Sadovaya Group

Quarterly Report

1Q 2012

14 May 2012

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Statement of the main shareholder

Dear shareholders, colleagues and partners,

I am pleased to update you on the financial and operational standings of Sadovaya Group after 3 month of operations in 2012, which were rich of various important events.

As a key achievement I would mention intensification of construction of our first waste enrichment complex. After the winter's end and following the first withdrawal of EBRD funds we were able to reinforce all construction processes. As of today all major equipment has been delivered to the site and is being installed. Simultaneously the Group is preparing necessary infrastructure for coal extraction, storing and transportation and expects to get first extracted coal as soon as July 2012.

We managed to mine 103 ths. tones of coal, 4% more than in 1Q 2011 despite the stoppage of Sadovaya mine for repairs and closure of the longwall on Rassvet-1 mine. In June 2012 the Group will be launching new longwall on Rassvet-1 mine to sustain extraction volumes and plans to increase it by the launch of another longwall in December 2012.

The Group sold 193 ths. tones of coal in 1Q 2012. Sales volumes reflected seasonal decrease in demand from power stations. Coal price remained unchanged, however the average Group sales price slightly increased due to reduced sales to power plants.

Our financial results follow our production performance, with Group's Revenue at USD 14.6 mln, EBITDA of USD 1.1 mln and USD 0.7 mln of net income in 1Q2012. We carefully managed seasonal downturn we experienced in 1Q 2012 to minimize negative effect on our financial performance. Our current operations in 2Q 2012 improved substantially and we expect the 2Q 2012 financial results will reflect this trend accordingly.

Sincerely Yours,
Alexander Tolstoukhov

Contents

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 based companies (the "Group").

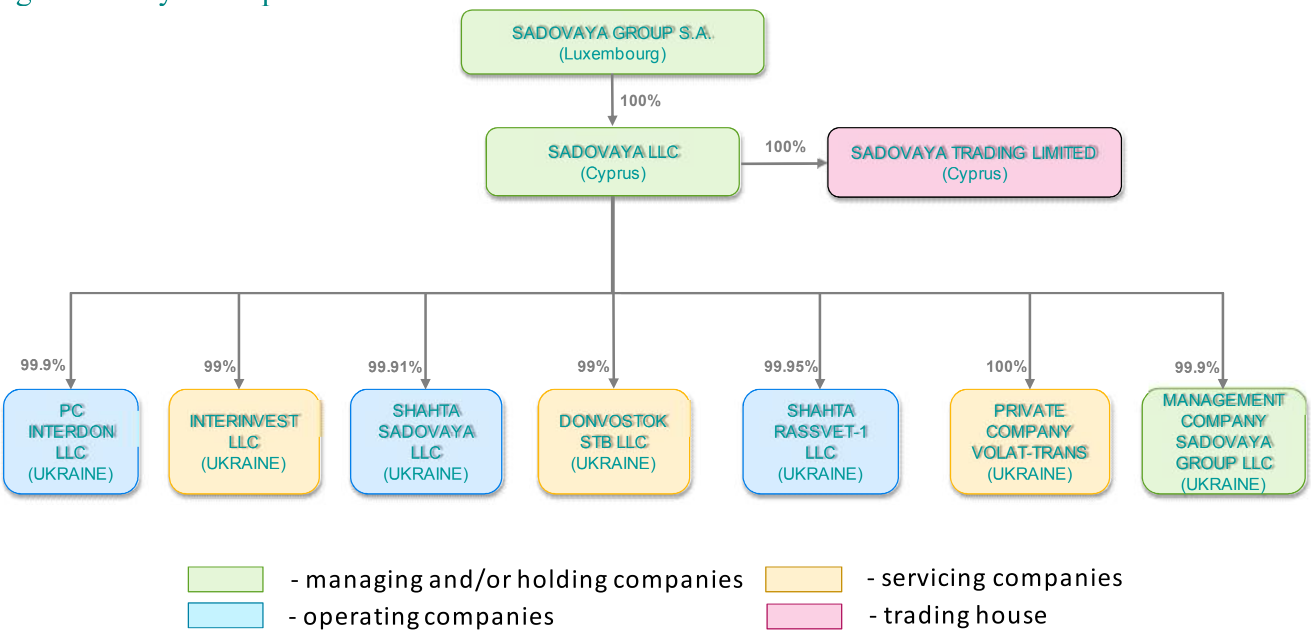
The Group comprises of operating, holding, servicing and trading companies (Fig.1).

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

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

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

Fig.1 Sadovaya Group structure

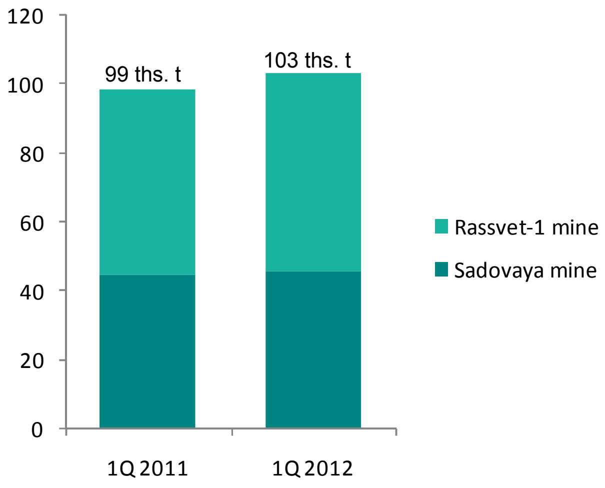


Sadovaya Group operates two full-cycle mine complexes in Ukraine's Donetsk and Luhansk Regions – Sadovaya and Rassvet-1 mines, and in March 2011 acquired a license to develop Roskoshniy mine field, natural extension of Sadovaya mine filed. Total underground resources under Group's ownership currently 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 generation purposes.

