounts payable for other taxes	30,885	212,201
Advances from customers	27,551	71,326
Current portion of non-current liabilities on defined benefit plan	143,787	107,625
Accrued interest	135,246	47,952
Other current liabilities	519,277	92,392
	5,879,225	8,271,121

Trade payables are non-interest bearing and have an average term of three months.

For terms and conditions relating to related party disclosure, refer to Note 31.

For explanations on the Group's credit risk management processes, refer to Note 32.

29. Provisions

	Provision on processing waste dump	Provision on mine abandon and dismantling of machinery	Total
As at 31 December 2010	7,266	957,750	965,016
Accrued obligations	2,283	-	2,283
Discounting effect	1,049	175,448	176,497
Effect from translation into presentation currency	(103)	(3,847)	(3,950)
As at 31 December 2011	10,495	1,129,351	1,139,846
Accrued obligations	2,694	-	2,694
Discounting effect	1,642	207,015	208,657
Effect from translation into presentation currency	(6)	(501)	(507)
As at 31 December 2012	14,825	1,335,865	1,350,690

Provision for land reclamation and abandoning of mines is charged due to mining activity of the Group in the result of which liabilities arise for mine closing and dismantling, and reclamation of land, balance of which was disrupted by underground works and waste dumps.

Basic assumptions used in calculation of the amount of land reclamation and abandoning of mines provisions:

	2012	2011
Discounting rate	18,3%	18,3%
Long-term inflation	8,0%	8,0%
Medium-term inflation	12,3%	12,3%

The current provisions comprise allowances of foreign subsidiaries for general and administrative expenses in amount USD 118,177.

30. Contingent assets and liabilities

Litigations

In the ordinary course of business the Group is subject to legal actions and claims.

At 31 December 2012, the Group's companies had ongoing litigations with the tax authorities mainly related to disallowance of VAT refunds and deductibility of certain expenses for corporate income tax purposes claimed by the Group.

At the date of signing of this financial statements, the claims totalled to USD 10,740,845 relates to cases where the court of either the first or second instance has already ruled in favour of the Group.

According to the assessment performed by the Group's management based on the past history of court resolutions of similar lawsuits, the total exposure of the Group to the risks is negligible.

On the date of the signing the Consolidated financial statements the Group's tax returns for the year 2012 have not been examined by the Tax Authorities. Thus, the Group's tax liabilities for this year have not been finalized.

Operating lease

All operating lease contracts, in which the Group acts as a lessor, are cancellable.

According to them, the Group leases state land, equipment from related parties, machinery from the third parties.

Minimum lease payments recognised in expenses of the period amount to: USD 177,301 (2011: USD 70,441).

Contingent tax liabilities in Ukraine

Ukrainian tax system and legislation are fairly new and are characterized by a great number of taxes and frequent changes in the legislation which are often ambiguous, inconsistent and are subject to controversial interpretations by different executive and legislative power bodies entitled to impose significant fines and penalties. All listed creates a taxation risk exposure which considerably exceeds that of the countries with more advanced tax systems.

Tax consequences of business transactions for the purpose of Ukrainian statutory taxation are often determined by the form in which those transactions are documented and reflected based on the requirements stipulated by the Ukrainian Accounting Standards. Accordingly the Group carries out a number of operations aimed at effective taxation rate optimization. In the process of consolidated financial statements' preparation, in order to render the economic essence of those operations, the Group's financial position and performance, the Group's management reflected actual revenue and costs receivables and payables.

In connection with the above, at each reporting date the Management created provisions for the payment of potential tax liabilities. However should the controlling authorities classify such transactions as subject to taxation and apply such classification to the companies of the Group, actual taxes and penalties may differ from the Management assessment.

The Group's Operating Environment

Ukraine has experienced political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine have historically involved risks that do not typically exist in other markets. The accompanying consolidated financial statements reflect Group management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. While Ukraine has brought about a relative increase in political stability in the last twelve months with recent elections, the effect of future political developments on the financial position and the ability of others to continue to transact with the Group cannot, of course, be absolutely guaranteed.

The consolidated financial statements therefore may not include all adjustments that might ultimately result from these adverse conditions.

Management believes it is taking all necessary measures to support and maintain the existing operating and financial sustainability and stability profile of the Group's business as well as taking advantage of current

economic environment to further grow its market share in the respective subsectors of the Group's business activities.

31. Related parties

Residual debts and transactions between the Group's Companies were eliminated in combination, and information about them is not disclosed in this note.

Information about transactions between the Group and its related parties are as follows:

	2012	2011
Purchase of goods and services	23,305	185,635
Revenues from goods and services	89,203	356,452
	at 31/12/2012	at 31/12/2011
Accounts payable	231,720	237,969
Accounts receivable	100,509	445,758
Loans	250,219	-

Purchase of goods and services and liabilities to related parties

Accounts payable to related parties at each date are interest-free. Such liabilities arose due to machinery lease from related parties and purchased coal. Prices of such transactions are established according with market ones.

Proceeds from goods and services and liabilities of related parties

Accounts receivable from related parties at each date are interest-free. Prices of transactions with related parties are established according with market ones. Liabilities are repaid basically with cash. Provisions for impairment of accounts receivable from the related parties were not charged.

Loans

Reflects a short-term loan received from Gornoe Odorudovanie LLC in January 2012. The loan is interest-free. Maturity date is 30/06/2013.

