Sadovaya Group

Semi-Annual Report

1H 2012

30 August 2012

This page was intentionally left blank

Statement of the main shareholder

Dear shareholders, colleagues and partners,

I am pleased to update you on Sadovaya Group financial performance and our developments during 1H 2012.

In 1H 2012 we increased our mining volumes by 16% y-o-y and extracted 228 ths. t of coal. As of now the Group operates 5 longwalls with total maximum output capacity of 59 ths. tonnes per month.

Our sales volumes remained flat in 2Q 2012, comparing to 1Q 2012, adding another 193 ths. tonnes and reached 387 ths. tonnes in total for the 1H 2012. However, we managed to improve our financial result in 2Q 2012 tripling the EBITDA and net profit on q-o-q basis to USD 3.6 mn and USD 2.1 mn respectively, thus reaching USD 4.7 mn in EBITDA and USD 2.8 mn in net profit for 1H 2012.

Finally, I am pleased to announce we are close to put the first module enrichment complex into operation, namely we expect the factory to operate in test mode since 5th of September, adding to our production facilities 180-280 ths. tonnes of marketable coal per year Moreover, we already ordered and prepaid the main critical equipment from MBE Coal & Minerals Technology for the second MEC, which is expected to be constructed and put into operation in April 2013.

Sincerely Yours,
Oleksandr Tolstoukhov

Contents

1. Management report
2. Management statement
3. Condensed consolidated financial statements for the 6-month period ended 30 June 2012
4. Notes to the condensed consolidated financial statements

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").

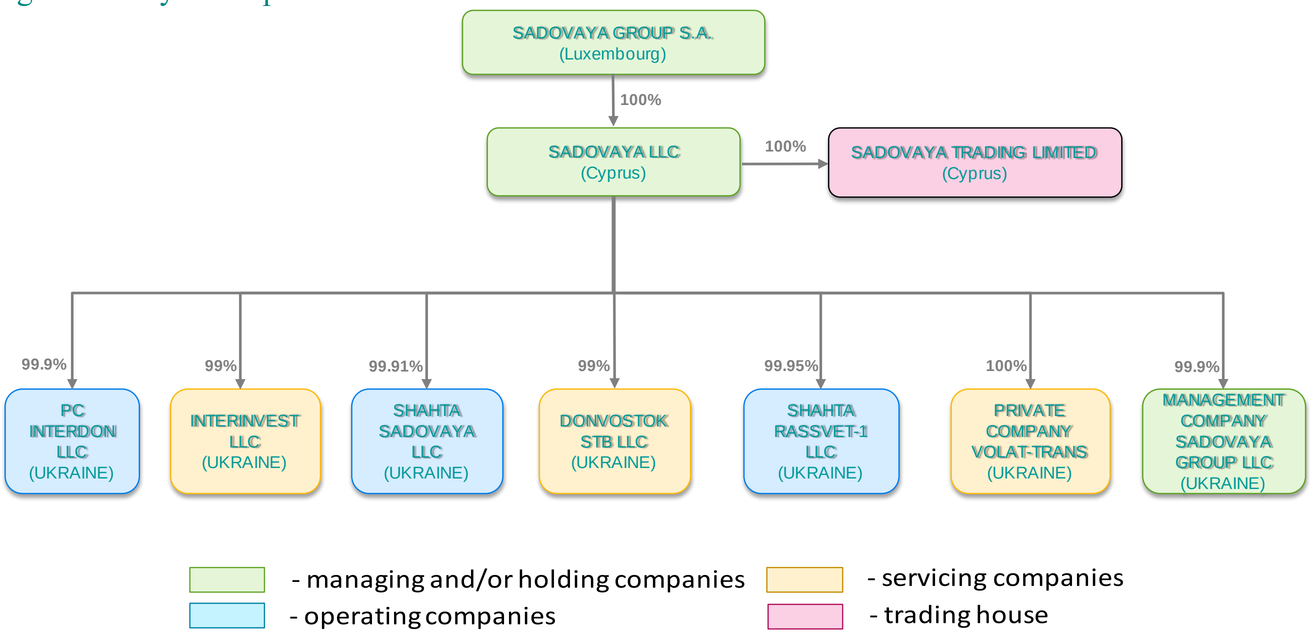
The Group comprises of operating, holding, servicing and trading companies (Fig.1).