Coal mining

During the quarter the Group mined 103 ths. t of coal, or + 4% comparing to 1Q 2011, despite the effects of repair works at Sadovaya mine and closure of the longwall on Rassvet-1 mine.

Fig. 2 Sadovaya Group mining results



Sadovaya mine mined 46 ths. t of coal in 1Q 2012. From the mid January till late February the mine was stopped due to relining of the cross-section of the main inclined shaft for increased air inflow. The repair works were successfully completed in late February 2012 and since then the mine has been operating in a normal mode. Currently the mining works are being conducted on 3 longwalls with monthly coal output of up to 9 ths. t each.

Rassvet-1 mine extracted 57 ths. t of coal in 1Q 2012. The mine oversaw downward mining trend from January till March due to depletion of resources on one of the longwalls, which was finally closed in March 2012. The Group plans to substitute the closed longwall by the new one in June 2012 and increase production volumes by launch of another longwall in December 2012. Increased water inflow was another factor that affected mining costs.

Waste recovery

PC Interdon LLC, engaged into waste recovery business, produced 8 ths. t of coal from waste deposits in 1Q 2012. The company had one old reprocessing factory with annual output capacity of up to 60 ths. t, which was dismantled in April 2012. A new waste reprocessing complex is currently being constructed near Vakhrushevo town, Luhansk region.

Coal trading

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

In 1Q 2012 the Group sold 193 ths. t of coal, which is 37% less than sales in 1Q 2011. The quarterly results were affected by decrease in demand as power generation sector consumed significant coal stocks formed in 2011. This is in line with general annual trend: the monthly sales volumes and anthracite balance at Ukrainian TPPs reflect 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. However, the Group suffered from larger than usual demand decrease this year. Since March demand from power generating companies has been recovering slowly, and we believe that chances for the second (summer) decline in demand are minimal.

Highlights of 1Q 2012

Since mid January 2012 till late February Sadovaya mine was closed due to relining of the cross-section of the main inclined shaft for increased air inflow.

On 15 February, 2012, the Sadovaya Group S.A. entered into a Deed of Guarantee and Indemnity in order to secure the loan concluded between the group company PC Interdon LLC and the European Bank for Reconstruction and Development (EBRD) for an amount of USD 36 million.

Pursuant to the Share Pledge Agreement dated 15 February 2012, the main shareholder of the Sadovaya Group S.A., Connektico Ventures Ltd, has pledged 17.50% of its shares in the Company as a security under relevant loan agreement with EBRD.

In March 2012, the Group subsidiary PC Interdon LLC purchased 820 ths. t of inventories (slurry coal) amounting to USD 6.4 million as well as the coal enrichment equipment of USD 345 ths.

On 15 March 2012 the Additional Agreement to Loan Agreement with OTP Bank was signed. The additional loan facility amounting to USD 1.8 million (working capital financing) with bearing interest rate of 1M LIBOR+8.5% was fully drown down be the Group in March 2012. The loan matures on 28 February 2013.

The Group's subsidiary PE Volat-Trans fully repaid a USD 62 ths. loan facility granted by Credit Dnepr Bank in the 1Q2012.

PC Interdon LLC repaid loan of USD 2.5 million to the subholding company Sadovaya Limited, under the terms of the agreement with EBRD

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

In March 2012 and April 2012 USD 13 million and USD 5 million respectively were disbursed by EBRD under the Loan Agreement #42621 dated 30 December 2011.

Review of financial results of 1Q 2012

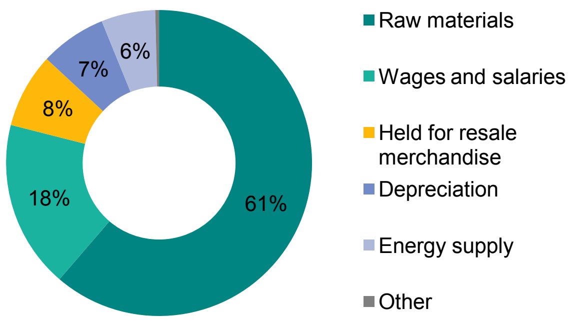
Revenue. Total revenue reached USD 14.6 million for the 1Q 2012, revealing 29% decrease comparing to 1Q 2011 driven mainly by drop in sales volumes. For information on sales segmentation please refer to Note 5 of the condensed consolidated financial statements.

Cost of sales. Cost of sales decreased from USD 15.8 million in 1Q 2011 to USD 12.5 million in 1Q 2012, a 21% decrease. The decrease follows the revenue trend.

The main cost of sales components are as follows:

Raw materials - 61% of total COS or USD 7.6 million. Raw materials decreased by 31% compared to 1Q 2011 affected mainly by decrease in sales volumes;

Fig.3 COS structure in 1Q 2012



Wages and salaries – 18% of total COS or USD 2.2 million, increased by 1% compared to 1Q 2011;

Held for resale merchandise – 8% of total COS or USD 1.0 million. Held for resale merchandise decreased by 29% compared to 1Q 2011 affected mainly by decrease in sales volumes;

Depreciation – 7% of total COS or USD 0.9 million, increased by 14% compared to 1Q 2011 due to investment projects of the Group as significant capital expenditures were made in 2011. Please refer to Note 11 of the condensed consolidated financial statements.