Remunerations of top management

	2012	2011
Wages and salaries	473,780	515,379
Social security contributions and similar taxes	21,035	11,509
	494,815	526,888

32. Financial risk management objectives and policies

Due to its activity, the Group is exposed to the following risks arisen from its use of financial instruments:

Credit risk

Liquidity risk

Market risk

This Note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the Group's management of capital.

The Board of directors has overall responsibility for the establishment and supervision of the risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of financial assets represents the maximum credit exposure.

Maximum exposure to credit risk was as follows:

	at 31/12/2012	at 31/12/2011
Cash (see Note 25)	256,223	1,204,740
Deposits (see Note 19)	2,180,000	-
Trade accounts receivable, net (see Note 23)	9,049,164	14,799,220
Receivables acquired under factoring contract (see Note 19)	446,403	1,604,012
Other long-term receivables (see Note 19)	2,510,887	3,069,439
	14,442,677	20,677,411

Approximately 73% of the Group's revenue is attributable to sales transactions with five customers.

Clients, revenue from which is more than 10% are presented in table below:

As at 31 December 2012 Group has six major clients (31 December 2011 - five Clients) with the balances over USD 500 thousand that equals approximately 80% (31 December 2011 - 85%) of total trade and other receivables. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

For general evaluation of potential customers the Group judges ratings of companies based on public information (if any) from all available sources of information, as well previous experience of business partnership with counterparty is taken for evaluation purposes.

At 31 December 2012, the Group hold USD 193 thousand with the Bank of Cyprus accounts. At a date of signing of this consolidated financial statements, the Group does not exercise any restrictions as for the managing of the funds.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The average credit period on purchases of goods is 25 days.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2012	On demand	Less than 3 months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	-	5,361,788	1,500,296	4,933,222	39,682,307	51,477,613
Trade and other payables (see Note 28)	1,044,192	1,764,263	10,437	2,718	-	2,821,610
	1,044,192	7,126,051	1,510,733	4,935,940	39,682,307	54,299,223

Year ended 31 December 2011	On demand	Less than 3 months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	-	89,911	86,961	2,145,052	21,217,997	23,539,922
Trade and other payables (see Note 28)	-	5,141,220	-	718,322	-	5,859,542
		5,443,332	86,961	2,863,374	21,217,997	31,419,891

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency). Financial instruments exposed to foreign currency risk comprise cash, trade and other accounts receivable.

The following table demonstrates the sensitivity to a reasonably possible changes in the UAH exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in UAH, rate	Effect on profit before tax
2012		
USD	10%	(4,412,999)
	-10%	4,412,999

	Change in UAH, rate	Effect on profit before tax
2011		
USD	10%	(1,804,834)
	-10%	1,804,834
EUR	10%	(12,300)
	-10%	12,300

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term balances.

Interest rate risk

Interest rate risk – the risk of changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). The Group obtains borrowings with both fixed and variable rates.

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	at 31/12/2012	at 31/12/2011
Fixed rate instruments	3,351,006	604,058
Variable rate instruments	39,293,720	17,996,747
	42,644,726	18,600,805

The sensitivity analyses below have been performed based on the exposure to interest rates for financial instruments at the end of the reporting period.

For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would decrease/increase by USD 410,700 (2011: decrease/increase by USD 18,106). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's finished goods or raw materials used in production.

The selling prices for coal are largely determined by global market conditions.

If any or all of these factors depress prices, our business, results of operations and financial condition may be adversely affected.

The Group management makes monitoring of market prices of finished goods and considers new sales markets (including foreign) in order to manage exposure to changes.

The Group manages the risk of market price change for key inputs by working with reliable suppliers and by monitoring market for opportunity to get new attractive supply of resources.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

No changes were made in the objectives, policies or processes during the years ending 31 December 2012, 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents.

	2012	2011
Loans and borrowings	42,915,973	18,600,805
Trade and other payables	5,879,225	8,271,121
Cash and short-term deposits	(256,223)	(1,204,740)
Net debt	48,538,975	25,667,186
Equity	46,357,121	69,554,963
Capital and net debt	94,896,096	95,222,149
Gearing ratio	0.51	0.27

The Board of Directors will propose to AGM not to pay the dividends to the shareholders for the year ended 31 December 2012 and for the next 12 months based upon an overall judgement about its business results, financial conditions and future business plan.

33. Events after the reporting date

In March 2013, PC Interdon LLC, the Group subsidiary, fulfilled its current financial obligation towards the EBRD timely and in full. Shakhta Sadova LLC and Shahta Rassvet-1 LLC have settled the payments of financial interests related to loans with PJSC Otp in part. Under Additional Agreement with PJSC Otp Bank dated 29 March 2013, the payment terms for the principal amount related to the Loan 2 (please refer to Note 20) was prolonged to 30 April 2013. The Group is under further negotiations with the bank concerning the prolongation of principal amounts and interest payments.

In April 2013, the Group put into operation an enrichment complex for processing waste dumps in Vahrushevo city with a total processing capacity of 150 tonnes/h and an annual expected coal output of 180-280 thousand tonnes.

In April, PC Interdon LLC entered into an export contract. The trial batch is fixed at 500 tonnes. According to the mutual agreements, the next consignment will be 5000mt in May.

At the date of this report, Sadovaya and Rassvet-1 mines continue working at sustaining mode to maintain safety conditions of underground mining.

34. Fees invoiced by the auditors

	2012	2011
Audit fees	154,802	177,020
	154,802	177,020

35. Approval of the financial statements

The Consolidated Financial Statements of the Group for the year ended 31 December 2012 were approved for issue and signed on behalf of the Management Board on 29 April 2013.