The 75% shareholder of Sadovaya Group S.A. is Cypriot company Connectico LLC (75%), whose ultimate beneficiaries are Mr. Oleksandr 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

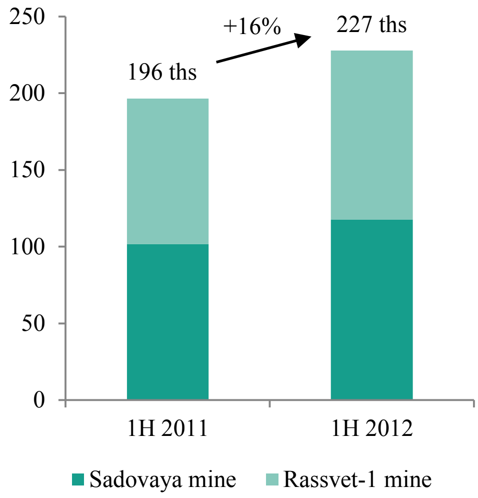


Sadovaya Group operates two full-cycle mine complexes in Ukraine's Donetsk and Luhansk Regions – Sadovaya and Rassvet-1 mines, and in March 2011 a cquired a license to develop Roskoshniy mine field, natural extension of Sadovaya mine filed. Total underground resources under Group's ownership currently 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 first half of 2012 the Group mined 228 ths. t of coal, or + 16% comparing to 1H 2011, despite the effects of repair works at Sadovaya mine and closure of the longwall on Rassvet-1 mine in 1Q 2012.

Fig. 2 Sadovaya Group mining results



Sadovaya mine mined 118 ths. t of coal in 1H 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 a nd since then the mine has been operating in a normal mode. Currently the mining works are being conducted on 3 l ongwalls with total output capacity of up to 27 ths tonnes per month.

Rassvet-1 mine extracted 110 ths. t of coal in 1H 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 substituted the closed longwall by the new one in August 2012. To further increase the production volumes the Group will add another longwall on the mine in 2013. As of August 2012 the mining works are being conducted on 2 l ongwalls with total output capacity of up to 33 ths tonnes per month.

Waste coal recovery

PC Interdon LLC, engaged into waste recovery business, produced 8 ths. t of coal from waste deposits in 1H 2012. T he 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 near Vakhrushevo town, Luhansk region is about to be put into operation. We plan to have official opening ceremony in September 2012.

The newly constructed modular enrichment complex will be able to reprocess 900 ths. t of raw material per year with forecasted output capacity of 180-280 ths. t, of marketable coal concentrate. Actual output will depend on the coal content in different parts of the waste dump.

We have already prepared the construction area for the second factory, ordered and prepaid the manufacturing of main critical technological equipment for the second MEC, namely the MBE PNEUFLOT system, which is expected to be delivered to Ukraine in November 2012.

The Group estimates the second MEC to be constructed and put into operation in April 2013.

Modular complex construction progress

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. Sales are currently conducted mainly on the local market, with small export volumes. The Group exports coal to Bulgaria and Moldova and plans to increase its presence into other international markets in the short-term perspective.

In 1H 2012 the Group sold 387 ths. t of coal, -36% y-o-y. The 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. However, the Group suffered from larger than usual demand decrease this year, especially in summer. No nuclear power station in Ukraine had planned maintenance works during 1H 2012, which resulted in their high capacity utilization and less demand for energy from thermal power plants and thus less demand for energy coal.

