Sadovaya Group

Annual report

2011

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Statement of the main shareholder

Dear shareholders, colleagues and partners,

One more year of our development has passed. It was the first year of publicity and the year of establishing new standards of Sadovaya Group development. In 2011 we managed to improve our key performance indicators and laid a foundation for our further development.

We made a promising start in 1Q and 2Q 2011 doubling our revenue and net income on year on year basis, but slowed down in the subsequent quarters on unexpected geological issues. 2011 results inspire us with optimism for our development path: our revenue reached USD 90 mln, increasing 38% y-o-y, net income increased 31% y-o-y to USD 10.3 mln.

The increased capacity of our current mines and launch of new longwalls allowed us to boost our total extraction volumes from 279 ths t in 2010 to 475 ths t in 2011, which reveals 121% y-o-y growth at Sadovaya mine and 35% increase at Rassvet-1. We continue following our strategy of reducing the share of third party purchases in our total sales decreasing it from 75% in 2010 to 62% in 2011 and we expect it further decrease in 2012. Our sales volumes reached 1,264 ths t in 2011, growing 15% y-o-y.

Looking into further development we acquired a license to develop Roskoshniy mine field, which increased our total underground resource base to 43.2 mmt. Currently we consider different options to expand our resource base.

Undoubtedly, as a highlight of the year I should mention establishment of long term relationship with EBRD in our waste recovery business. Sadovaya Group became the first mining company in Ukraine to receive EBRD project financing in the amount of USD 36 mln. We have reconsidered our waste recovery segment plan which currently implies construction of 4 waste reprocessing factories. Two of them will be launched already in 2012.

We managed to significantly reduce our cost of debt in 2011. Thanks to the loan agreements signed in 2011 for the total amount of USD 61 mln the weighted average interest rate dropped from 21.8% by the end of 2010 to 8.3% by the end of 2011.

Sadovaya Group’s unstoppable progress has been launched. Looking into past, I should confess that a lot of work has already been done but a lot more is ahead. I want to thank our team for dedication and priceless contribution to the Sadovaya Group development and wish us outstanding achievements on our challenging and interesting development path.

Sincerely Yours,
Alexander Tolstoukhov

Contents

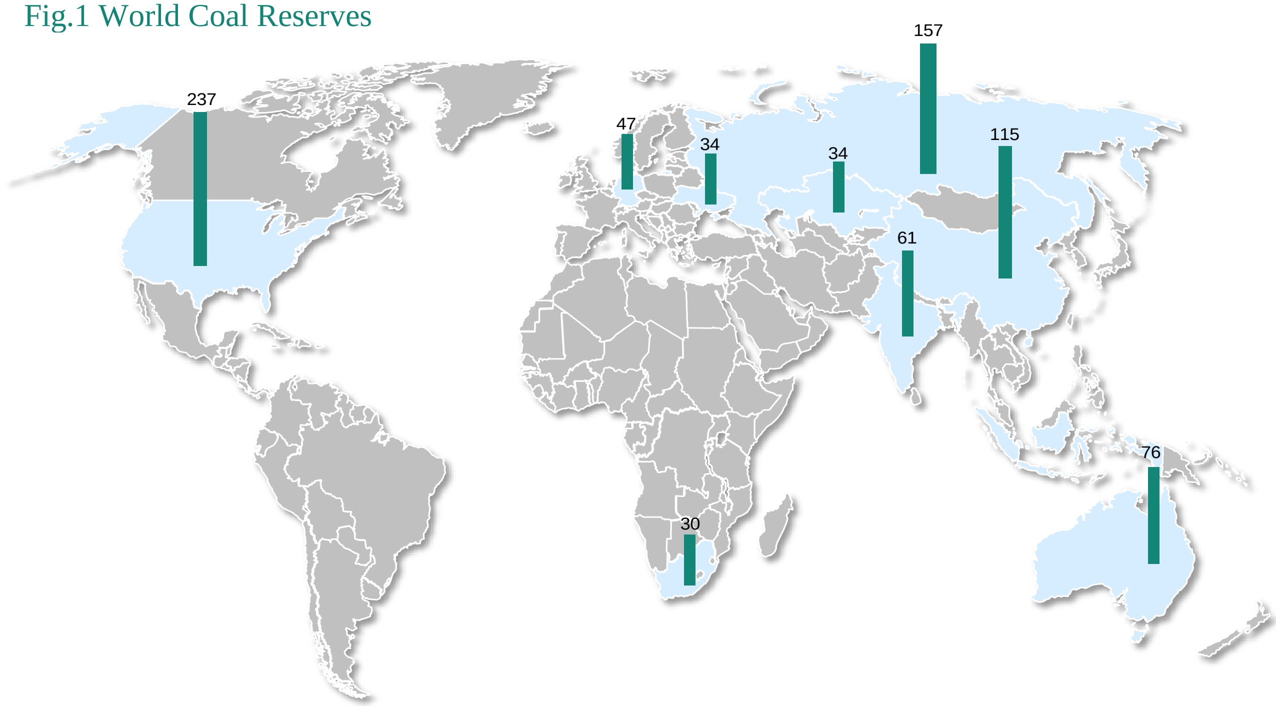
Coal market

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 2010, Ukraine was the 13th largest coal mining country in the world.

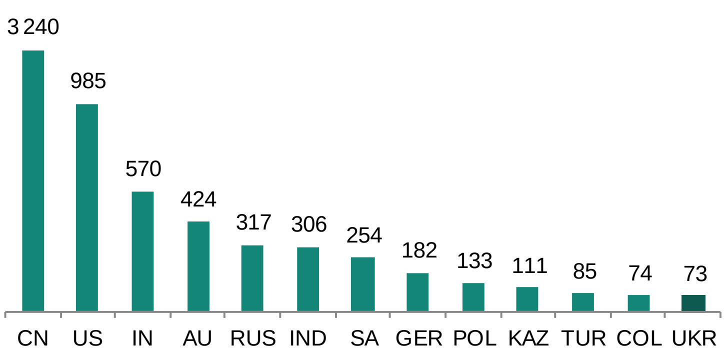
In 2011 out of 82 mmt of coal mined, steam coal volume amounted to 62% of total output

Fig.1 World Coal Reserves



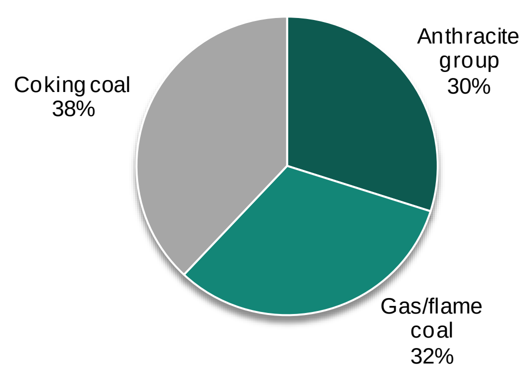
Source: BP Statistical review 2011

Fig.2 Top coal producing countries in 2010



Source: BP Statistical review 2011

Fig.3 Ukraine's coal production structure, 2011



Source: Energobiznes

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

Coal comprised 43.7% of fuel for energy generating companies in 2011, which makes it second most important fuel after nuclear.

Increased demand for energy coal is supported by underutilized capacity of coal-burning TPPs, implementation of pulverized coal injection (PCI) technology at metallurgical plants and increasing export volumes.

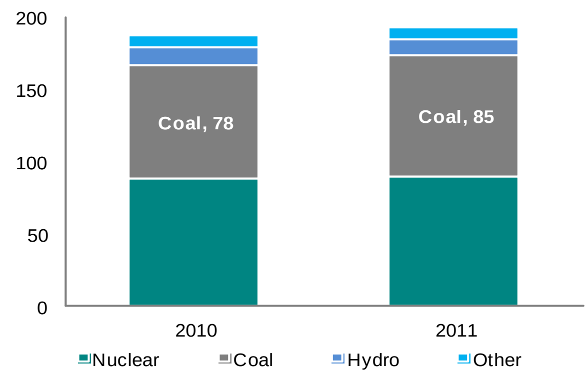
However, now Ukraine has a surplus of anthracitic coal, which is mainly exported to Turkey, Bulgaria and Western Europe countries.

Coal production in Ukraine halved over the last 20 years on the back of low demand in the mid-1990s and on a lack of investments into the sector's development. In case of successful reforms and proper investments Ukraine has a chance to restore former potential.

Over the last 2 years, the coal production increased by 14% - from 72 mmt in 2009 to 82 mmt in 2011 mainly due to increase in production from private mines.

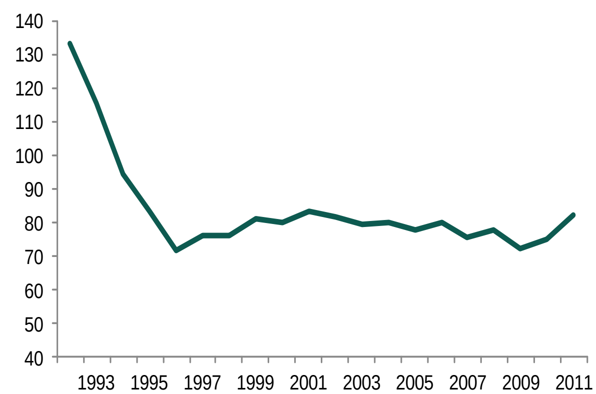
Further increase in mining output is expected after the privatization and modernization of nearly 100 state mines – the Law of Ukraine on their privatization was adopted in April 2012.

Fig.4 Electricity production in Ukraine, TWh



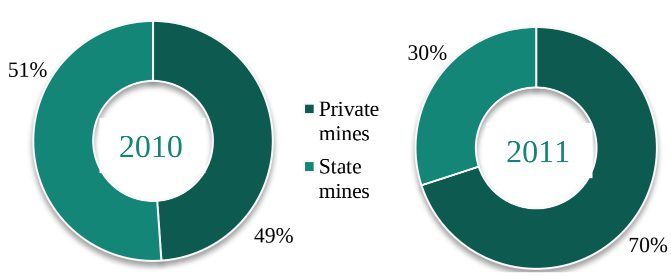
Source: Energobiznes

Fig.5 Coal production in Ukraine, mmt



Source: Ministry of Coal and Energy of Ukraine

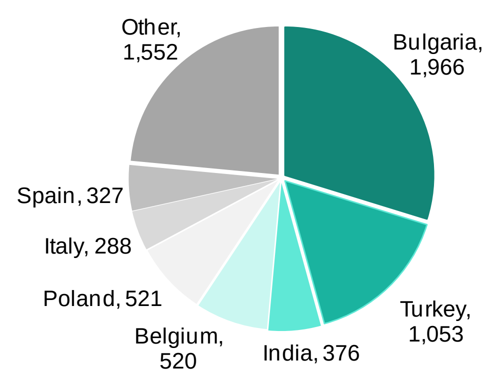
Fig.6 Ownership structure of Ukrainian mines*, 2010-11



Source: Energobiznes

** - including concession and long-term lease agreements*

Fig7 Anthracite coal exports from Ukraine, mmt



Source: Energobiznes

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”).

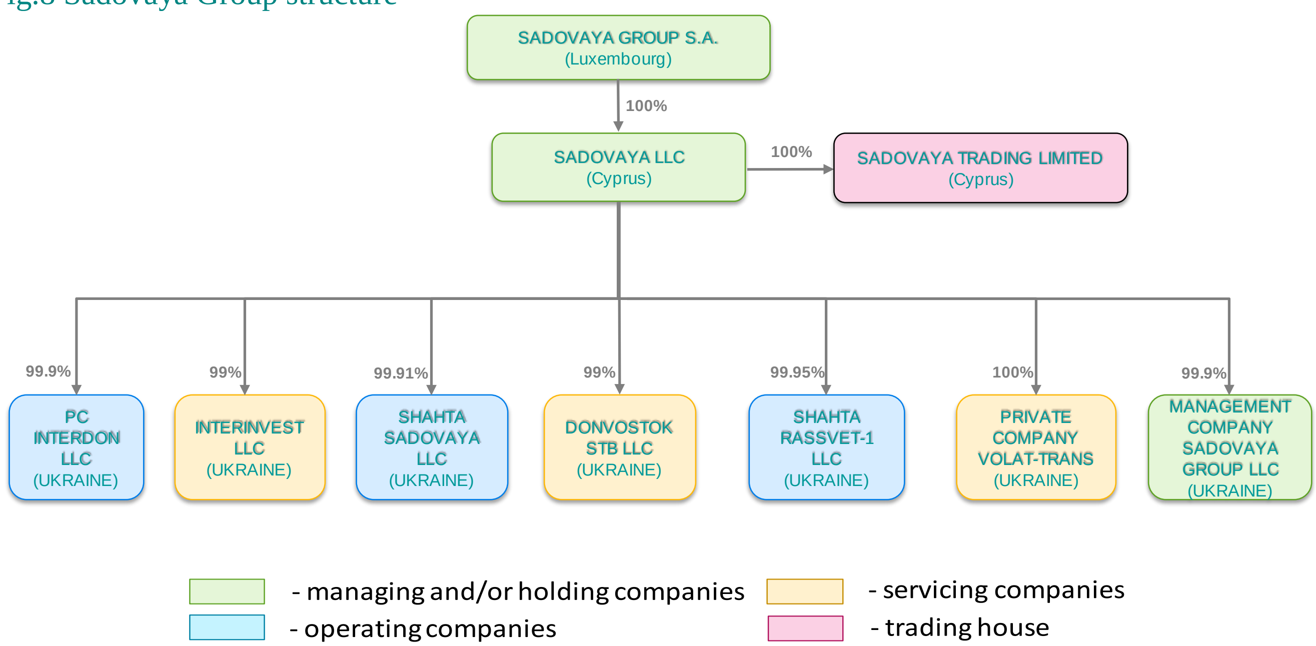
The Group comprises operating, holding, servicing and trading companies (Fig.8).