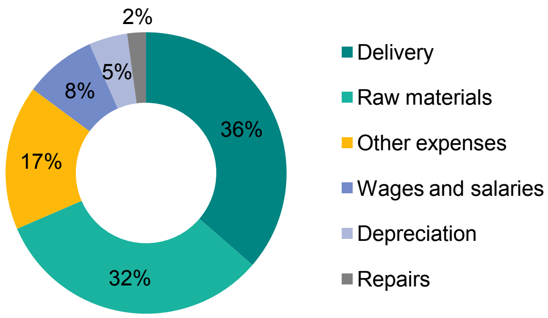
For detailed information about COS structure please refer to Note 6 of the condensed consolidated financial statements.

Gross profit. Gross profit decreased from USD 4.6 million in 1Q 2011 to USD 2.1 million in 1Q 2012, which represents a 54% decrease. The overall decrease reflects reduction in sales volumes and increased production costs on Rassvet-1 mine due to increased water inflow.

Operating expenses

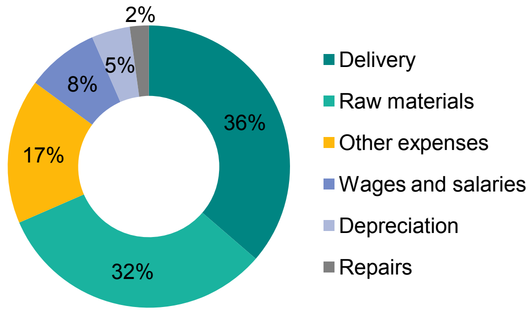
Distribution costs increased from USD 117 ths. in 1Q 2011 to USD 890 ths. 1Q 2012. The 658% growth comparing to the same period of 2011 is mainly due to the increase in: cargo insurance expenses of USD 119 ths. and increase in coal delivery expenses to new customers of USD 230 ths. For detailed information about delivery costs structure please refer to Note 8 of the condensed consolidated financial statements.

Fig.4 Selling and distribution expenses



General and administrative expenses increased from USD 511ths in 1Q 2011 to USD 1,036 ths. 1Q 2012, 103% year-on-year increase. The increase is mainly due to increase in insurance expenses and consulting fees in respect of the Group's borrowings.

Fig.5 General and administrative expenses



Finance income and expenses

Finance expenses decreased from USD 807 ths. in 1Q 2011 to USD 569 ths. in 1Q 2012, 29% decrease comparing to 1Q 2011. The decrease reflects primarily the decrease in interest rates of Group's loans, also finance costs in 1Q 2011 included loss on initial recognition of long-term receivables which was a one-time nonrecurring expense.

Finance income increased from USD 0.4 ths. in 1Q 2011 to USD 941 ths. in 1Q 2012. The increase was affected by interest income from long-term receivables.

For additional information on Group's finance income and expenses please refer to Notes 9-10 of the condensed consolidated financial statements.

Cash flow and financial ratios

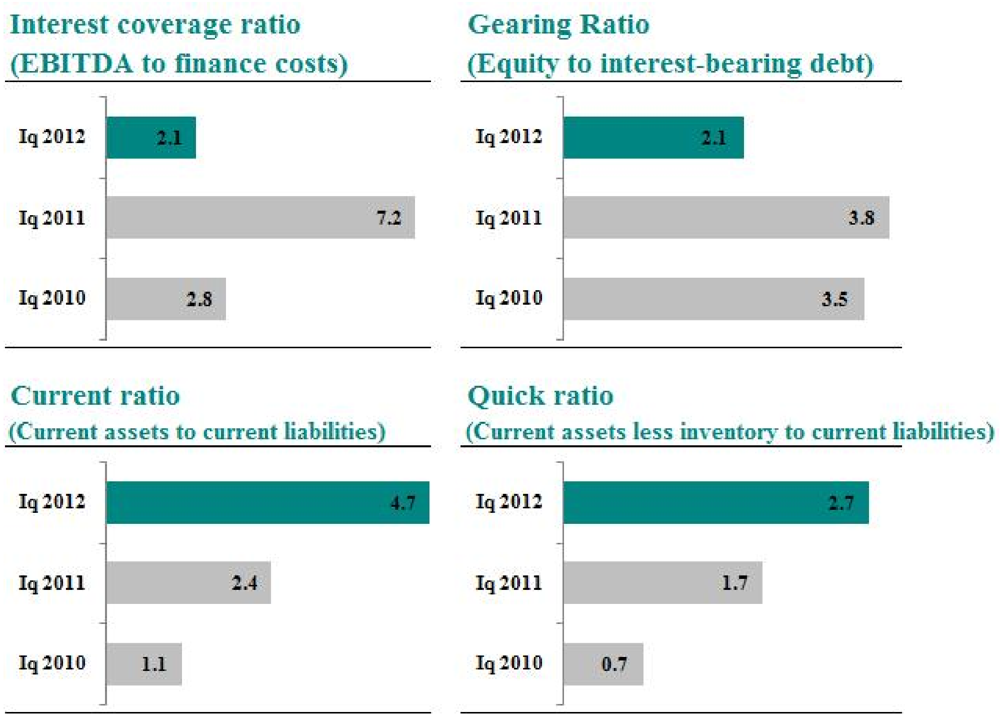
Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-term bank facilities and lines of credit. Our bank credit lines are provided by domestic banking institutions (Credit-Dnepr Bank and OTP Bank) and EBRD. Banks provide financing to our Group either in USD or in UAH. For information on material loan facilities of our Group Subsidiaries please see note 14 of the condensed consolidated financial statements.

With our sufficient level of cash and good turnover ratios of our inventory, receivables and payables, we believe our working capital levels satisfy our present business needs.

Cash outflows from operations in 1Q 2012 was USD 6.8 million. The cash outflows from operations were primarily driven by increase in working capital. In due course of operations Group purchased large quantity of coal for cleaning and increased receivables.

Cash used in investing activities was USD 2,914 ths. in 1Q 2012, reflecting the acquisition of equipment for waste recovery and mining equipment. For detailed information please see note 4 of the condensed consolidated financial statements.