As of August 2012 coal demand from power generating companies has been recovering to reach optimal level in October-November 2012. The Group aims to sell all mined coal and reduce the share of purchases from third parties to increase business marginality and reduce the influence of local suppliers.

Fig. 3 Sadovaya Group sales vs mining volumes, 1H 2012, ths. tonnes

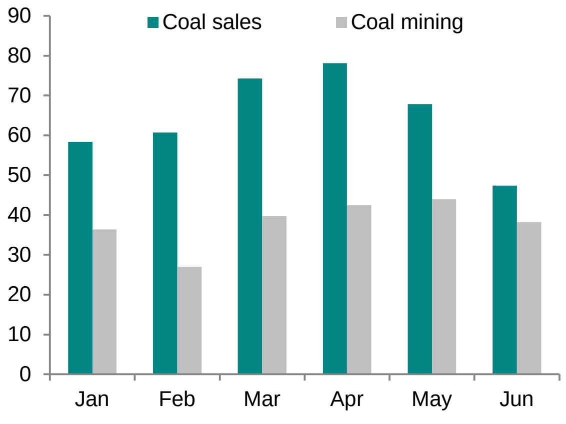
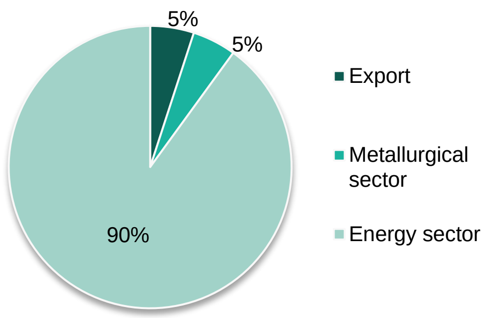


Fig. 4 Sadovaya Group sales structure



Highlights of 1H 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.

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.

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.

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.

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.

Main critical technological equipment for the second MEC construction was ordered and prepaid to MBE, equipment delivery is expected in November 2012.

Review of financial results of 1H 2012

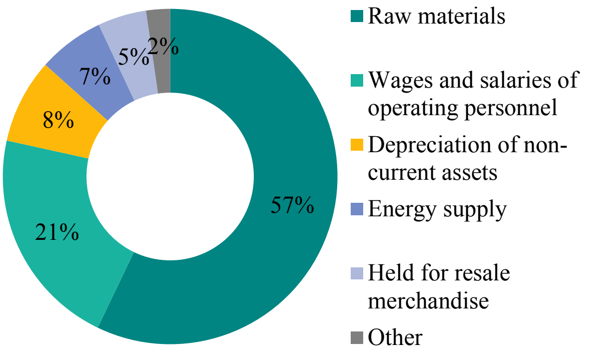
Revenue. Total revenue reached USD 27.4 million for the 1H 2012, decreasing 37% year-on-year. The decrease in sales reflects primarily the year-on-year decrease in sales volume on low demand from power generating sector and industrial producers. Most of the Group revenue is generated in the domestic market. However, the Group managed to increase the export sales by 13% quarter-on-quarter to USD 1.3 million for 1H 2012 by increased number of customers in Western Europe. For information on s ales segmentation please refer to Note 5 of the condensed consolidated financial statements.

Cost of sales. Cost of sales decreased from USD 33.4 million in 1H 2011 to USD 20.9 million in 1H 2012, a 38% decrease. The decrease follows the revenue trend.

The main cost of sales components are as follows:

Raw materials - 57% of total COS or USD 13.6 million. Raw materials decreased by 46% compared to 1H 2011 affected mainly by decrease in sales volumes;

Fig.5 COS structure in 1H 2012



Wages and salaries – 21% of total COS or USD 4.4 million, increased by 3% compared to 1H 2011 on periodic salary increases due to market adjustments;

Depreciation – 8% of total COS or USD 1.7 million, increased by 6% compared to 1H 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.