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

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

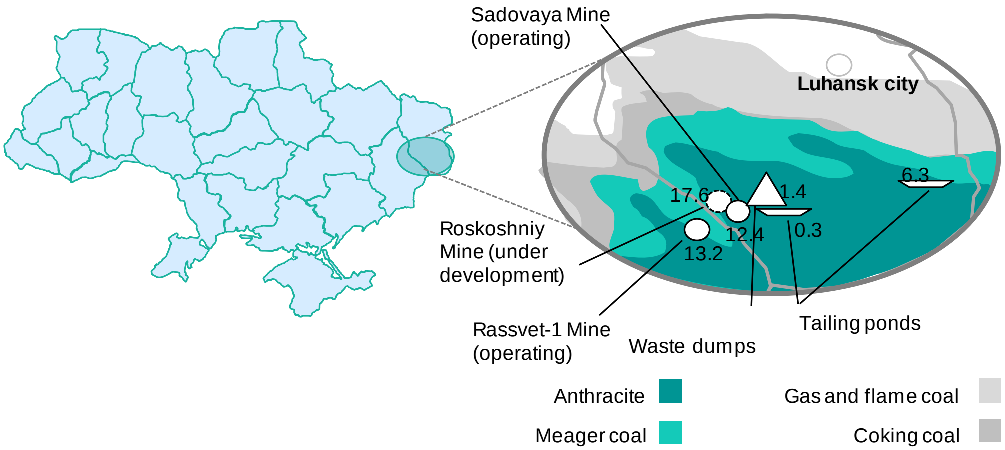
The Group’s principal activities are the preparation and marketing of coal from three main sources: own underground mining, the recovery of coal waste deposits, and third party purchases. The Group’s diversified mining and related operations are divided into the following major segments: coal mining 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.8 Sadovaya Group structure



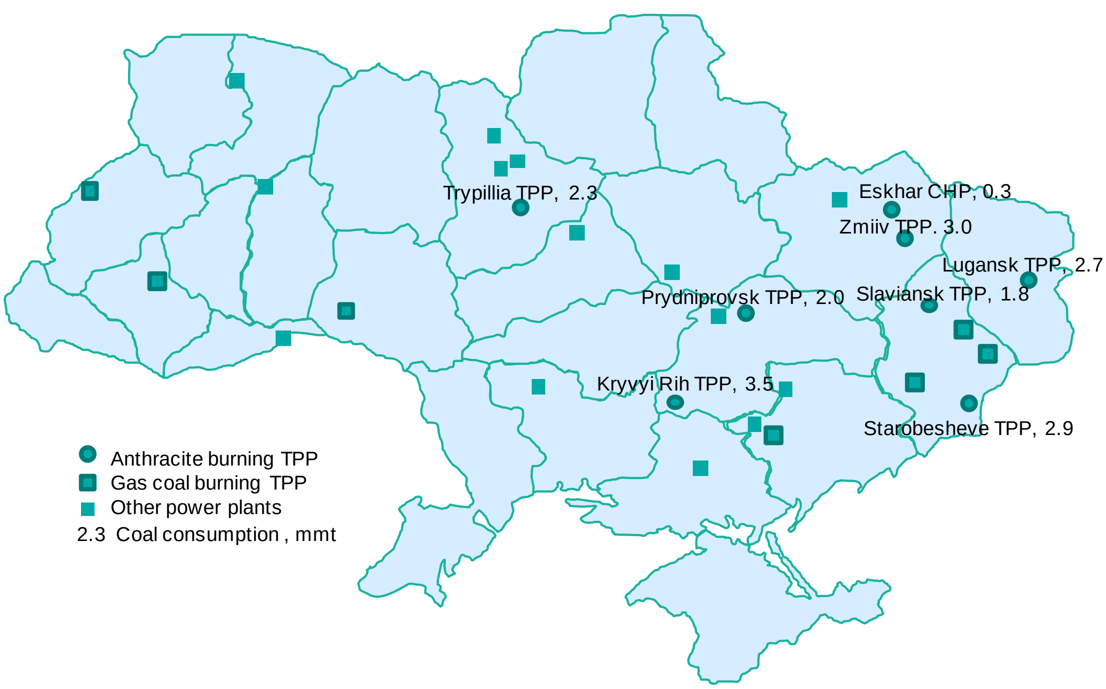
Sadovaya Group operates two full-cycle mine complexes in Ukraine’s Donetsk and Luhansk Regions – Sadovaya and Rassvet-1 mines, and in March 2011 acquired a license to develop Roskoshniy mine field, natural extension of Sadovaya mine filed. Total underground resources under Group’s ownership currently comprise 43.2 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.9 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 5% of total sales in 2011. However, the Group strategy implies further increasing of the export share.

Fig.10 Ukraine power plants and anthracite coal consumption in 2011, mmt

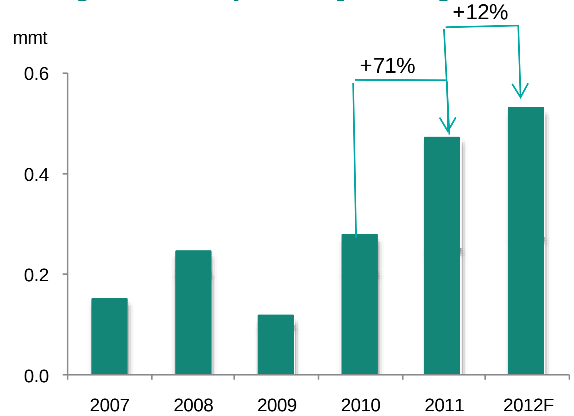


Coal mining

The Group has two mining complexes in the Donbas region with its own infrastructure. In 2011 total mining output comprised 475 ths. t or 70% higher 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 255 ths. t in 2011, +121% y-o-y. By the end of 2011 Sadovaya mine operated 3 longwalls with monthly coal output of 9 ths. t each. This includes new longwall launched on k7 coal seam in June 2011.

Fig.11 Sadovaya Group mining results



Rassvet-1 mine extracts semi-anthracite type of coal (grade T). In 2011 coal output comprised 220 ths. t, + 35% y-o-y. By the end of 2011 the mine operated 2 longwalls with monthly coal output of 15-18 ths. t each.

As of January 2012 the Group mines employed 1746 people.

The Group acquired the license to develop “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.12 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 controls number of coal waste dumps and tailing ponds that are located in Luhansk region,and is constantly looking for possibilities to expand its resource base. Coal from wastes can be extracted at a relatively low cost and generate stable cash flow for the Group.

PC Interdon LLC, engaged in waste recovery business, produced 56 ths. t of coal from wastes deposits in 2011. The company has one reprocessing factory with annual output capacity of up to 60 ths. t, which is expected to be replaced by new complexes in 2012.

The Group is developing waste coal recycling business, by constructing 4 reprocessing facilities in Eastern Ukraine with a total annual capacity of 3.6 mt. The first stage of the project will include a tailing pond reprocessing facility at Samsonovska village and a waste dump reprocessing facility at Vahrushevo town with a total annual processing capacity of 900 mt each. The second stage of the project will include at least another 2 waste coal reprocessing facilities to bring total processing capacity of the Group up to 3.6 m/t.

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.

In 2011 the Group entered into a loan agreement with European Bank of Reconstruction and Development to partially finance the project development. Financing in the amount of USD 36 mln at annual interest rate of LIBOR 3M + 6.5% will be repaid over 7 years.

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.

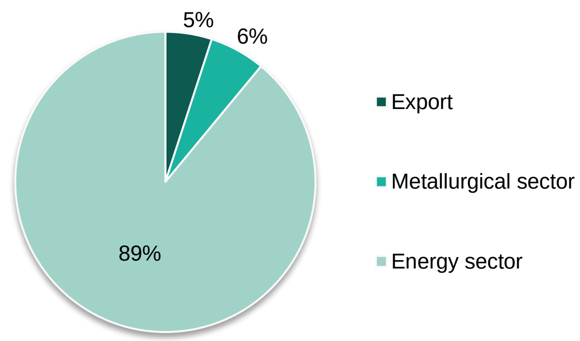
Coal trading

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 Vostokenergo, Centrenergo, DTEK, Arcelor Mittal KrivoyRog, Zaporizhia Ferroalloy and Nikopol Ferroalloy plants.

Fig.13 Sadovaya Group sales structure, 2011



In 2011 the Group sold 1,264 ths t of coal or 15% more than in 2010.

The monthly sales volumes (Fig.14) and anthracite balance at Ukrainian TPPs (Fig.15) reflect seasonality of coal sales with the slump in demand during first winter and summer months – usually during these periods TPPs are using the existing coal stocks, rather than buying coal from the market.

Fig.14 Sadovaya Group sales volumes, 2011, tonnes

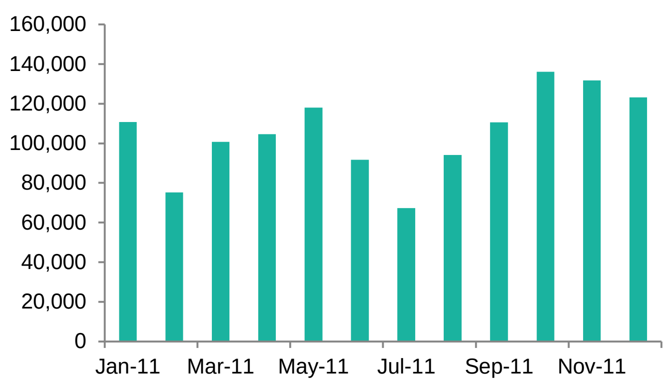
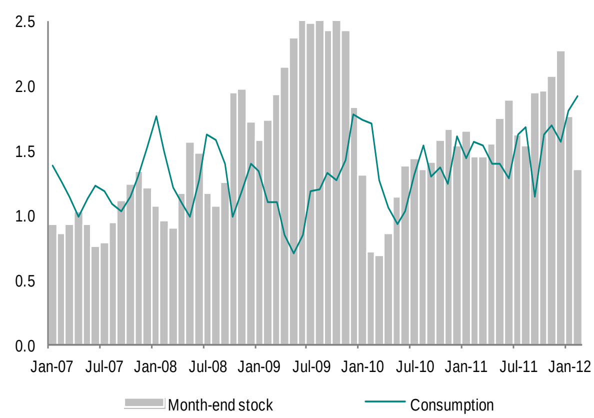


Fig. 15 Anthracite balance at Ukrainian TPPs, mmt



Source: Energobiznes

Highlights of 2011

Sadovaya Group strengthens its management team

February

Sadovaya Group acquires license to develop Roskoshniy mine field

March

Sadovaya Limited, the wholly owned subsidiary of the Sadovaya Group S.A., incorporates Sadovaya (Cyprus) Trading Limited, which will act as a trading house responsible for trading with international markets

April

Due to geological reasons production at the 11west longwall on $l_7$seam of Rassvet-1 mine was stopped.

April

Sadovaya mine launches new longwall on k_7 coal seam

June

Sadovaya Group declines its operational and financial forecast for 2011

June

Sadovaya Limited, the wholly owned subsidiary of the Group, and Connektico Ventures Limited incorporates Management Company Sadovaya Group LLC, which will act as managerial authority for Ukrainian companies

August

The Board of EBRD approved financing of Sadovaya Group Coal Recycling Project. The financing in the amount of USD 36 mln at annual interest rate of LIBOR 3M + 6.5% will be repaid over 7 years.