Fig.6 Basic financial ratios



Events after the end of the reporting period

In April 2012, the Group subsidiary PC Interdon LLC received a tranche of USD 5 million from EBRD that completed Tranche 1 Loan in the amount of USD 18 million under the Loan Agreement dated 30 December 2011.

By the Resolution dated 28 March 2012 the sub-holding Cyprus company Sadovaya Limited has approved the increase of the share capital of its subsidiaries Shakhta Sadovaya LLC and Shakhta Rassvet-1 by USD 1.5 million each. The amount of the increase should be converted into UAH and settled in full until 31 March 2014 in one or several tranches. The first tranche amounted to UAH 16 million was transferred to the account of Shakhta Sadovaya (UAH 8 million) and Shakhta Rassvet-1 (UAH 8 million) on 3 April 2012.

Due to the construction works undergoing on the Vakhrushevo waste processing complex site, PC Interdon LLC has expectedly stopped its operations at the old factory in April 2012. The launch of the new reprocessing complex is scheduled for July 2012.

Management Statement

This statement is provided to confirm that to the best of our knowledge the Condensed consolidated financial statements for the 3 month period ended 31 March 2012 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., truly reflects the development, achievements and situation of the Group.

By Order of the Board of Directors

Alexander Tolstoukhov,

Director A

Luxembourg,

14 May 2012

Sadovaya Group S.A.

Condensed Consolidated Financial Statements

for the 3-month period ended 31 March 2012

Contents

Condensed consolidatedincome statement

for the 3-month period ended 31 March 2012 and 2011(*all amounts are in US Dollars*)

	Note	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
Revenue	5	14,586,653	20,427,906
Cost of sales	6	(12,456,323)	(15,840,865)
Gross profit		**2,130,330**	**4,587,041**
Selling and distribution expenses	8	(889,659)	(117,336)
General administrative expenses	7	(1,036,278)	(510,753)
Other income/(expenses), net		(126,922)	(251,976)
Operating profit		**77,471**	**3,706,976**
Finance expenses	10	(569,073)	(806,709)
Finance income	9	941,059	410
Non-operating foreign currency translation gain		4,601	519,593
Profit before tax		**454,058**	**3,420,270**
Income tax (expense)/benefit		292,331	(88,268)
Profit for the period		**746,389**	**3,332,002**
Earnings per share		0.02	0.08

Condensed consolidated statement of comprehensive income

for the 3-month period ended 31 March 2012 and 2011 (*all amounts are in US Dollars*)

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2011 (unaudited)
Profit for the period	**746,389**	**3,332,002**
Other comprehensive income		
Non-current assets revaluation	-	-
Change in corporate profit tax rate	-	-
Exchange differences on translation in presentation currency	(332,657)	(47,634)
Other comprehensive income for the period	**(332,657)**	**(47,634)**
Total comprehensive income for the period	**413,732**	**3,284,368**
Attributable to:		
Equity holders of the parent	413,476	3,231,359
Non-controlling interests	256	53,009

Notes on pages 7-28 are the integral part of these condensed consolidated financial statements

Director A3 Director B

Condensed consolidated statement of financial position

as at 31March 2012, as at 31 March 2011, as at 31 December 2011 (*all amounts are in US Dollars*)

	Note	as at 31 March 2012 (unaudited)	as at 31 March 2011 (audited)	as at 31March 2011 (unaudited)
Assets				
Non-current assets				
Property, plant and equipment	11	48,574,602	47,410,902	30,048,779
Intangible assets	12	980,319	972,828	921,935
Other financial assets		-	4,673,451	4,974,545
Deferred tax assets		682,560	667,157	337,202
		50,237,481	**53,724,338**	**36,282,461**
Current assets				
Inventories	15	30,544,491	24,225,258	15,508,544
Trade and other receivables	16	23,160,074	16,082,996	5,150,730
Prepayments and deferred expenses	17	9,014,753	7,298,772	13,026,249
Other financial assets	13	2,023,408	-	
Cash and cash equivalents		6,408,592	1,204,740	23,011,232
		71,151,318	**48,811,766**	**56,696,755**
Total assets		**121,388,799**	**102,536,104**	**92,979,216**
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		33,285,907	32,205,067	23,817,804
Revaluation reserve		17,287,692	17,622,143	18,794,902
Effect of foreign currency translation		(9,561,663)	(9,229,006)	(9,089,305)
Equity attributable to the parent		69,910,426	69,495,988	62,055,405
Non-controlling interest		58,269	58,975	424,755
		69,968,695	**69,554,963**	**62,480,160**
Non-current liabilities				
Loans and borrowings	14	30,692,113	17,904,938	-
Employee benefit liability		1,537,151	1,575,556	1,966,421
Provisions		1,184,862	1,139,846	993,291
Deferred tax liability		2,807,681	3,122,724	3,889,601
		36,221,807	**23,743,064**	**6,849,313**
Current liabilities				
Trade and other payables	18	11,907,423	8,271,121	6,591,910
Loans and borrowings	14	3,083,024	695,867	16,335,920
Provisions		173,749	211,795	714,367
Income tax payable		34,102	59,294	7,546
		15,198,298	**9,238,077**	**23,649,743**
		51,420,105	**32,981,141**	**30,499,056**
Total equity and liabilities		**121,388,800**	**102,536,104**	**92,979,216**

Notes on pages 7-28 are the integral part of these condensed consolidated financial statements

Director A4 Director B

Condensed consolidated statement of changes in equity

for the 3-month period ended 31 March 2012 (*all amounts are in US Dollars*)