Energy supply – 5% of total COS or USD 1.3 million, increased by 23% compared to 1H 2011 on higher electricity prices;

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

Gross profit. Gross profit decreased from USD 10.0 million in 1H 2011 to USD 6.5 million in 1H 2012, which represents a 35% 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 217 ths. in 1H 2011 to USD 1,406 ths. in 1H 2012. The 547% growth comparing to the same period of 2011 is mainly due to the increase in: cargo insurance expenses of USD 219 ths. and increase in coal delivery expenses to new customers of USD 330 ths. For detailed information about delivery costs structure please refer to Note 8 of the condensed consolidated financial statements.

General and administrative expenses increased from USD 1,185 ths in 1H 2011 to USD 1,884 ths. 1H 2012, 59% year-on-year increase. G&A grew on increase in insurance expenses and consulting fees in respect of the Group's borrowings.

Fig.6 Selling and distribution expenses

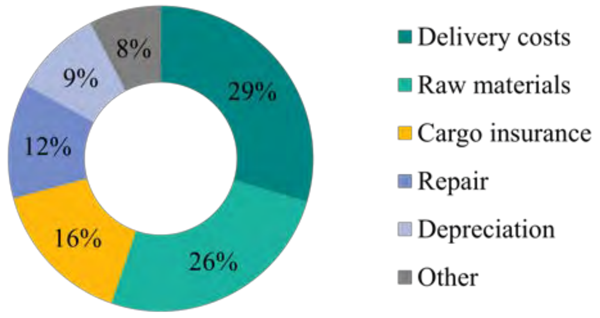
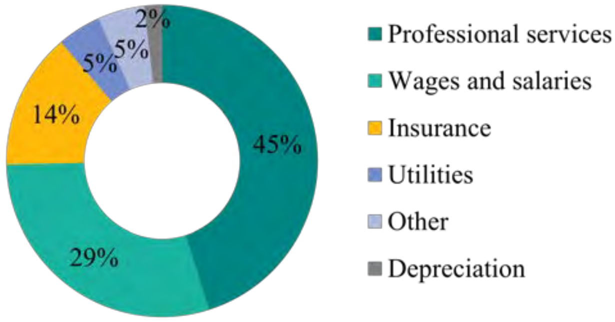


Fig.7 General and administrative expenses



Finance income and expenses

Finance expenses increased from USD 1,262 ths. in 1H 2011 to USD 1,504 ths. in 1H 2012, 19% increase comparing to 1H 2011. The deviation reflects primarily the interest expenses and borrowing costs increase. The borrowings raised within the period include long-term loans from EBRD (USD 18.0 million disbursement received in March, 2012) and OTP Bank (USD 5.6 million).

Finance income increased from USD 0.7 ths. in 1H 2011 to USD 1,055 ths. in 1H 2012. Interest income from long-term receivables influenced the finance income.