November

The Group obtains theUSD 25 mln loanfrom JSC “OTP Bank” (Ukraine). The loan has the annual interest rate 1M-LIBOR+8.5% and 5 year repayment period.

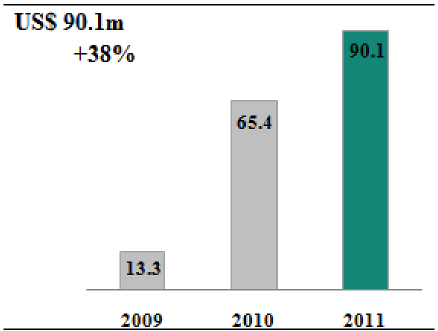
December

Rassvet-1 mine launches new longwall on l_6 coal seam

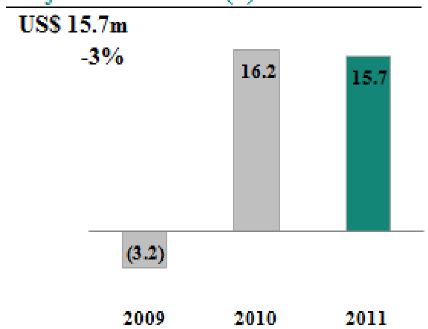
December

Review of financial results of 2011

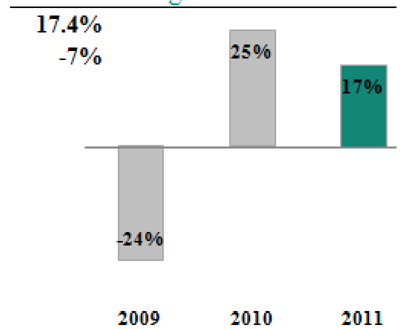
Consolidated revenue



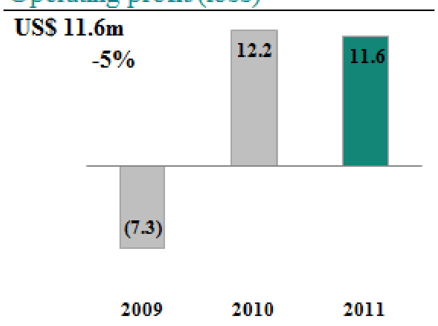
Adjusted EBITDA(1)



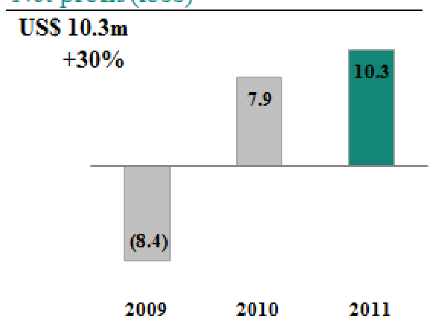
EBITDA margin



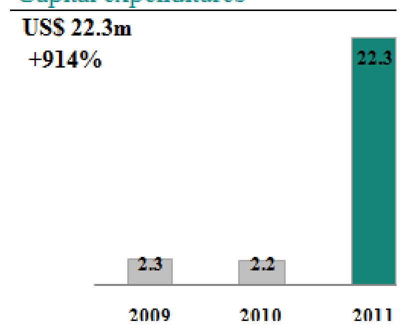
Operating profit/(loss)



Net profit/(loss)



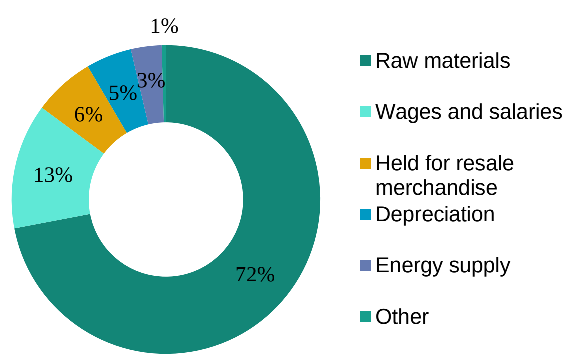
Capital expenditures



Revenue. Total revenue increased from USD 65.4 million as of 31 December 2010 to USD 90.1 million as of 31 December 2011, revealing 38% year-on-year increase. The increase is caused mainly by increase in sales volumes. The main part of the revenue was generated from mining and coal cleaning activities comprising 91% of total (USD 82.1 million). For information on sales segmentation please refer to Note 5 for the Consolidated financial statements.

Cost of goods sold. Cost of sales increased from USD 50.4 million as of 31 December 2010 to USD 72.6 million as of 31 December 2011 that represents a 44% year-on-year increase. The increase is explained mainly by growth in sales volume and increase in purchased coal price in 4Q2011 in the Ukrainian market.

Fig.17 COS structure in 2011



The main cost of sales components are as follows:

Raw materials - 72% of total COS (USD 52.2 million). Raw materials increased by 33% compared to year 2010 affected mainly by increase in sales volume and prices of coal for cleaning in 4Q 2011;

Wages and salaries – 13% of total COS (USD 9.5 million), increased by 107% compared to year 2010 due to average number of employees increase by 94% (1653 - for year 2011 and 850 - for year 2010);

Held for resale merchandise – 6% of total COS (USD 4.7 million). Held for resale merchandise increased by 121% compared to year 2010 affected mainly by increase in sales volume and prices of coal for cleaning in 4Q2011;

Depreciation – 5% of total COS (USD 3.5 million),increased by 7% compared to year 2010 due to investment projects of the Group, significant capital expenditures were made during 2011. Please refer to Note 5 and Note 16 for the Consolidated financial statements.

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

Gross profit. Gross profit increased from USD 15.0 million as of 31 December 2010 to USD 17.5 million as of 31 December 2011, which represents 38% of Group's 2011 consolidated revenues. The overall increase reflects growth in sales volume and coal prices.

Operating expenses

Distribution costs increased from USD 1.4million in the financial year ended 31 December 2010 to USD 1.9million in the financial year ended 31 December 2011. The 34% year-on-year growth is due to the increase in tonnage of coal handled by the Group and increase in transportation costs on domestic market (increase of railway tariff) in the reporting period.

General and administrative expenses increased from USD 1.5million as of 31 December 2010 to USD 3.8million as of 31 December 2011, 147% year-on-year increase. Share of general and administrative expenses in consolidated sales increased from 2.3% in 2010 to 4.2% in 2011. The increase is mainly explained by increase in average number of employees for year 2011 (by 94% y-o-y) and to payments for consultancy service in respect of EBRD loan.

Fig.18 Selling and distribution expenses

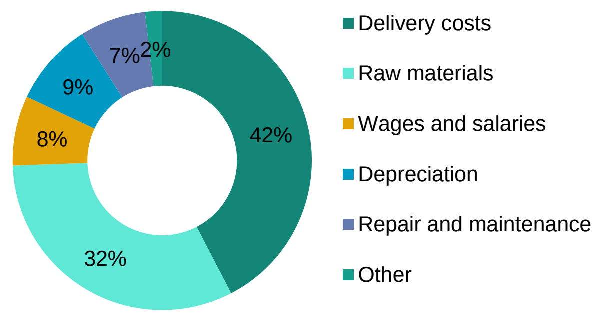
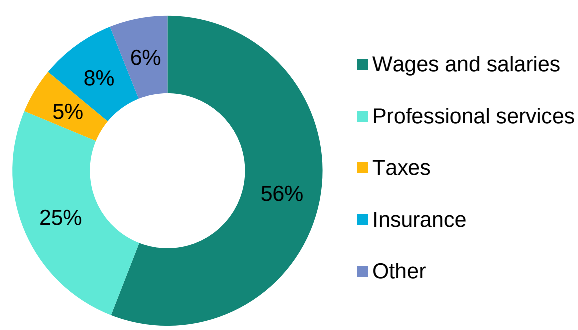


Fig.19 General and administrative expenses



Finance income and expenses

Finance costs decreased from USD 4.9 million as of 31 December 2010 to USD 3.0 million as of 31 December 2011, 40% year-on-year decrease. The decrease reflects primarily the effect of long-term receivables discounting amortization (loss in USD 1.5 million for year 2010 compared to gain of USD 1.0 million in 2011). Share of finance costs decreased from 7% to 3% of total sales for the year ended 31 December 2010 and 2011 respectively.

Fig.20 Debt structure improvements, % - interest rate

Finance income increased from USD 0.1 thousand as of 31 December 2010 to USD 1.0 million as of 31 December 2011. The increase reflects primarily the effect of long-term receivables discounting amortization (loss in USD 1.5 million for year 2010 compared to gain of USD 1.0 million in 2011).

For additional information on Group's finance income, expense and total debt structure please refer to Note 11, 12, 18.2 for the Consolidated financial statements respectively.

Cash flow and financial ratios

Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-termbank facilities and lines of credit. Our bank credit lines are provided by domestic banking institutions (Credit-Dnepr Bank and OTP Bank). Banks provide financing to our Group either in USD or in Hryvna. For information on material loan facilities of our Group Subsidiaries please see notes 18.2 and 30.

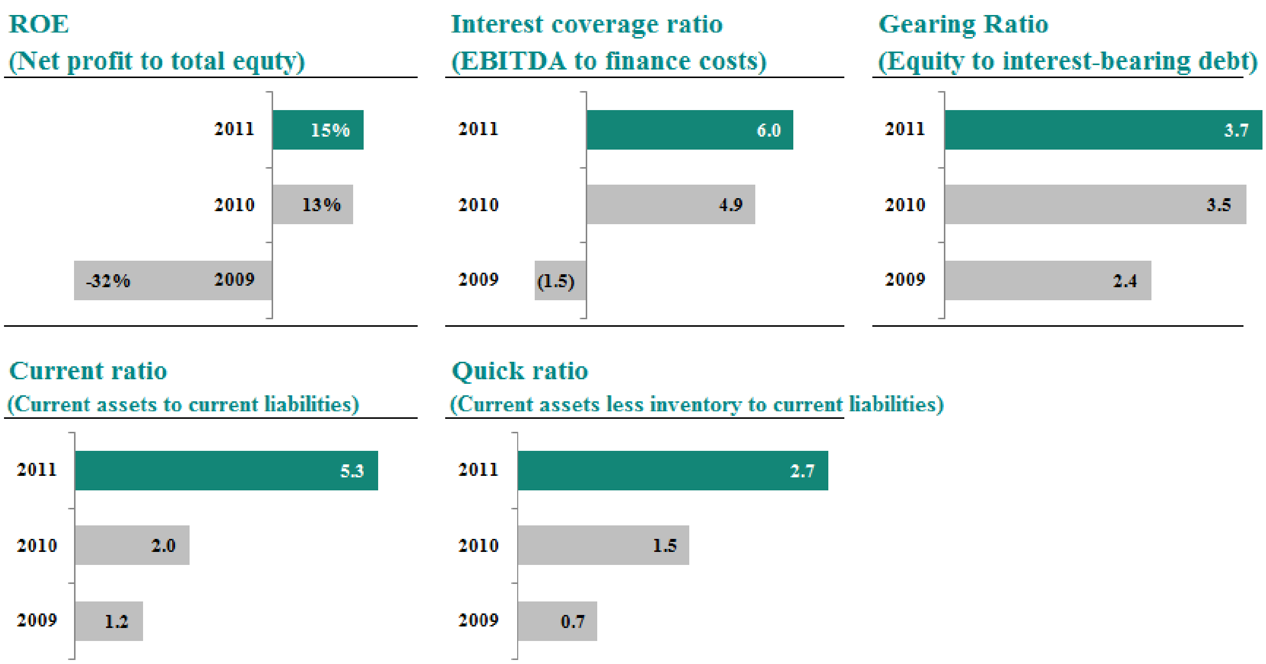
In the financial year ended in December 31, 2011, with sales growth by 38%, our working capital requirements increased by USD 39.6 million financed primarily through bank loans and Group earning.

With our high cash levels and the strong liquidity of our coal commodities inventory, together with our trading policy, we believe our working capital levels satisfy our present business needs.

Cash outflow from operations in year ended in December 31, 2011 was USD 8.7million. The negative cash flow from operations was primarily due to increased working capital. The Group purchased large quantity of coal for cleaning and significantly reduced accounts payable balance.

Cash used in investing activities was USD 21.0 million for the year ending 31 December 2011, primarily reflecting the acquisition of the mining equipment and development of longwalls.

Fig.21 Basic financial ratios



Related party transactions

Information in respect of related parties transactions is disclosed in Note 28 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 2011 is shown in accounts payable. 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. Prices of such transactions with related parties are established according with market ones. 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. Over the last decade the price for coal in Ukraine was constantly growing and the Group expects this tendency to continue in future.