	Share capital	Share premium	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total equity
As at 01 January 2011	**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**
As at 31 December 2011	**430,857**	**28,525,902**	**32,205,067**	**17,622,143**	**(9,229,006)**	**69,554,963**
Profit for the period	-	-	746,389	-	-	**746,389**
Other comprehensive income	-	-	-	-	(332,657)	**(332,657)**
Depreciation transfer	-	-	334,451	(334,451)	-	-
Total comprehensive income	**-**	**-**	**1,080,840**	**(334,451)**	**(332,657)**	**413,732**
As at 31 March 2012	**430,857**	**28,525,902**	**33,285,907**	**17,287,692**	**(9,561,663)**	**69,968,695**

Notes on pages 7-28 are the integral part of these condensed consolidated financial statements

Director A5 Director B

Condensed consolidated statement of cash flows

for the 3-month period ended 31 March 2012, 2011 (*all amounts are in US Dollars*)

	3 months ended 31 March 2012 (unaudited)	3 months ended 31 March 2012 (unaudited)
Operating activities		
Profit before tax	454,058	3,420,270
Non-cash adjustment to reconcile profit before tax to net cash flows:		
Depreciation and amortization	1,044,122	961,328
Loss on disposal of property, plant and equipment and intangible assets	7,028	-
Impairment of receivables	40,592	-
Unrealised currency exchange differences	(337,294)	-
Finance expenses	569,073	806,709
Finance income	(941,059)	(410)
Movements in provisions, pensions	107,100	151,265
Working capital adjustments:		
Movements in provisions, pensions (cash part)	(75,983)	-
Increase in trade and other receivables and prepayments	(5,231,128)	(5,856,402)
(Increase)/decrease in inventories	(6,308,820)	542,099
Increase/(decrease) in trade and other payables	3,861,443	(6,233,633)
Cash used in operations	**(6,810,868)**	**(6,208,774)**
Interest received	536	410
Income tax paid	(63,712)	(95,130)
Net cash flows from operating activities	**(6,874,044)**	**(6,303,494)**
Investing activities		
Proceeds from sale of property, plant and equipment	-	-
Purchase of property, plant, equipment and intangible asset	(2,913,715)	(1,271,054)
Proceeds from sale of financial instruments	-	-
Net cash flows used in investing activities	**(2,913,715)**	**(1,271,054)**
Financing activities		
Proceeds from borrowings	16,190,992	-
Repayment of borrowings	(696,014)	(576,779)
Interest paid	(525,059)	(721,200)
Net cash flows from/(used in) financing activities	**14,969,919**	**(1,297,979)**
Net increase/(decrease) in cash and cash equivalents	**5,182,160**	**(8,872,527)**
Net foreign exchange difference	21,692	(568,256)
Cash and cash equivalents at 1 January	**1,204,740**	**32,452,015**
Cash and cash equivalents at 31 December	**6,408,592**	**23,011,232**

Notes on pages 7-28 are the integral part of these condensed consolidated financial statements

Notes to the Condensed consolidatedfinancial 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 May 2010 for an unlimited period of time. SADOVAYA GROUP S.A. was formed to serve as the ultimate holding company of SADOVA LIMITED (Cyprus)and its subsidiaries. The registered address of SADOVAYA GROUP S.A.is 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 10 companies, operating in spheres indicated below. These consolidated financial statements include financial statements of the Group's Companies. Mr.Tolstoukhov A.Y. and Mr.Stetsurin S.N. are ultimate Group's owners.

Group's Company	Country of incorporation	Kind of activity
Sadovaya GroupS.A.	Luxemburg	Parent company
Sadovaya LLC	Cyprus	Intermediate holding company
Sadovaya Trading LLC	Cyprus	Trading activity
"Shahta"Sadovaya" LLC	Ukraine	Mining and sale of coal, wholesale of coal
"Shahta"Rassvet-1" LLC	Ukraine	Mining and sale of coal, wholesale of coal
"Volat Trans" PE	Ukraine	Transportation
"Interinvest" LLC	Ukraine	The Company has machinery which is used by the Group
"PC Interdon" LLC	Ukraine	Processing of waste dumps
"Donvostok" LLC	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" LLC is an enterprise registered on 7 June 1995 as "Olvin Trade" LLC. In 2007 name of the company was altered to "Shahta "Sadovaya" LLC. Today "Shahta "Sadovaya" LLC 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" LLC 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" LLC 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" LLC was founded on 05 March 2007. The Company has machinery which is used by the Group.
Sadovaya Trading LLC 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 provision the Condensedconsolidated financial statementfor 3-month period ended 31 March 2012of Sadovaya Group S.A. to the Warsaw Stock Exchange.

The Condensed consolidated financial statement for 3-month period ended 31 March 2011 prepared according to requirements of IAS 34 Interim financial reporting.

Statement of compliance

The Condensed 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 Condensed consolidated financial statements were prepared for the purpose of the presentation of balances and transactions results.

All intra-group balances, income and expenses, unrealised gains and losses and dividends resultingfrom intra-group transactions are eliminated in full.

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 for the I quarter 2012	31 March 2012	Average for the I quarter 2011	31 March 2011
7,99	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.