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

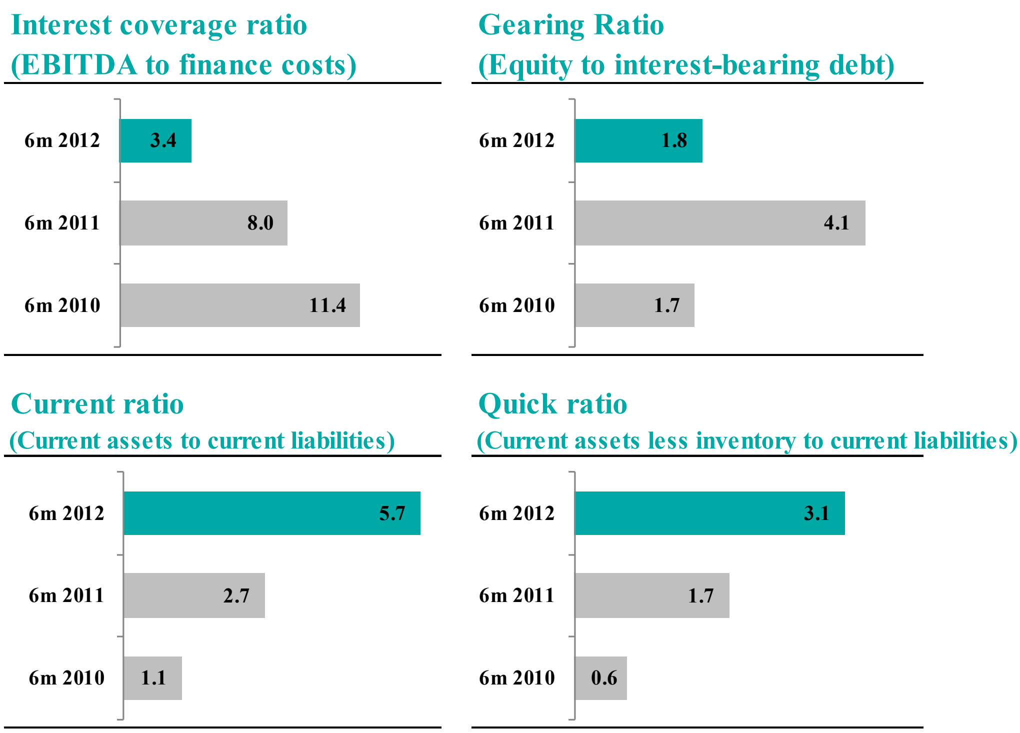
Cash flow and financial ratios

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.

Cash outflow from operations in 1H 2012 was USD 6.6 million. The cash outflows from operations were primarily driven by increase in working capital. The Group purchased large quantity of inventories (waste and slurry coal for recycling) and increased receivables.

Cash used in investing activities was USD 8.2 million in 1H 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.8 Basic financial ratios



Related party transactions

Information in respect of related parties transactions is disclosed in Note 19 of the condensed consolidated financial statements. Total amount of proceeds from goods and services arising from such transactions comprises around 2% of total revenue. The most significant transaction the Group executed with related parties in 1H 2012 is shown in accounts payable. Accounts payable are interest-free at each date. Such liabilities arose due to machinery lease from related parties and purchased coal. Accounts receivable from related parties at each date are interest-free as well. Prices of such transactions with related parties are established according with market ones. Provisions for impairment of accounts receivable from the related parties were not charged.

Principal risks and uncertainties

Coal price

The Group's business is dependent on the market price of coal. Level of coal prices in Ukraine is historically below world prices and is regulated by the Government. Over the last decade the price for coal in Ukraine was constantly growing and the Group expects this tendency to continue in future.

Demand for coal products

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

Exposure to currency risk

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

Delay in the launch of new facilities

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

Unexpected stoppages due to technological malfunctions and geological conditions

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various kinds of stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions), as well as due to unexpected geological reasons (e.g seam rupture) that cause the development of a seam to become dangerous or impossible. The risk of an adverse effect of such stoppages is minimized by the fact that the Group extracts coal using the longwall system and its target production capacity is obtained in two mines from different walls. Therefore, in the event of stoppages or closure in one longwall, the planned level of extraction can be maintained by intensifying work on the other mine from the reserve or dormant walls.

Events after the end of the reporting period

On 15 August 2012 the new longwall on l6 coal-seam, Rassvet-1 mine was successfully put into operation in the test mode. The Group expects the longwall to operate at full capacity since November 2012 with monthly coal output of up to 14,000 tonnes. Coal reserves at the longwall comprise 269 ths. tonnes, which is sufficient for 19 months of operation in full mode; seam thickness is about 1.0 m. Launching of the longwall is part of Sadovaya Group announced development plan.

In August 2012, the Group subsidiary "PC Interdon" LLC purchased 800 m3 of inventories (waste coal) for total amount of 15,482,880 UAH (1,937,176 USD).