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 rise in demand for anthracitic coal in Ukraine, fuelled by growing electricity demand, which will be satisfied primary 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. Therefore, in the event of stoppages or closure in one longwall, the planned level of extraction can be maintained by intensifying work on the other mine from the reserve or dormant walls.

Additional principal risks and uncertainties faced by the Group and the steps taken to manage these risks are disclosed in Note 29 of the consolidated financial statements.

Future developments of the Group

On March 2012 the Group published its official production and financial forecast for the 2012 (Fig.16).

Development of Sadovaya mine. Increase in coal production from Sadovaya mine will be reached via increase of working load on mining faces. Simultaneously, tunneling works to reach deeper horizons will be carried out.

Development of Rassvet-1 mine. The Group plans to launch two new longwalls on Rassvet-1 mine in 2012.The first one is expected to be commissioned in June 2012, the second one in December. Also in March 2012 one of the old longwalls was closed due to depletion of coal resources. By the end of 2012 the Group expects total monthly mining output at Rassvet-1 mine to reach up to 36 ths tones.

'000 tones	2012F	% change, y-o-y	2011FY	% change, y-o-y	2010FY
Coal sales	1,177	-7%	1,264	15%	1,098
Coal mining	532	12%	475	70%	279
Sadovaya mine	*278*	*9%*	*255*	*121%*	*116*
Rassvet-1 mine	*254*	*16%*	*220*	*35%*	*163*
Coal recovery from waste dumps	125	124%	56	299%	14
'000 USD					
Sales	86,662	-4%	90,086	38%	65,443
EBITDA	16,460	5%	15,711	-3%	16,276
Net income	11,625	13%	10,332	31%	7,889

Development of waste recovery segment. The Group intends to finish the construction of a dense-media enrichment complex for processing waste dumps with a total processing capacity of150tones/h and an annual expected coal output of 180-280 thousand tones. The complex is expected to be put into operation in June-July 2012. The Group also intends to finish construction of an enrichment complex for processing tailing ponds deposits, with a total processing capacity of 150 tones/h and an expected annual coal output of 240-300 thousand tones. This complex is expected to be put into operation in December 2012. 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 2012 the Group will focus mainly on increasing of the export share in total sales and diversifying its customer base.

Events after the end of the reporting period

In March 2012, the Group subsidiary PC Interdon LLC purchased 820 ths tones of inventories (slurry coal) amount to USD 6,429,015 as well as the coal enrichment equipment, USD 345,430

On 15 March 2012 the Additional Agreement to the Loan Agreement with OTP Bank was signed. The additional loan facility amounts to 1,875,000 USD (working capital financing). The loan was fully disbursed by OTP Bank in March 2012. The loan will be paid off by 28 February 2013.

The Group subsidiary Volat-Trans PE repaid USD 62,451 of the loan facility granted by Credit Dnepr Bank in the 1Q2012. PC Interdon LLC repaid USD 2,500,500 to the subholding company Sadovaya Limited.

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 Product 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.

In March 2012 the longwall on l_3 seam of Rassvet-1 mine was closed due to depletion of resources.

In March 2012 and April 2012 USD 13,000,000 and USD 5,000,000 respectively were disbursed by EBRD, under loan agreement #42621 dated 30 December 2011.

Corporate governance report

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of the Company's shares on the Warsaw Stock Exchange, the Company is required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules it intends to comply with and to state the reasons for the non-compliance.

The Company has decided to observe the majority of the WSE Corporate Governance Rules. However, certain principles apply to the Company only to the extent allowed by Luxembourg corporate law and corporate structure of the Group, 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, its Board of Directors 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.

Structure of Sadovaya Group management board

Mr. Alexander Tolstoukhov, Class A Director;

Mr. Sergey Stetsurin, Class A Director;

Mr. Pierre-Siffrein Guillet, Class B Director

Mr. Pierre Mestdagh, Class B Director;

Recommendations for Best Practice for Listed Companies

No	Rule	Yes/ No	Comment of Sadovaya Group S.A.
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; 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	YES	Except of on-line broadcast of General Meetings over the Internet, recording General Meetings and publishing them on the Company website
2	A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the	YES	

	shareholders' right to participate in a General Meeting		
3	Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded	YES	
4	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	NO	The remuneration policy currently is under development.
5	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	YES	The Company has no Supervisory board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
6	Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular: 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 the company	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
7	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities	YES	
8	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	YES	

	of the companies' economic business		

Best Practice for Management Boards of Listed Companies

No	Rule	Yes/ No	Comment of Sadovaya Group S.A.
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	YES	
	2) professional CVs of the members of its governing bodies	YES	
	3) current and periodic reports	YES	
	4) 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	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to candidates to the Board of Directors
	5) 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	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to management reports who are part of the annual reports
	6) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions	YES	
	7) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds	YES	
	8) information about breaks in a General Meetings and the grounds of those breaks	YES	
	9) information on corporate events such as payment of	YES	

	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		
	10) 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	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
	11) 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	YES	
	12) 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	YES	
	13) 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	YES	
2	14) A company should ensure that its website is also available in English, at least to the extent described in section II.1.	YES	
3	15) 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. For the purpose of this document, related entity shall be understood within the meaning of the Regulation of the Minister of Finance issued pursuant to Article 60.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Dz.U. No. 184, item 1539, as amended)	NO	The Company has no Supervisory Board and is unable to comply with this rule

4	16) A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management 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	YES	
5	17) A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting	YES	
6	18) A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders	YES	
7	19) If a company's Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2-4 of the Code of Commercial Partnerships and Companies, the company's Management Board shall immediately perform the actions it is required to take in connection with organising and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorisation given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies	YES	

Best Practice for Supervisory Board Members

The Company does not have two separate governing bodies (supervisory board and management board) instead its Board of Directors performs both the management and supervisory functions. In 2011 for managing day-to-day operations of Ukrainian companies the Group incorporated Management Company Sadovaya Group LLC (Ukraine).

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 InterauditS.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 2011, 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,
26 April 2012

SadovayaGroup S.A.

Consolidated Financial Statements

for the year ended 31 December 2011,

31 December 2010

& INDEPENDENT AUDITOR'S REPORT

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Cabinet de révision agréé

To the Shareholders of
Sadovaya Group S.A.
412F, Route d'Esch
L-2086 Luxembourg

Report of the Réviseur d'entreprises agréé (Independent auditor) on the consolidated financial statements at December 31, 2011

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, 2011, 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 31 250 €
RCS Luxembourg B 29. 501 Identification TVA LU 139 871 52
Autorisation d'établissement 103 200/A

BAKER TILLY
INTERNATIONAL

Basis for qualified opinion

Management provided 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, 2011.

For the same reasons as described above, we are not able to confirm the book value of part of raw materials, part of prepayments to suppliers and property, part of plant and equipment included in the statement of financial position as at December 31, 2011. 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 9 Mio. Management considers the assets are correctly valued as at December 31, 2011.

Qualified Opinion

In our opinion, except for the effect on the consolidated financial statements of matters referred to in the preceding paragraphs, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2011 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standard, as adopted by the European Union.

Emphasis of matter

Without qualifying our opinion, we draw your attention to:

Interpretation of the transactions described in 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. The Group accrued provision for probable additional tax liabilities and fines related to such transactions.

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 27, 2012

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

Edward KOSTKA

Consolidated income statement

for the year ended 31December 2011, 2010 and for the 215-day period ended 31December 2010

	Note	2011 (audited)	2010 (audited)	31/05/2010-31/12/2010 (audited)
Revenue	6	90,085,544	65,442,876	16,299,056
Cost of sales	7	(72,560,870)	(50,402,112)	(12,939,820)
Gross profit		**17,524,674**	**15,040,764**	**3,359,236**
Selling and distribution expenses	9	(1,862,793)	(1,387,848)	(92,262)
General administrative expenses	8	(3,749,237)	(1,516,598)	(566,053)
Other income/(expenses), net	10	(283,305)	(742,257)	(277,972)
Operating profit/(loss)		**11,629,339**	**11,394,061**	**2,422,949**
Finance expenses	12	(2,961,423)	(4,889,194)	(625,202)
Finance income	11	1,039,143	1,071	444
Non-operating foreign currency translation gain/(loss)		(119,800)	763,193	763,193
Profit/(loss) before tax		**9,587,259**	**7,269,131**	**2,561,384**
Income tax (expense)/benefit	15	744,249	620,537	(62,539)
Profit/(loss) for the period		**10,331,508**	**7,889,668**	**2,498,845**
Earnings per share		0.24	0.18	0.06

Director A

Consolidated statement of comprehensive income

for the year ended 31 December 2011, 2010 and for the 215-day period ended 31 December 2010

	2011 (audited)	2010 (audited)	31/05/2010-31/12/2010 (audited)
Profit for the period	**10,331,508**	**7,889,668**	**2,498,845**
Other comprehensive income			
Non-current assets revaluation	-	-	19,182,409
Change in corporate profit tax rate	-	1,711,310	-
Exchange differences on translation in presentation currency	(187,337)	47,494	(838,975)
Other comprehensive income for the period	**(187,337)**	**1,758,804**	**18,343,434**
Total comprehensive income for the period	**10,144,171**	**9,648,472**	**20,842,279**
Attributable to:			
Equity holders of the parent	10,137,650	9,595,463	20,820,432
Non-controlling interests	6,521	53,009	21,847

Notes on pages 39-90 are the integral part of these consolidated financial statements

Director A

Consolidated statement of financial position
as at 31December 2011, 2010

	Note	as at 31/12/2011 (audited)	as at 31/12/2010 Pro-forma (audited)	as at 31/12/2010 Consolidated (audited)
Assets				
Non-current assets				
Property, plant and equipment	16	47,410,902	29,753,756	29,753,756
Intangible assets	17	972,828	901,309	901,309
Other financial assets	18.1	4,673,451	4,973,485	4,973,485
Deferred tax assets	15	667,157	608,758	608,758
		53,724,338	**36,237,308**	**36,237,308**
Current assets				
Inventories	19	24,225,258	16,046,131	16,046,131
Trade and other receivables	20	16,082,996	4,799,127	4,799,127
Prepayments and deferred expenses	21	7,298,772	7,588,233	7,588,233
Cash and cash equivalents	22	1,204,740	32,452,015	32,452,015
		48,811,766	**60,885,506**	**60,885,506**
Total assets		**102,536,104**	**97,122,814**	**97,122,814**
Equity and liabilities				
Equity				
Share capital		430,857	430,857	430,857
Share premium		28,525,902	28,525,902	28,525,902
Retained earnings		32,205,067	20,313,295	12,110,601
Revaluation reserve		17,622,143	19,182,409	19,182,409
Effect of foreign currency translation		(9,229,006)	(9,041,669)	(838,975)
Equity attributable to the parent		69,495,988	59,117,979	59,117,979
Non-controlling interest		58,975	292,815	292,815
		69,554,963	**59,410,794**	**59,410,794**

Non-current liabilities				
Loans and borrowings	18.2	17,904,938	-	-
Employee benefit liability	24	1,575,556	1,773,030	1,773,030
Provisions	26	1,139,846	965,016	965,016
Deferred tax liability		3,122,724	4,402,736	4,402,736
		23,743,064	**7,140,782**	**7,140,782**
Current liabilities				
Trade and other payables	25	8,271,121	12,818,608	12,818,608
Loans and borrowings	18.2	695,867	16,907,930	16,907,930
Provisions		211,795	751,029	751,029
Income tax payable	15	59,294	93,671	93,671
		9,238,077	**30,571,238**	**30,571,238**
		32,981,141	**37,712,020**	**37,712,020**
Total equity and liabilities		**102,536,104**	**97,122,814**	**97,122,814**

Notes on pages 39-90 are the integral part of these consolidated financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2011, 2010

	Share capital	Share premium	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total equity
As at 01 January 2010	**43,143**	**-**	**16,315,299**	**19,057,707**	**(9,089,163)**	**26,326,986**
Profit for the period	-	-	7,889,668	-	-	**7,889,668**
Other comprehensive income	-	-	-	1,711,310	47,494	**1,758,804**
Depreciation transfer	-	-	1,586,608	(1,586,608)	-	**-**
Total comprehensive income	**-**	**-**	**9,476,276**	**124,702**	**47,494**	**9,648,472**
Increase in share capital	387,714	30,306,048	-	-	-	**30,693,762**
Expenses related to IPO	-	(1,780,146)	-	-	-	**(1,780,146)**
Dividends	-	-	(5,263,280)	-	-	**(5,263,280)**
As at 31 December 2010	**430,857**	**28,525,902**	**20,313,295**	**19,182,409**	**(9,041,669)**	**59,410,794**
Profit for the period	-	-	10,331,506	-	-	**10,331,506**
Other comprehensive income	-	-	-	-	(187,337)	**(187,337)**
Depreciation transfer	-	-	1,560,266	(1,560,266)	-	-
Total comprehensive income	**-**	**-**	**11,891,772**	**(1,560,266)**	**(187,337)**	**10,144,169**
Increase in share capital	-	-	-	-	-	**-**
Expenses related to IPO	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	**-**
As at 31 December 2011	**430,857**	**28,525,902**	**32,205,067**	**17,622,143**	**(9,229,006)**	**69,554,963**