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.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, includingprocessing 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 31 March 2012	**Trade activities**	**Mining and coal cleaning**	**Processing of waste dumps**	**Others**	**Adjustments and eliminations**	**Total**
Revenue						
External customer	1,150,777	13,246,407	181,846	7,623	-	**14,586,653**
Inter-segment				402,215	(402,215)	**-**
Revenue-total	**1,150,777**	**13,246,407**	**181,846**	**409,838**	**(402,215)**	**14,586,653**
Financial results						
Depreciation and amortization	-	(958,772)	(21,331)	(26,874)	(37,145)	**(1,044,122)**
Segment profit	**170,020**	**1,835,829**	**124,481**	**-**	**(1,676,272)**	**454,058**
Operating assets	**241,340**	**66,478,563**	**20,442,613**	**1,951,649**	**32,274,634**	**121,388,799**
Operating liabilities	**-**	**2,885,331**	**354,313**	**-**	**48,180,461**	**51,420,105**
Other disclosures						
Capital expenditure	-	727,606	2,337,388	12,247	-	**3,077,241**

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include finance income (941,059), finance expenses (569,073), selling and distribution expenses (889,659), administrative expenses (1,036,278), non-operating foreign currency translation loss (4,601) and other expenses (126,922).
3. Segment assets do not include cash and cash equivalents (6,408,592), other financial assets (2,023,408), deferred tax assets (682,560), trade and other receivables (23,160,074), as these assets are managed on a group basis.
4. Segment liabilities do not include income tax payable (34,102), loans and borrowings (33,775,137), trade and other payables (11,563,541), deferred tax liabilities (2,807,681), as these assets are managed on a group basis.
5. Capital expenditure consists of additions of property, plant and equipment.

Year ended 31 December 2011	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	6,174,356	82,149,797	1,723,331	38,060	-	**90,085,544**
Inter-segment				2,450,079	(2,450,079)	**-**
Revenue-total	**6,174,356**	**82,149,797**	**1,723,331**	**2,488,139**	**(2,450,079)**	**90,085,544**
Financial results						
Depreciation and amortization	-	(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 31 March 2011	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	1,669,741	18,653,976	86,430	17,759	-	**20,427,906**
Inter-segment				520,534	(520,534)	**-**
Revenue-total	**1,669,741**	**18,653,976**	**86,430**	**538,293**	**(520,534)**	**20,427,906**
Financial results						
Depreciation and amortization	-	(875,786)	(19,525)	(56,928)	(14,649)	**(966,888)**
Segment profit	**291,407**	**4,198,256**	**79,619**	**17,759**	**(1,166,771)**	**3,420,270**
Operating assets	**403,618**	**52,132,772**	**6,486,418**	**482,698**	**33,473,709**	**92,979,215**
Operating liabilities	**-**	**3,674,079**	**-**	**-**	**26,824,977**	**30,499,056**
Other disclosures						
Capital expenditure	-	1,120,656	40,625	-	-	**1,161,281**

1. Inter-segment revenues are eliminated on combination.

2. Profit for each operating segment does not include finance income (410), finance expenses (806,709), selling and distribution expenses (117,336), administrative expenses (510,753), and other income/(expenses), net (267,617).
3. Segment assets do not include cash and cash equivalents (23,011,232), other financial assets (4,974,545), prepayments (11,959,707), deferred tax assets (337,202), trade and other receivables (5,150,730), as these assets are managed on a group basis.
4. Segment liabilities do not include income tax payable (7,546), loans and borrowings (16,335,920), trade and other payables (6,591,910), deferred tax liabilities (3,889,601), 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

	I quarter 2012	**2011**	**I quarter 2011**
Ukraine	14,114,105	84,407,865	19,387,477
Export	472,548	5,677,679	1,040,429
	14,586,653	**90,085,544**	**20,427,906**

5. Revenue

	I quarter 2011	I quarter 2010
Revenue from sales of finished goods	13,428,253	20,118,740
Revenue from sales of merchandise	1,150,777	291,407
Revenue from rendering of services	7,623	12,791
Revenue from lease	-	4,968
	14,586,653	**20,427,906**

6. Cost of sales

	I quarter 2012	I quarter 2011
Change in finished goods and work-in-progress	138,524	265,839
Raw materials	(7,631,279)	(11,060,102)
Wages and salaries of operating personnel	(2,210,487)	(2,185,182)
Held for resale merchandise	(980,757)	(1,378,334)
Depreciation of non-current assets	(874,393)	(767,730)
Energy supply	(709,011)	(584,105)
Subcontractors services	(79,377)	(75,422)
Taxes and obligatory payments	(39,911)	(38,639)
Repair and current maintenance	(69,632)	(17,190)
	(12,456,323)	**(15,840,865)**

7. General and administrative expenses

	I quarter 2012	I quarter 2011
Wages and salaries of administrative personnel	(278,650)	(224,380)
Professional services	(483,645)	(137,688)
Insurance	(172,600)	(78,454)
Utilities	(43,146)	(30,262)
Other expenses	(27,028)	(19,557)
Tax other than income tax	(12,160)	(14,367)
Depreciation of non-current assets	(19,049)	(6,045)
	(1,036,278)	**(510,753)**

8. Selling and distribution expenses

	I quarter 2012	I quarter 2011
Delivery costs	(323,032)	(41,364)
Raw materials	(286,583)	(20,419)
Wages and salaries of distribution personnel	(73,817)	(35,113)
Depreciation of non-current assets	(39,238)	(8,604)
Repair and current maintenance	(19,286)	(3,242)
Other expenses	(147,703)	(8,594)
	(889,659)	**(117,336)**

9. Finance income

	I quarter 2012	I quarter 2011
Interest received	537	410
Income from borrowings and receivables at amortized cost	940,522	-
	941,059	**410**

10. Finance expenses

	I quarter 2012	I quarter 2011
Interest expenses	(425,063)	(676,131)
Borrowing costs	(99,997)	(14,063)
Effect of provision discounting	(44,013)	(116,515)
	(569,073)	**(806,709)**