Notes on pages 39-90 are the integral part of these consolidated financial statements

Director A

Consolidated statement of cash flows

for the year ended 31December 2011, 2010 and for the 215-day period ended 31December 2010

	2011 (audited)	2010 (audited)	31/05/2010-31/12/2010 (audited)
Operating activities			
Profit/(loss) before tax	9,587,259	7,269,131	2,561,384
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	4,186,108	4,019,029	670,739
(Profit)/loss on disposal of property, plant and equipment and intangible assets	103,867	7,747	-
Impairment of receivables/(reversal of impairment)	80,502	(272,777)	16,272
Shortages and losses from impairment of inventory	106,338	120,887	26,960
Net profit on exchange differences	(424,003)	(2,226)	(765,170)
Finance expenses	2,961,423	4,889,194	625,202
Finance income	(1,039,143)	(1,071)	(444)
Movements in provisions, pensions	60,416	1,309,151	820,371
Working capital adjustments:			
Movements in provisions, pensions (cash part)	(115,491)	-	
(Increase)/decrease in trade and other receivables and prepayments	(11,193,625)	(9,147,661)	2,738,615
(Increase)/decrease in inventories	(8,363,387)	(9,031,254)	1,527,421
Increase/(decrease) in trade and other payables	(4,624,000)	9,903,910	(5,378,202)
Cash used in operations	**(8,673,736)**	**9,064,060**	**2,843,148**
Interest received	2,675	1,071	444
Income tax paid	(616,276)	(175,653)	33,040
Net cash flows from operating activities	**(9,287,337)**	**8,889,478**	**2,876,632**
Investing activities			
Proceeds from sale of property, plant and equipment	279,954	-	-
Purchase of property, plant, equipment and intangible asset	(21,779,550)	(2,626,335)	(1,329,757)
Proceeds from sale of financial instruments	536,194	-	
Net cash flows used in investing activities	**(20,963,402)**	**(2,626,335)**	**(1,329,757)**

Notes on pages 39–90 are the integral part of these consolidated financial statements

Consolidated statement of cash flows (continued)

for the year ended 31December 2011, 2010 and for the 215-day period ended 31December 2010

	2011 (audited)	2010 (audited)	31/05/2010-31/12/2010 (audited)
Financing activities			
Proceeds from borrowings	18,496,127	5,961,423	2,045,820
Repayment of borrowings	(16,894,505)	-	-
Interest paid	(2,638,239)	(3,289,421)	(665,331)
Dividends paid	-	(5,276,375)	-
Increase in share capital and establishment of the Group	-	28,760,034	29,538,408
Net cash flows from/(used in) financing activities	**(1,036,617)**	**26,155,661**	**30,918,897**
Net decrease in cash and cash equivalents	**(31,287,356)**	**32,418,804**	**32,465,772**
Net foreign exchange difference	40,081	(6,467)	(13,757)
Cash and cash equivalents at 1 January	**32,452,015**	**39,678**	-
Cash and cash equivalents at 31 December	**1,204,740**	**32,452,015**	**32,452,015**

Notes on pages 39-90 are the integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General information

SADOVAYA GROUP S.A. and its subsidiaries (the Parent or " SADOVAYA GROUP S.A."), a public limited company registered under the laws of Luxembourg, was formed on 31 Mai 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 412F, route d'Esch, L-2086, 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 athttp://sadovayagroup.com/en/investor/in3/ or at its registered office.

The Sadovaya Group S.A. ("the Group") comprises 9 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. Note 23 contains detailed information about ownership ratios.

Group's Company	Country of incorporation	Kind of activity
Sadovaya GroupS.A.	Luxemburg	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" LLC	Ukraine	Managerial authority for Ukrainian companies

Sadovaya Group S.A. is controlled by a Cypriot company Connektico LLC, whose final shareholders are Mr. Alexander Iurievich Tolstoukhov (51%) and Mr. Sergey Nicolaievich Stetsurin(49%) (the "Final Owners"). Till December 2009 all corporate rights in six Ukrainian companies belonging to the Group and listed in the table above were jointly owned by the Final Owners. In October 2010 all shares of Sadovaya Group S.A. were purchased by Connektico LLC. Subsequently, Sadovaya Group S.A. received payment-free all shares in Sadovaya LLC. Sadovaya LLC purchased shares in the six Ukrainian companies from Connektico LLC. As a result of these transactions (the "Operations"):

(i) all shares in the seven Ukrainian companies are held by Sadovaya LLC,
(ii) all shares in Sadovaya LLC are held by Sadovaya Group S.A.,
(iii) all shares in Sadovaya Group S.A. are held by Connektico LLC.

"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 "Zhovtenvuhillya" 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 other companies of the Group are the principal consumers of the entity’s services.

“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 with coal.
On 27 October 2011 the PE “Interdon” has been reorganized into Limited Liability Company “Production Company “Interdon” (PC Interdon LLC). PC Interdon LLC is the full legal successor of PE “Interdon”. The change in legal form was made due to EBRD loan facilities and has no effect on business profile of the enterprise.

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

Sadovaya Trading Ltd was registered on 19 April 2011. The company was crated 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.

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

2.1 Basis of preparation

This report is intended solely for the purpose of performing and provisions the Consolidated financial statements for year 2011of Sadovaya Group S.A. to the Warsaw Stock Exchange.

The Group's consolidated financial statements at December 31, 2011, including comparative information for the financial year ended December 31, 2010 are presented according to the accounting policy referred to as "pooling-of-interests method” and comparative information for the financial year ended December 31, 2010 is presented according to this accounting policy referred to IFRS 3 Business Combinations (2008).

Statement of compliance

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

Basis of consolidation

The consolidated financial statements incorporate the consolidated financial statements of the parent company and companies controlled by the Group (“its Subsidiaries”) made up as of 31 December 2011.

Control is achieved where the parent company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities. The purchase method of accounting is used for acquired businesses. The equity attributable to minority owner's interests is shown separately in consolidated balance sheet. On acquisition, the assets and liabilities of a Subsidiary are measured at their fair values at the date of acquisition. The interest of minority owners is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Where necessary, adjustments are made to the financial statements of Subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All intercompany transactions and balances between the Group enterprisers are eliminated on consolidation. Unrealized gains and losses resulting from intercompany transactions are also eliminated unless for unrealized losses which cannot be recovered. Minority interest at the reporting date represents the minority shareholder's portion of the pre-acquisition fair values of the identifiable assets and liabilities of the Subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the acquisition.

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 2011	31 December 2011	Average 2010	31 December 2010
7,97	7,99	7,94	7,96

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. In Ukraine the income tax rate for the year ended 31 December 2011 is 25-23%.

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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 revaluated asset does not differ materially from its carrying amount, but at least every 3 years.

When an item of property, plant and equipment is revaluated, 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 revaluated 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 revaluated 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 use.

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 a service 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 managements 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.

The Group’s financial liabilities include trade and other payables.

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 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.

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 theconsolidated 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 18.

i) Advance payments

Advance payments are stated at cost, net of value added tax and impairment reserve. 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.

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. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revaluated 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 revaluated 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 insurance fund for temporary disability, Pension Fund and National Social Insurance Fund of Ukraine in case of unemployment 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 higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans. 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 revaluated 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. Comparative method was used for valuation of the machinery, substitution method – for valuation of buildings. It stems from lack of the comparable market information resulting from nature of the property.

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 discount rate used for the discounted cash flow model as well as the expected future cash inflows 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 counties 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.

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 expected future inflation rates.

Further details about the assumptions used are given in Note 24.

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. Standards mandatorily effective for 31 December 2011 year-end

IFRS 1 First-time Adoption of International Financial Reporting Standards

Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters

The amendment permits first-time adopters to use the same transitional provisions as are available to existing preparers of IFRS financial statements that are included in *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)*. This means that an entity need not present comparative information for the disclosures required by the amendment to IFRS 7 for:

a) any annual or interim period, including any statement of financial position, presented within an annual comparative period ending before 31 December 2009, or

b) any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.

Accounting impact: Relief from the provision of certain comparative IFRS 7 disclosures.

Mandatory adoption for periods beginning on or after 1 July 2010

Changes in accounting policies during an entity's year of adoption of IFRS

If a first-time adopter changes its accounting policies or its use of exemptions in IFRS 1 after the date of its first interim financial report prepared in accordance with IAS 34, but before the issue of its first annual IFRS financial statements, the reconciliations between previous GAAP and IFRS are required to be updated. The requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply.

Use of revalued amount as deemed cost

The relief available under IFRS 1 for the use of fair value as deemed cost has been extended from 'event driven fair value' measurements which are carried out at or before an entity's date of transition to IFRS to include measurements that are carried out between the date of transition and the end of the entity's first annual IFRS reporting period. An event driven fair value is specified as a remeasurement to fair value of some or all assets and liabilities on an event such as a privatisation or public offering.

As an example, if an entity chooses to use an event driven fair value as deemed cost under IFRS for an asset where the measurement date is after its date of transition to IFRS but before the end of the entity's first annual IFRS reporting period, an adjustment will be made to equity as at the fair value measurement date. During the period from transition date to the fair value measurement date, historical cost or other amounts permitted by IFRS are presented. The IASB rejected an approach of 'working back' from the measurement date to a deemed cost at an entity's date of transition to IFRS, on the basis that this would require the use of hindsight and would result in a carrying amount at transition date that was neither historical cost nor fair value.

Deemed cost for assets used in operations subject to rate regulation

The amendment permits a first-time adopter to use its previous GAAP carrying amounts for property, plant and equipment and intangible assets that are, or were previously, used in operations subject to rate regulation, as deemed cost at the date of transition to IFRS. This election is available on an individual asset basis.

Mandatory adoption for periods beginning on or after 1 January 2011

IFRS 3 Business Combinations

Measurement of Non-Controlling Interest (NCI)

The amendment clarifies that the option to measure NCI at either fair value, or the proportionate share of the acquisition date fair value of the acquiree's identifiable net assets that are recognized by the acquirer, applies only to instruments that give the NCI a present ownership interest and entitle the holder to a proportionate share of net assets in the event of liquidation. All other components of NCI are measured at their acquisition date fair value, unless another measurement is required by IFRS.

The amendment has been made to ensure that certain components of NCI are not measured at zero. For example, if a share-based payment transaction is classified as equity, it is measured in accordance with IFRS 2 *Share-based Payment*. Another example is a preference share that represents NCI, being an equity instrument, with its holder being entitled to a return of the initial amount subscribed on liquidation. The NCI that relates to the preference shares is measured at fair value.

Share-based payment transactions of an acquiree that are either not replaced on a business combination or are voluntarily replaced

The current requirement for an acquirer to measure share-based payment awards, that it issues to replace existing awards of an acquiree at the acquisition date, in accordance with IFRS 2 has been extended. This means that existing share-based payment awards of an acquiree that are not replaced in a business combination are also measured by the acquirer in accordance with IFRS 2 at the acquisition date. If the awards have not vested at the acquisition date, they are accounted for as if the acquisition date was the grant date. If the awards have vested at the acquisition date, they are accounted for as part of NCI in the acquiree.

An acquirer may exchange its own share-based payment awards for awards held by employees of the acquiree. The current requirement is to account for that exchange as a modification of the existing arrangement where the acquirer is obliged to replace the existing awards. This requirement is retained with the amount calculated in accordance with IFRS 2 being allocated between the cost of the business combination and post acquisition services. The amendment extends this to cover replacement awards where the acquirer is not obliged to replace the existing awards, but chooses to do so voluntarily.

In some cases, existing share-based payment awards previously issued by an acquiree expire as a result of a business combination. In those circumstances, if the acquirer replaces those awards voluntarily, the entire fair value of those replacement awards calculated in accordance with IFRS 2 is accounted for as a post acquisition remuneration expense.