11. Property, plant and equipment

	Land and Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in-progress	Total
Cost							
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**
Additions	427,343	167,793	65,772	2,703	197,459	2,216,171	3,077,241
Disposals	-	(68,591)	-	-	(198,049)	(749,970)	(1,016,610)
Effect of translation into presentation currency	(206)	12,039	1,190	49	46	58,314	71,432
As at 31 March 2012	**35,535,254**	**15,756,997**	**3,102,452**	**129,081**	**119,546**	**12,776,403**	**67,419,733**
Accumulated depreciation							
As at 31 December 2010	**(7,381,793)**	**(6,594,606)**	**(376,902)**	**(48,897)**	**(160,123)**	**-**	**(14,562,321)**
Charge for the period	(2,265,754)	(1,599,708)	(226,854)	(16,109)	(10,613)	-	(4,119,038)
Disposals	-	585,294	-	3,042	156,513	-	744,849
Effect of translation into presentation currency	32,291	65,495	(35,111)	(3,038)	105	-	59,742
As at 31 December 2011	**(9,615,256)**	**(7,543,525)**	**(638,867)**	**(65,002)**	**(14,118)**	**-**	**(17,876,768)**
Charge for the period	(536,871)	(395,290)	(84,598)	(5,188)	(5,908)	-	(1,027,855)
Disposals	-	59,911	-	-	87	-	59,998
Effect of translation into	(60)	(186)	(243)	(16)	(1)	-	(506)

presentation currency

As at 31 March 2012	**(10,152,187)**	**(7,879,090)**	**(723,708)**	**(70,206)**	**(19,940)**	**-**	**(18,845,131)**
Net carrying amount							
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 March 2012	**25,383,067**	**7,877,907**	**2,378,744**	**58,875**	**99,606**	**12,776,403**	**48,574,602**

As at 31 March 2012, bank loans were secured by property, plant and equipment with carrying amount of USD 24,589,661 (as at 31 December 2011 - USD 25,146,491).

Carrying amount of temporarily idle capacity as at 31 March 2012 was USD 1,822,111 (as at 31 December 2011 – USD 2,049,182).

As at 31 March 2012 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 2011							
Cost	11,268,999	8,966,017	3,008,639	115,422	124,812	11,251,888	**34,735,777**
Accumulated depreciation	(3,434,105)	(3,207,652)	(622,641)	(55,901)	(16,295)	-	**(7,336,594)**
As at 31 March 2012							
Cost	11,675,429	9,120,371	3,064,890	118,170	124,849	12,776,403	**36,880,112**
Accumulated depreciation	(3,717,064)	(3,432,045)	(679,224)	(58,201)	(22,898)	-	**(7,909,432)**
Net carrying amount							
As at 31 December 2010	**7,834,894**	**5,758,365**	**2,385,998**	**59,521**	**108,517**	**11,251,888**	**27,399,183**
As at 31 December 2011	**7,958,365**	**5,688,326**	**2,385,666**	**59,969**	**101,951**	**12,776,403**	**28,970,680**

12. Intangible assets

	Computer software	Licenses and rights to use natural resource	Expenses on acquisition of intangible assets	Total
Cost				
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**
Additions	10,489	13,251	1,619	**25,359**
Disposals	-	-	-	**-**
Transfer from expenses on acquisition of IA	-	-	-	**-**
Effect of translation into presentation currency	(362)	(2,320)	176	**(2,506)**
As at 31 March 2012	**60,889**	**972,885**	**113,840**	**1,147,614**
Accumulated amortization				
As at 31 December 2010	**(1,325)**	**(84,023)**	**-**	**(85,348)**
Charge for the period	(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)**
Charge for the period	(1,317)	(14,950)	-	**(16,267)**
Effect of translation into presentation currency	255	650	-	**905**
As at 31 March 2012	**(13,472)**	**(153,823)**	**-**	**(167,295)**
Net carrying amount				
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**
As at 31 March 2012	**47,417**	**819,062**	**113,840**	**980,319**

Intangible assets of “Shahta “Sadovaya” LLC as at 31 March 2012 represent:
- special permission for subsurface use #4488 dated 08 November 2007 issued by the Ministry of Ecology and Natural Resources of Ukraine for 19 years. Carrying amount of this permission as at 31 March 2012 equals to USD 110,348 (as at 31 December 2011 equals to USD 114,748).
- special permission for subsurface use #5259 dated 27 December 2010 issued by the Ministry of Ecology and Natural

Resources of Ukraine for 20 years. Carrying amount of these works as at 31 March 2012 equals to USD 425,432 (as at 31 December 2011 equals to USD 438,559).

A special permission for subsurface use #4982 dated 11 June 2009 for 20 years comprises intangible assets of "Shahta"Rassvet-1"LLC. Carrying amount of this permission as at 31 March 2012 equals to USD 258,369 (as at 31 December 2011 equals to USD 261,429).

13. Other financial assets

	at 31/03/2012	at 31/12/2011	at 31/03/2011
Receivables acquired under factoring contract	-	1,604,012	1,706,285
Long term receivables	-	3,069,439	3,268,260
Total non-current	**-**	**4,673,451**	**4,974,545**
Receivables acquired under factoring contract	2,023,408	-	-
Total current	**2,023,408**	**-**	**-**

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.