Transition – contingent consideration balances arising from business combinations that took place prior to the adoption of IFRS 3 (2008)

IFRS 3 (2008) included a consequential amendment to IAS 39 that brought contingent consideration balances arising on a business combination within the scope of that standard. This means that instead of changes in the carrying amount of contingent consideration after the acquisition date being accounted for as an adjustment to the cost of the original business combination, they are now accounted for in accordance with IAS 39 and recognized in profit or loss. The amendment clarifies that the change in scope of IAS 39 is applied to business combinations on a prospective basis, meaning that where a business combination took place before the date of adoption of IFRS 3 (2008), changes in contingent consideration are still accounted for as an adjustment to the cost of the original business combination.

Mandatory adoption for periods beginning on or after 1 July 2010

IFRS 7 Financial Instruments: Disclosures

Clarification of disclosure requirements

The amendment clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures.

The requirements for disclosures of credit risk, including collateral held, are clarified and reduced, with the carrying amount of assets that would have been past due or impaired unless they had been renegotiated no longer needing to be disclosed.

Mandatory adoption for periods beginning on or after 1 January 2011

IAS 1 Presentation of Financial Statements

Presentation of changes in equity

The amendment clarifies that the analysis of items of Other Comprehensive Income may be shown in either the (primary) statement of changes in equity, or in the notes to the financial statements.

Mandatory adoption for periods beginning on or after 1 January 2011

IAS 24 (Revised) Related Party Disclosures

Related Party Disclosures

IAS 24 was revised in response to concerns that, in practice, the application of the existing disclosure requirements and the definition of a related party could be complex and difficult to apply in practice, particularly in environments where government control is pervasive. The revisions address these concerns by:

• providing a partial exemption for government-related entities – under the previous requirements, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard requires such entities to disclose information about individually and collectively significant related party transactions only.

• providing a revised definition of a related party – the definition of a related party has been simplified and inconsistencies eliminated. Illustrative examples have also been added. The revised definition means that some entities may have more related parties for which disclosures will be required. The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates, and entities with shareholders that are involved with other entities.

Accounting impact: Disclosure only. Provides a partial exemption from the disclosure requirements of IAS 24 for entities that are controlled, jointly controlled or significantly influenced by a state in relation to other state-controlled entities. Amends and clarifies the definition of a related party.

Mandatory adoption for periods beginning on or after 1 January 2011

Consequential amendments from IAS 27 Consolidated and Separate Financial Statements to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates, and IAS 31 Interests in Joint Ventures

Transitional requirements for consequential amendments

It has been clarified that the amendments made to IAS 21, IAS 28 and IAS 31 as a consequence of IAS 27 (revised 2008) are to be applied prospectively from the date of adoption of that standard (which is, annual periods beginning on/after 1 July 2009 with earlier application permitted). As exceptions, certain requirements of IAS 28 and IAS 31, which relate to accounting in the separate financial statements of the investor, are applied retrospectively.

Mandatory adoption for periods beginning on or after 1 July 2010

IAS 32 Financial Instruments: Presentation

Classification of rights issues – amendment to IAS 32

The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities as the exposure to changes in exchange rates meant that the ‘fixed for fixed’ criterion was not met. However, the amendment requires that, provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

Accounting impact: Rights issues at a fixed price per share, when that price is stated in a currency other than an entity’s functional currency, may be recorded as equity transactions rather than financial liabilities.

Mandatory adoption for periods beginning on or after 1 February 2010

IAS 34 Interim Financial Reporting

Content of an interim financial report – significant events and transactions

The amendments emphasis that disclosure about significant transactions and events is required to update relevant information presented in the most recent annual financial report.

IAS 34 has been made more specific about events and transactions for which disclosure is required, and guidance has been added covering the application of the requirements for financial instruments.

Mandatory adoption for periods beginning on or after 1 January 2011

5.Operating segment information

Operating segments are determined on the basis of the internal reports, which are regularly analyzed 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.

Group financing activities, administrative expenses, selling and distribution expenses and income taxes are managed on agroup basis and are not allocated to operating segments.

Assets and liabilities include items connected with these segments and which can be reasonably allocated. 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 consolidated.

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

Year ended 12/31/2011	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**
Financial results						
Depreciation and amortisation	-	(3,852,546)	(77,724)	(93,142)	(162,696)	**(4,186,108)**
Segment profit	**1,520,769**	**14,462,741**	**1,541,164**	**-**	**(7,937,415)**	**9,587,259**
Operating assets	**441,985**	**64,130,674**	**13,373,433**	**1,961,668**	**22,628,344**	**102,536,104**
Operating liabilities	**-**	**2,916,766**	**354,313**	**-**	**29,710,062**	**32,981,141**
Other disclosures						
Capital expenditure	-	18,330,201	1,997,519	1,984,751	-	**22,312,471**

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include finance income (1,039,143), finance expenses (2,961,423), selling and distribution expenses (1,862,793), administrative expenses (3,749,237), non-

operating foreign currency translation loss (119,800) and other expenses (283,305).

3. Segment assets do not include cash and cash equivalents (1,204,740), other financial assets (4,673,451), deferred tax assets (667,157), trade and other receivables (16,082,996), as these assets are managed on a group basis.

4. Segment liabilities do not include income tax payable (59,294), loans and borrowings (18,600,805), trade and other payables (7,927,239), deferred tax liabilities (3,122,724), as these assets are managed on a group basis.

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

Year ended 12/31/2010	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	2,278,313	62,945,010	193,443	26,110	-	**65,442,876**
Inter-segment				1,020,912	(1,020,912)	**-**
Revenue-total	**2,278,313**	**62,945,010**	**193,443**	**1,047,022**	**(1,020,912)**	**65,442,876**
Financial results						
Depreciation and amortisation	-	(3,521,830)	(80,023)	(227,768)	(189,408)	**(4,019,029)**
Segment profit	**169,952**	**15,174,744**	**119,998**	**(423,930)**	**(7,771,633)**	**7,269,131**
Operating assets	**484,062**	**46,836,467**	**6,486,305**	**482,595**	**42,833,385**	**97,122,814**
Operating liabilities	**-**	**3,485,234**	**26,219**	**-**	**34,200,567**	**37,712,020**
Other disclosures						
Capital expenditure	-	2,160,316	40,671	-	-	**2,200,987**

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include finance income (1,071), finance expenses (4,889,194), selling and distribution expenses (1,387,848), administrative expenses (1,516,598), non-operating currency translation gain (763,193) and other expenses (742,257).

3. Segment assets do not include cash and cash equivalents (32,452,015), other financial assets (4,973,485), deferred tax assets (608,758), trade and other receivables (4,799,127), as these assets are managed on a group basis.

4. Segment liabilities do not include income tax payable (93,671), loans and borrowings (16,907,930), trade and other payables (12,796,230), deferred tax liabilities (4,402,736), as these assets are managed on a group basis.

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

for the 215-day period ended 31December 2010	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	63,999	16,136,056	61,247	37,754	-	**16,299,056**
Inter-segment				239,342	(239,342)	**-**
Revenue-total	**63,999**	**16,136,056**	**61,247**	**277,096**	**(239,342)**	**16,299,056**
Financial results						
Depreciation and amortisation	-	(554,559)	(13,335)	(92,115)	(10,730)	**(670,739)**
Segment profit	**(59,599)**	**3,478,268**	**(3,726)**	**(55,707)**	**(797,852)**	**2,561,384**
Operating assets	**484,062**	**46,836,467**	**6,486,305**	**482,595**	**42,833,385**	**97,122,814**
Operating liabilities	**-**	**3,485,234**	**26,219**	**-**	**34,200,567**	**37,712,020**
Other disclosures						
Capital expenditure	-	1,125,106	2,160	-	-	**1,127,266**

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include finance income (444), finance expenses (625,202), selling and distribution expenses (92,262), administrative expenses (566,053), non-operating currency translation gain (763,193) and other expenses (277,972).

3. Segment assets do not include cash and cash equivalents (32,452,015), other financial assets (4,973,485), deferred tax assets (608,758), trade and other receivables (4,799,127), as these assets are managed on a group basis.

4. Segment liabilities do not include income tax payable (93,671), loans and borrowings (16,907,930), trade and other payables (12,796,230), deferred tax liabilities (4,402,736), as these assets are managed on a group basis.

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

Geographic information

Revenues from external customers

	2011	2010	for the 215-day period ended 31December 2010
Ukraine	84,407,865	62,109,757	15,348,916
Export	5,677,679	3,333,119	950,140
	90,085,544	**65,442,876**	**16,299,056**

Top 10 customers for year 2011

Customer name	Revenue
DTEK LLC	44,312,972
Fobas LLC	8,199,867
Frost Trast Company LLC	7,295,038
PJSC Arselor Mital Krivoy Rog	5,022,949
ANTHRACOAL	3,740,560
PJSC Nikopolskiy zavod ferosplavov	2,935,717
Express Kotedj PE	2,259,029
ROM-Transit PE	2,190,167
Invest Prom PE	2,087,853
Auto-Gas-Service-2007 LLC	1,275,437
	79,319,589

Top 10 customers for year 2010

Customer name	Revenue
Shid Vugilly LLC	18,839,566
Fobas LLC	11,128,497
OJSC Arselor Mital Krivoy Rog	7,656,040
PE Side Market	4,931,623
CJSC Shahta Jdanivska	3,995,738
DTEK LLC	2,879,544
Spektr-2009 LLC	2,745,605
OJSC Centerenergo	2,154,215
OJSC Nikopolskiy zavod ferosplavov	1,684,270
Antracitugletrans LLC	2,360,636
	58,375,734

6.Revenue

	2011	2010	for the 215-day period ended 31December 2010
Revenue from sales of finished goods	83,873,128	63,138,453	16,197,303
Revenue from sales of merchandise	6,174,356	2,278,313	63,999
Revenue from rendering of services	38,060	17,717	34,268
Revenue from lease	-	8,393	3,486
	90,085,544	**65,442,876**	**16,299,056**

7.Cost of sales

	2011	2010	for the 215-day period ended 31December 2010
Change in finished goods and work-in-progress	1,446,555	2,544,721	(1,316,561)
Held for resale merchandise	(4,653,587)	(2,108,361)	(123,598)
Raw materials	(52,240,531)	(39,243,326)	(7,758,407)
Wages and salaries of operating personnel	(9,540,726)	(4,613,354)	(1,842,306)
Depreciation of non-current assets	(3,470,918)	(3,245,399)	(562,124)
Energy supply	(2,336,660)	(1,499,875)	(299,392)
Subcontractors services	(1,101,688)	(1,578,872)	(924,429)
Repair and current maintenance	(468,759)	(515,664)	(89,069)
Taxes and obligatory payments	(194,556)	(141,982)	(23,934)
	(72,560,870)	**(50,402,112)**	**(12,939,820)**

8.Administrative expenses

	2011	2010	for the 215-day period ended 31December 2010
Wages and salaries of administrative personnel	(2,096,718)	(635,433)	(174,303)
Utilities	(73,047)	(50,481)	(12,315)
Depreciation of non-current assets	(55,189)	(66,678)	(10,574)
Cost of transportation	(20,357)	(13,293)	(3,419)
Professional services	(950,633)	(675,607)	(343,123)
Tax other than income tax	(177,268)	(19,687)	(9,356)
Insurance	(297,817)	(164)	(30)
Other expenses	(78,208)	(55,255)	(12,933)
	(3,749,237)	**(1,516,598)**	**(566,053)**

9.Selling and distribution expenses

	2011	2010	for the 215-day period ended 31December 2010
Delivery costs	(789,416)	(488,884)	(82,780)
Raw materials	(597,677)	(566,020)	(184)
Wages and salaries of distribution personnel	(140,451)	(112,012)	(2,472)
Depreciation of non-current assets	(167,938)	(123,368)	(776)
Repair and current maintenance	(132,968)	(64,611)	-
Other expenses	(34,343)	(32,953)	(6,050)
	(1,862,793)	**(1,387,848)**	**(92,262)**

10.Other income/(expenses),net

	2011	2010	for the 215-day period ended 31December 2010
Income from sale of foreign currency	28,511	71	765,170
Net income/(expenses) from operational exchange differences	543,800	2,226	(42)
Profit/(loss) from sale of property, plant and equipment	44,030	(7,747)	-
Fines and penalties (accrued)/received	1,218	(395,326)	(203,133)
Shortages and losses from impairment of inventories	(106,339)	(120,887)	(26,961)
Wages and salaries of non-operating personnel	-	(2,185)	(101)
(Impairment of receivables)/reversal of impairment	(80,523)	272,777	-
Impairment of receivables (without provision accrual)	-	-	(16,272)
Charity	(14,903)	(4,908)	-
Writing-off of non-current assets	(147,897)	-	-
Cost of idle capacity	(534,678)	(633,625)	(100,616)
Other income/(expenses)	(16,524)	147,347	67,176
	(283,305)	**(742,257)**	**485,221**

As at 31 December 2011 cost of idle capacity includes: depreciation of idle assets in amount of USD 454,110 (as at 31 December 2010 USD 518,973).