14. Loans and borrowings

		at 31/03/2012		at 31/12/2011		at 31/03/2011	
	Currency	**Interest rate, %**	**Residual debt**	**Interest rate, %**	**Residual debt**	**Interest rate, %**	**Residual debt**
Loan 1	UAH	-	-	-	-	12%	8,630,997
Loan 2	UAH	-	-	-	-	12%	7,633,198
Loan 3	UAH	3M LIBOR+6.5%	13,000,000	-	-	-	-
Loan 4	USD	1M LIBOR+8.5%	19,871,747	1M LIBOR+8.5%	17,996,747	-	-
Loan 5	UAH	16%	391,980	16%	435,364	-	-
Loan 6	UAH	18%	150,009	18%	168,694	-	-
Promissory notes	UAH		361,401		-		71,725
			33,775,137		**18,600,805**		**16,335,920**
Short-term			3,083,024		695,868		16,335,920
Long-term			30,692,113		17,904,937		-

Loan 1
Loan was received in July 2009 in SB "Credit-Dnepr". The borrower is "Shahta Sadovaya" LLC. 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 October 2009 in SB "Credit-Dnepr". The borrower is "Shahta Rassvet-1" LLC. 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 3
Loan was received in March 2012 from European Bank for Reconstruction and Development regarding to Loan agreement #42621 dated 30/12/2011. The borrower is "PC Interdon" LLC. Maturity date is 28 December 2018. On February 15, 2012, the Parent Company entered into a Deed of guarantee and indemnity in order to secure the loan concluded between the group company PC Interdon LLC and the European Bank for Reconstruction and Development (EBRD) for an amount of USD 36,000,000. Pursuant to the share pledge agreement as of February 15, 2012, the main shareholder of the Company, Connektico Ventures Ltd, has pledged 17.50% of its shares held in the Company in favor of EBRD.

Loan 4
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" LLC and "Shahta Rassvet-1" LLC. Maturity date is 30 October 2016. Obligations under the credit contract are guaranteed by property, plant and equipment of "Interinvest" LLC, "Shahta"Sadovaya" LLC, "Shahta"Rassvet-1" LLC and "Donvostok" LLC. The Loan is secured by property rights on cash which will be obtained from DTEK LLC according to agreements with "Shahta Sadovaya" LLC and "Shahta Rassvet-1" LLC.

Loan 5
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 6
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 issued in year 2012.

15. Inventories

	at 31/03/2012	at 31/12/2011	at 31/03/2011
Raw materials	26,464,741	19,998,886	10,803,366
Finished goods	3,413,170	3,534,402	3,835,695
Merchandise	241,340	441,985	403,618
Work in progress	-	-	198,023
Other inventories	259,821	79,092	154,480
Spare parts	165,419	170,893	113,362
	30,544,491	**24,225,258**	**15,508,544**

16. Trade and other receivables

	at 31/03/2012	at 31/12/2011	at 31/03/2011
Trade receivables	19,675,573	14,821,350	5,122,307
Provision for impairment of trade receivables	(107,103)	(93,501)	(83,560)
VAT recoverable	3,389,162	1,269,878	90,125
Prepayments for other taxes	28,796	13,898	14,256

Other receivables	173,646	71,371	7,602
	23,160,074	**16,082,996**	**5,150,730**

17. Prepayments and deferred expenses

	at 31/03/2012	at 31/12/2011	at 31/03/2011
Prepayments to suppliers	9,898,468	6,706,839	11,971,754
Provisions for impairment of prepayments	(43,283)	(82,031)	(12,047)
Deferred expenses	616,910	673,964	1,066,542
Total current	**10,472,095**	**7,298,772**	**13,026,249**

18. Trade and other payables

	at 31/03/2012	at 31/12/2011	at 31/03/2011
Trade payables	6,961,122	5,767,150	4,911,155
Accounts payable for salaries, wages and related taxes	1,147,855	909,554	322,203
Provision for unused vacations	1,040,694	1,062,921	523,931
Accounts payable for other taxes	1,611,359	212,201	301,425
Advances from customers	299,429	71,326	183,294
Current portion of non-current liabilities on defined benefit plan	107,667	107,625	18,164
Accounts payable for loan's interest	51,132	47,952	7,221
Other current liabilities	688,165	92,392	324,517
	11,907,423	**8,271,121**	**6,591,910**

19. Related party transactions

	3 month period ended 31/03/2012	Year ended 31/12/2011	3 month period ended 31/03/2011
Purchase of goods and services	**278,911**	**185,635**	**37,723**
Revenues from goods and services	**21,011**	**356,452**	**130,577**

	as at 31/03/2012	as at 31/12/2011	as at 31/03/2011
Accounts payable	**485,474**	**237,969**	**11,775**
Accounts receivable	**480,700**	**445,758**	**155**

Residual debts and transactions between the Group's Companies were eliminated in consolidation, 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 and accounts payable 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.

Proceedsfrom goods and services and liabilitiesofrelated parties

Accounts receivable from related parties at each date are interest-free. Transactions are carried at prevailing market prices. Liabilities are repaid principally in cash. Accounts receivable from the related parties are not impared.

Remunerations of top management:

	3 month period ended 31/03/2012	Year ended 31/12/2011	3 month period ended 31/03/2011
Wages and salaries	123,845	515,379	20,599
Social security contributions and similar taxes	4,877	11,509	9,302
	128,722	**526,888**	**29,901**

20. Events after the reporting date

In April 2012, the Group subsidiary PC Interdon LLC received the USD 5,000,000 disbursement from the European Bank for Reconstruction and Development that made the full Tranche 1 Loan in an amount of USD 18,000,000 under the Loan Agreement dated 30 December 2011.

By the Resolution dated 28 March 2012 the sub-holding Cyprus company Sadovaya Limited has approved the increase of the share capital of its subsidiaries Shakhta Sadovaya LLC and Shakhta Rassvet-1 by USD 1,500,000 each. The amount of the increase should be converted to UAH and settled in full till 31.03.2014 in one or several tranches. The first tranche amounted to UAH 16,000,000 was transferred to the account of Shakhta Sadovaya (UAH 8,000,000) and Shakhta Rassvet-1 (UAH 8,000,000) on 03 April 2012.

Due to the construction works undergoing on the Vakhrushevo waste recovery complex construction site, PC Interdon LLC has expectedly stopped its operations at the old factory in April 2012. The launch of the new reprocessing complex is scheduled for July 2012.