11.Finance income

	2011	2010	for the 215-day period ended 31December 2010
Interest received	2,675	1,071	444
Income from borrowings and receivables at amortized cost	1,036,468	-	-
	1,039,143	**1,071**	**444**

12.Finance expenses

	2011	2010	for the 215-day period ended 31December 2010
Interest expenses	(2,300,990)	(2,952,134)	(602,645)
Borrowing costs	(483,936)	(337,287)	(62,687)
Expenses from borrowings and receivables at amortized cost	-	(1,450,061)	65,082
Effect of provision discounting	(176,497)	(149,712)	(24,952)
	(2,961,423)	**(4,889,194)**	**(625,202)**

13.Depreciation of non-current assets

	2011	2010	for the 215-day period ended 31December 2010
Depreciation of property, plant and equipment, recognized in:			
cost of sales	(3,438,102)	(3,224,769)	(558,300)
administrative expenses	(44,069)	(66,040)	(9,954)
selling and distribution expenses	(167,938)	(123,368)	(776)
other expenses (temporarily idle capacity)	(468,929)	(583,583)	(97,263)
expenses on creation of other assets	-	-	-
Amortization of intangible assets, recognized in:			
cost of sales	(32,816)	(20,630)	(3,826)
administrative expenses	(11,120)	(638)	(620)
other expenses (temporarily idle capacity)	(23,134)	-	-
deferred expenses	-	-	-
	(4,186,108)	**(4,019,028)**	**(670,739)**

14.Employee benefit expenses

	2011	2010	for the 215-day period ended 31December 2010
Wages and salaries	(9,638,290)	(3,531,505)	(1,649,262)
Social security contributions and similar taxes	(3,795,441)	(1,408,947)	(313,732)
Net plan expenses	80,254	(598,601)	(99,767)
	(13,353,477)	**(5,539,053)**	**(2,062,761)**
Average number of employees, persons	1,653	850	850
Wages and salaries of operating personnel	(9,620,980)	(4,014,753)	(1,741,000)
Wages and salaries of administrative personnel	(2,096,718)	(635,433)	(174,303)
Wages and salaries of distribution personnel	(140,451)	(112,012)	(2,472)
Wages and salaries of non-operating personnel	-	(2,185)	(101)
Wages and salaries of personnel involved in production of property, plant and equipment	(1,524,006)	(149,129)	(45,118)
Wages and salaries of personnel recognized as deferred expenses	(51,576)	(26,940)	-
Net plan expenses	80,254	(598,601)	(99,767)
	(13,353,477)	**(5,539,053)**	**(2,062,761)**

15. Income tax

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

Consolidated income statement

	2011	2010
Current income tax charge	(584,441)	(268,659)
Deferred income tax benefit/(loss) relating to origination and reversal of temporary differences	1,328,690	889,196
Income tax expense reported in the income statement	**744,249**	**620,537**

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

	2011	2010
Accounting profit before tax	**9,587,259**	**7,269,131**
At Ukraine's statutory income tax rate of 25-23%	(2,205,070)	(1,702,377)
Effect of changes in Ukrainian tax legislation	-	1,319,719
Effect of permanent differences	2,949,319	1,003,195
At the effective income tax rate	**744,249**	**620,537**

Deferred income tax relates to the following:

	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)**		

	Consolidated statement of financial position		Consolidated income statement	Consolidated statement of comprehensive income
	2010	2009	2010	2010
Deferred tax assets				
Advances received	8,115	26,169	(18,054)	-
Trade receivables	19,136	114,300	(95,164)	-
Provisions	154,403	202,875	(48,472)	-
Defined benefit plan obligations	308,923	321,988	(13,065)	-
Charged vacation expenses	83,655	53,189	30,466	-
Charged but not paid interest expenses	34,526	-	34,526	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(3,874,139)	(6,211,515)	626,066	1,711,310
Inventories	(456,012)	(384,566)	(71,446)	-
Prepayments and deferred expenses	96,892	(207,418)	304,310	-
Other financial assets	(169,477)	(282,175)	112,698	-
Effect of translation into presentation currency			27,331	-
Deferred income tax (expenses)/benefits			**889,196**	**1,711,310**
Net deferred tax asset/(liability)	**(3,793,978)**	**(6,367,153)**		

Reconciliation of deferred tax assets/(liabilities):

As at 31December 2009	**(6,367,153)**
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	889,196
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	1,711,310
Effect of translation into presentation currency	(27,331)
As at 31December 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 31December 2011	**(2,455,567)**

16. Property, plant and equipment

	Land and Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in- progress	Total
Cost							
As at 31 December 2009	**27,935,957**	**12,651,128**	**641,506**	**87,619**	**138,924**	**607,387**	**42,062,521**
Additions	510,691	629,504	184,556	9,522	28,463	838,251	2,200,987
Disposals	-	(43,001)	(23,394)	-	-	-	(66,395)
Effect of translation into presentation currency	80,872	34,309	3,566	224	262	(269)	118,964
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	9,854,582	22,312,471
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**
Accumulated depreciation							
As at 31 December 2009	**(5,411,390)**	**(4,741,149)**	**(273,996)**	**(35,715)**	**(106,446)**	**-**	**(10,568,696)**
Additions	(1,961,811)	(1,854,235)	(115,005)	(13,117)	(53,593)	-	(3,997,761)
Disposals	-	10,535	13,216	-	-	-	23,751
Effect of translation into presentation currency	(8,592)	(9,757)	(1,117)	(65)	(84)	-	(19,615)
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)**

Net carrying amount

As at 31 December 2009	**22,524,567**	**7,909,979**	**367,510**	**51,904**	**32,478**	**607,387**	**31,493,825**
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 2011, bank loans were secured by property, plant and equipment with carrying amount of USD 25,146,491 (as at 31 December 2010 - USD 23,155,590).

Carrying amount of temporarily idle capacity as at 31 December 2011 was USD 2,049,182 (as at 31 December 2010 – USD 2,413,886).

As at 31 December 2011 the Group has a liability to purchase equipment:

- in amount USD 730,619 under Contract with "Palmira PRO" LLC #06 dated 28.04.2011;
- in amount USD 345,430 under Contract with Sadovaya Trading Ltd #ДГ-0000173 dated 21.09.11;
- in amount USD 13,924 under Contract with "Lugremmontag" LLC #230611 dated 23.06.2011.

As at 31December 2011 there were no indicators of impairment of property, plant and equipment. Approach of the Group to impairment of property, plant and equipment is described in note 2.2 "Summary of significant accounting policies".

The fair value of property plant and equipment did not have material differences with balance value at balance sheet date. According to this revaluation of fixed assets was not performed.

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)**
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**

17. Intangible assets

	Computer software	Licenses and rights to use natural resource	Expenses on acquisition of intangible assets	Total
Cost				
As at 31 December 2009	**1,518**	**512,015**	**-**	**513,533**
Additions	32,097	8,509	462,250	**502,856**
Disposals	-	(29,265)	-	**(29,265)**
Effect of translation into presentation currency	(105)	1,184	(1,546)	**(467)**
As at 31 December 2010	**33,510**	**492,443**	**460,704**	**986,657**
Additions	17,417	11,807	112,393	**141,617**
Disposals	-	-	-	**-**
Transfer from expenses on acquisition of IA		461,630	(461,630)	**-**
Effect of translation into presentation currency	(165)	(3,926)	578	**(3,513)**
As at 31 December 2011	**50,762**	**961,954**	**112,045**	**1,124,761**
Accumulated amortization				
As at 31 December 2009	**(370)**	**(49,694)**	**-**	**(50,064)**
Additions	(958)	(34,298)	-	**(35,256)**
Effect of translation into presentation currency	3	(31)	-	**(28)**
As at 31 December 2010	**(1,325)**	**(84,023)**	**-**	**(85,348)**
Additions	(11,120)	(55,950)	-	**(67,070)**
Effect of translation into presentation currency	35	450	-	**485**
As at 31 December 2011	**(12,410)**		**-**	

		(139,523)		**(151,933)**
Net carrying amount				
As at 31 December 2009	**1,148**	**462,321**	**-**	**463,469**
As at 31 December 2010	**32,185**	**408,420**	**460,704**	**901,309**
As at 31 December 2011	**38,352**	**822,431**	**112,045**	**972,828**

Intangible assets of "Shahta "Sadovaya" LTD as at 31 December 2011 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 2011 equals to USD 114,748 (as at 31 December 2010 equals to USD 123,411).

- 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 of these works 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 2011 equals to USD 261,429 (as at 31 December 2010 equals to USD 276,926).

The Group has no intangible assets with indefinite useful life.

18.Other financial assets and financial liabilities

18.1 Other financial assets

	at 31/12/2011	at 31/12/2010
Receivables acquired under factoring contract	1,604,012	1,705,921
Long term receivables	3,069,439	3,267,564
Total non-current	**4,673,451**	**4,973,485**
Total current	**-**	**-**

Receivables acquired under factoring agreement

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

From the date of acquisition of this financial instrument and on the date of confirmation 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.

This obligation is accounted at amortized cost. Effective interest rate is 17%.

The Group expects that receivables will be discharged in whole amount in January 2013 and provision for impairment wasn't charged.

Long term receivables

Receivables under agreeements 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.

This obligation is accounted at amortized cost. Effective interest rate is 17%.

The Group expects that receivables will be discharged in whole amount in January 2013 and provision for impairment wasn't charged.

18.2 Loans and borrowings

		at 31/12/2011		at 31/12/2010	
	Currency	**Interest rate, %**	**Residual debt**	**Interest rate, %**	**Residual debt**
Loan 1	UAH	19%	-	19%	8,558,311
Loan 2	UAH	18%	-	18%	7,536
Loan 3	UAH	25%	-	25%	7,661,680
Loan 4	UAH	20%	-	20%	481,053
Loan 5	USD	LIBOR+8.5%	17,996,747	LIBOR+8.5%	-
Loan 6	UAH	16%	435,364	16%	-
Loan 7	UAH	18%	168,694	18%	-
Promissory notes	UAH		-		199,350
			18,600,805		**16,907,930**
Short-term			695,868		16,907,930
Long-term			17,904,937		-

Loan 1

Loan was received in July 2009 in SB "Credit-Dnepr". The borrower is "Shahta Sadovaya" LTD. Initially, maturity date was 05 September 2010, in 2009 it was prolonged to 5 October 2010 and in year 2010 it was prolongated to 1 April 2011.

This loan was refinanced by funds received form OTP bank under Agreement CR 11-321/28-2 dated 09/12/2011.

Loan 2

Loan was received in March 2008 in Prominvestbank. The borrower is "Volat Trans" PE. Maturity date is 30 March 2011. Obligations under credit contract are guaranteed by borrower’s vehicles. Fully repaid at 31/12/2011.

Loan 3

Loan was received in October 2009 in SB "Credit-Dnepr". The borrower is "Shahta Rassvet-1" LTD. Initially, maturity date was 01 March 2010 then prolongated to 1 April 2011.

This loan was refinanced by funds received form OTP bank under Agreement CR 11-321/28-2 dated 09/12/2011.

Loan 4

Loan was received in December 2009 from an individual. The borrower is "Shahta Sadovaya" LTD. Maturity date is 01 October 2011. This loan is unsecured. Fully repaid at 31/12/2011.

Loan 5

Loan was received in December 2011 in 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 property rights on cash which will be obtained from DTEK LLC according to agrements with "Shahta Sadovaya" LTD and "Shahta Rassvet-1" LTD.

Loan 6

Loan was received in June 2011 in 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 7

Loan was received in March 2011 in 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 "Amkodor-Ukrspecmash" LLC in amount USD 312,398 (UAH 2,496,000) and guaranted by Guarantee agreement of "Shakhta "Sadovaya" LLC #280311-П dated 28.03.2011.

Promissory notes

Short-term promissory notes which were fully repaid during year 2011.

18.3 Fair value

Set out below is a comparison by categories of the carrying amount and fair value of the Group's financial instruments that are carried in the financial statements.

Financial assets

Carrying amount	**2011**	**2010**
Trade and other receivables	14,799,220	4,359,149
Receivables, acquired under factoring contract	1,604,012	1,705,921
Long term receivables	3,069,439	3,267,564
Cash and cash equivalents	1,204,740	32,452,015
Total	**20,677,411**	**41,784,649**

Fair value	**2011**	**2010**
Trade and other receivables	14,799,220	4,359,149
Receivables, acquired under factoring contract	1,604,012	1,705,921
Long term receivables	3,069,439	3,267,564
Cash and cash equivalents	1,204,740	32,452,015
Total	**20,677,411**	**41,784,649**

Financial liabilities

Carrying amount	**2011**	**2010**
Trade and other payables	7,879,969	12,640,370
Loans and borrowings	18,600,805	16,907,930
Total	**26,480,774**	**29,548,300**

Fair value	**2011**	**2010**
Trade and other payables	7,879,969	12,640,370
Loans and borrowings	18,600,805	16,907,930
Total	**26,480,774**	**29,548,300**

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.

19. Inventories

	at 31/12/2011	at 31/12/2010
Finished goods	3,534,402	6,035,365
Merchandise	441,985	484,062
Raw materials	19,998,886	9,415,348
Spare parts	170,893	81,546
Other inventories	79,092	29,810
	24,225,258	**16,046,131**

20.Trade and other receivables

	at 31/12/2011	at 31/12/2010
Trade receivables	14,821,350	4,439,729
Provision for impairment of trade receivables	(93,501)	(83,543)
VAT recoverable	1,269,878	433,584
Prepayments for other taxes	13,898	6,394
Receivables from shareholders	-	-
Other receivables	71,371	2,963
	16,082,996	**4,799,127**

For terms and conditions relating to related party receivables, refer to Note 28.

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 29 for further guidance).

	Trade receivables	Other receivables	Total
As at 31 December 2009	**348,426**	-	**348,426**
Charge for the year	75,148	-	**75,148**
Utilised	(91,463)	-	**(91,463)**
Unused amounts recovered	(250,874)	-	**(250,874)**
Effect of translation into presentation currency	2,306	-	**2,306**
As at 31 December 2010	**83,543**	**-**	**83,543**
Charge for the year	77,172		**77,172**
Utilised	-		**-**
Unused amounts recovered	(66,806)		**(66,806)**
Effect of translation into presentation currency	(408)		**(408)**
As at 31 December 2011	**93,501**	**-**	**93,501**

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

				Past due, but not impaired			
	Total	**Undue and not impaired**	**Past due and partly impaired**	**< 60 days**	**60-180 days**	**180-360 days**	**> 360 days**
2011	**14,819,220**	8,889,061	36,265	3,191,972	2,688,516	7,526	5,880
2010	**4,359,149**	2,848,642	334,167	938,206	143,321	50,161	44,652

21. Prepayments and deferred expenses

	at 31/12/2011	at 31/12/2010
Prepayments to suppliers	6,706,839	6,541,417
Provisions for impairment of prepayments	(82,031)	(12,044)
Deferred expenses	673,964	1,058,860
Total current	**7,298,772**	**7,588,233**

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

	2011	2010
As at 1 January	**12,044**	**108,904**
Charge for the year	84,459	12,044
Utilised	-	-
Unused amounts recovered	(14,302)	(109,095)
Effect of translation into presentation currency	(170)	191
As at 31 December	**82,031**	**12,044**

22.Cash and cash equivalents

		at 31/12/2011	at 31/12/2010
	UAH	371,480	1,194,477
Cash in banks	USD	812,908	603,546
	EUR	20,352	46,271
	PLN	-	30,607,721
		1,204,740	**32,452,015**

23. Share capital

	2011		2010	
	%	Amount	%	Amount
Connektico Ltd	75	323,143	75	323,143
Non-controlling interest	25	107,714	25	107,714
		430,857		**430,857**

24.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:

	2011	2010
Defined benefit plan obligations as at 1 January	**2,949,891**	**1,816,024**
Current services cost	458,852	276,349
Interests expenses	436,419	270,908
Actuarial (gain)/loss	1,374,549	626,947
Paid benefits	(75,967)	(42,649)
Past service costs	(1,676,146)	-
Effect of translation into presentation currency	(15,309)	2,312
Defined benefit obligation as at 31 December	**3,452,289**	**2,949,891**

Amounts recognized in combined statement of financial position:

	2011	2010
Present value of defined benefit plan, not secured by funds	3,452,289	2,949,890
Unrecognized net actuarial (gain)/loss	(2,247,381)	(943,940)
Unrecognized cost of past services	478,273	(160,277)
Defined benefit plan obligations as at 31 December	**1,683,181**	**1,845,673**
Long- term	1,575,556	1,773,030
Short-term	107,625	72,643

Net plan expenses (recognised in cost of sales)

	2011	2010
Current service costs	460,106	277,277
Recognized actuarial loss	64,217	10,212
Interests expenses	436,419	270,908
Recognized cost of past services	(1,040,996)	40,204
	(80,254)	**598,601**

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

	2011	2010
As at 1 January	**1,845,674**	**1,287,954**
Paid-up remuneration	(75,967)	(42,649)
Net expenses in consolidated income statement	(80,254)	598,601
Effect of translation into presentation currency	(6,272)	1,768
As at 31 December	**1,683,181**	**1,845,674**

Basic actuarial assumptions:

	2011	2010
Discounting rate	15%	15%

For all following years wages' increase by 9% is predicted. Employee turnover increase by 10% is predicted.

	2011		2010	
Change in parameter	-1%	1%	-1%	1%
Parameter	Change of obligations, USD			
Wage increase	(97,629)	109,503	(168,148)	193,232
Discounting rate	185,106	(158,561)	209,969	(179,697)
Employee turnover	(6,421)	5,896	(4,214)	4,253

25.Trade and other payables

	at 31/12/2011	at 31/12/2010
Trade payables	5,767,150	11,133,715
Accounts payable for salaries, wages and related taxes	909,554	501,196
Provision for unused vacations	1,062,921	523,046
Accounts payable for other taxes	212,201	76,192
Advances from customers	71,326	29,403
Current portion of non-current liabilities on defined benefit plan	107,625	72,643
Accounts payable for loan's interest	47,952	300,785
Other current liabilities	92,392	181,628
	8,271,121	**12,818,608**

26. Provisions

	Provision on processing waste dump	Provision on mine abandon and dismantling of machinery	Total
As at 31 December 2009	**4,495**	**807,004**	**811,499**
Accrued obligations	1,931	-	1,931
Discounting effect	827	148,885	149,712
Effect from translation into presentation currency	13	1,861	1,874
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**

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 disrupt by underground works and waste dumps.

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

	2011	2010
Discounting rate	18,3%	18,3%
Long-term inflation	8,0%	8,0%
Medium-term inflation	12,3%	12,3%

27.Contingent assets and liabilities

As at the date of presentation of the financial statements the Group is involved in following legal processes:

Claims of the Group to the third parties:

Company of the Group	Defendant	Amount of claim, USD	Essence of claim	Probable adjudication for the Group
"Shahta Sadovaya" LTD	United State Tax Inspection in Alchevsk town	153,518	Cancelation of the tax decision-notice of calculated VAT amount	Decision of recovery
"Shahta Rassvet-1" LTD	Stanrom Kholding LLC	96,710	Recovery of prepayment	High probability of settle of a claim
"Shahta Rassvet-1" LTD	United State Tax Inspection in Alchevsk town	59,327	Cancelation of the tax decision-notice of calculated VAT amount	Decision of recovery

Claims of third parties to the Group:

Company of the Group	Demandant	Amount of claim, USD	Essence of claim	Probable adjudication for the Group
"Shahta Sadovaya" LTD	LOO Fund of social protection of disabled persons	66,619	Recovery of administrative-economic sanctions for not creation of work places for disabled persons for the 2010	The refusal to satisfy the claim

The management of the Group states that there are no other claims to the Group that are pending as at the date of signing of financial statements.

Litigations

As at 31 December 2011 outstanding litigations amounted to USD 66,619. These lawsuits are connected with not creation of work places for disabled persons. In the management's opinion, no lawsuits will exercise material negative influence on the Company's financial position or performance.

Operating lease

All operating lease contracts, in which the Group acts as a lessor, are cancellable. According with 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: in 2011 – USD 70,441, in 2010 – USD 68,341.

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 31 December 2011, the Management created provisions for the payment of potential tax liabilities (see Note 26). 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.

The on-going global liquidity crisis had resulted in, among other things, a lower level of capital market funding and consequently lower liquidity levels across Ukrainian companies, higher interest rates as well as a significant devaluation of the Ukrainian hryvnia. Current stabilization measures by the government and the international community have increased the ability of the companies operating in Ukraine to obtain new borrowings and re-finance existing borrowings relative to the preceding twelve months. However, there is not sufficient visibility into the future developments of Ukraine's and Europe's macroeconomic trends and their impact on the economy for management to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets, increased volatility in the equity markets and further devaluation of the Ukrainian hryvnia, should these occur.

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.

28.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:

	Purchase of goods and services	
	2011	2010
Companies, directly or indirectly controlled by the Group owners	185,635	221,471

	Proceeds from goods and services	
	2011	2010
Companies, directly or indirectly controlled by the Group owners	356,452	19,364,665

	Liabilities to related parties	
	at 31/12/2011	at 31/12/2010
Companies, directly or indirectly controlled by the Group owners	237,969	142,124

	Liabilities of related parties	
	at 31/12/2011	at 31/12/2010
Companies, directly or indirectly controlled by the Group owners	445,758	391,709

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.

Remunerations of top management:

	2011	2010
Wages and salaries	515,379	82,394
Social security contributions and similar taxes	11,509	37,209
	526,888	**119,603**

29.Financial risk management objectives and policies

The Group’s principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group’s operations. The Group has loans, other receivables, and cash.

The Group is exposed to market risk, credit risk and liquidity risk. The Group’s senior management oversees the management of these risks.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk, commodity price risk and other price risks. The Group is exposed to currency risk only.

Sensitivity analyses in the following sections relate to the positions as at 31 December 2011 and 2010.

The sensitivity analysis has been prepared on the assumption that the amount of net debt and the portion of financial instruments in foreign currencies are all constant.

Foreign 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

2011		
USD	9%	(1,624,351)
	-9%	1,624,351
EUR	9%	(11,070)
	-9%	11,070

	Change in UAH, rate	Effect on profit before tax
2010		
USD	9%	(1,783)
	-9%	1,783
EUR	9%	-
	-9%	-

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard.

Outstanding customer receivables are regularly monitored.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and hire purchase contracts.

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

Year ended 31 December 2011	Less than 3 months	3 to 6 months	6 to 12 months	More than 1 year	Total

Loans and borrowings	173,967	173,967	794,681	17,458,190	**18,600,805**
Trade and other payables	7,161,647	-	718,322	-	**7,879,969**
	7,335,614	**173,967**	**1,513,003**	**17,458,190**	**26,480,774**

Year ended 31 December 2010	Less than 3 months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	16,708,580	199,350	-	-	**16,907,930**
Trade and other payables	7,614,705	566,983	4,127,682	331,000	**12,640,370**
	24,323,285	**766,333**	**4,127,682**	**331,000**	**29,548,300**

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 2011, 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 35%. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents and short-term deposits.

	2011	2010
Loans and borrowings	18,600,805	16,907,930
Trade and other payables	8,271,121	12,818,608
Cash and short-term deposits	(1,204,740)	(32,452,015)
Net debt	**25,667,186**	**(2,725,477)**
Equity	69,554,963	59,410,794
Capital and net debt	**95,222,149**	**56,685,317**
Gearing ratio	0.27	-0.05

30.Events after the reporting date

In March 2012, the Group subsidiary PC Interdon LLC purchased 820ths tones of inventories (slurry coal) amount to USD 6,429,015 as well as the coal enrichment equipment, USD 345,430.00

On 15 March 2012 the Additional Agreement to the Loan Agreement with OTP Bank was signed. The additional credit facility amounts to 1,875,000 USD (working capital financing). The loan was fully disbursed by OTP Bank in March 2012. The loan will be paid off by 28 February 2013.

The Group subsidiary Volat-Trans PE repaid USD 62,451 of the loan facility granted be Credit Dnepr Bank in the 1Q2012. PC Interdon LLC repaid USD 2,500,500 to the subholding company Sadovaya Limited.

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.

In March 2012 the longwall on l_3 seam of Rassvet-1 mine was closed due to depletion of resources.

In March 2012 and April 2012 USD 13,000,000 and USD 5,000,000 respectively were disbursed by EBRD, under loan agreement #42621 dated 30 December 2011.

31.Fees invoiced by the auditor

	2011	**2010**
Audit fees	177,020	41,670
Audit related fees	-	121,612
Tax fees	-	-
Other	-	-
	177,020	**163,282**