Management Statement

This statement is provided to confirm that to the best of our knowledge the Condensed Consolidated Financial Statements for the 6 month period ended 30 June 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

___________________	___________________
Oleksandr Tolstoukhov,	**Sergiy Synyanskyy**
Director A	**Chief Executive Officer,** **MC Group Sadovaya LLC**

Luxembourg,

29 August 2012

Statement of the absence of an audit

The undersigned:

Mr. Oleksandr Tolstoukhov, A Director of Sadovaya Group S.A. on behalf of the board of Directors of the Company, hereby declares the following:

in reference to the Article 4 (5) of the law of 11 January 2008 on transparency requirements for issuers of securities, published in Mémorial A – No. 5 of 15 January 2008

the Condensed Consolidated Financial Statements for six month period ended 30 June 2012 have not been audited.

Oleksandr Tolstoukhov,

Director A

Luxembourg,

29 August 2012

Sadovaya Group S.A.

Unaudited Condensed Consolidated Financial Statements

for the 6-month period ended 30 June 2012

Contents

Condensed consolidated income statement	19
Condensed consolidated statement of comprehensive income	20
Condensed consolidated statement of financial position	21
Condensed consolidated statement of changes in equity	22
Condensed consolidated statement of cash flows	23
Notes to the Condensed consolidated financial statements	24
1. General information	24
2.1 Basis of preparation	25
2.2 Summary of significant accounting policies	26
3. Significant accounting judgments, estimates and assumptions	38
4. Operating segment information	40
5. Revenue	43
6. Cost of sales	43
7. General and administrative expenses	43
8. Selling and distribution expenses	44
9. Finance income	44
10. Finance expenses	44
11. Property, plant and equipment	45
12. Intangible assets	48
13. Other financial assets	50
14. Loans and borrowings	51
15. Inventories	53
16. Trade and other receivables	53
17. Prepayments and deferred expenses	53
18. Trade and other payables	53
19. Related party transactions	54
20. Events after the reporting date	54
21. Approval of the financial statements	55

Condensed consolidated income statement
for the 6-month period ended 30 June 2012 and 2011 (*in US Dollars unless otherwise stated*)

	Note	6 months ended 30 June 2012 (unaudited)	6 months ended 30 June 2011 (unaudited)
Revenue	5	27,355,046	43,374,660
Cost of sales	6	(20,863,572)	(33,417,806)
Gross profit		**6,491,474**	**9,956,854**
Selling and distribution expenses	8	(1,406,472)	(217,422)
General administrative expenses	7	(1,884,269)	(1,185,285)
Other income/(expenses), net		(401,219)	(405,842)
Operating profit		**2,799,514**	**8,148,305**
Finance expenses	10	(1,504,050)	(1,262,195)
Finance income	9	1,054,610	682,023
Non-operating foreign currency translation gain/(loss)		(36,809)	479,176
Profit before tax		**2,313,265**	**8,047,309**
Income tax (expense)/benefit		491,709	(242,871)
Profit for the period		**2,804,974**	**7,804,438**
Earnings per share		0.07	0.18

Notes on pages 21 - 54 are the integral part of these condensed consolidated financial statements

Director A CEO, MC Group Sadovaya LLC

Condensed consolidated statement of comprehensive income
for the 6-month period ended 30 June 2012 and 2011 (*in US Dollars unless otherwise stated*)

	6 months ended 30 June 2012 (unaudited)	6 months ended 30 June 2011 (unaudited)
Profit for the period	**2,804,974**	**7,804,438**
Other comprehensive income		
Exchange differences on translation in presentation currency	(356,333)	150,704
Other comprehensive income for the period	**(356,333)**	**150,704**
Total comprehensive income for the period	**2,448,641**	**7,955,142**
Attributable to:		
Equity holders of the parent	2,448,177	7,856,434
Non-controlling interests	464	98,708

Notes on pages 21 - 54 are the integral part of these condensed consolidated financial statements

Director A　　　　　　　　　　　　CEO, MC Group Sadovaya LLC

Condensed consolidated statement of financial position
as at 30 June 2012, as at 30 June 2011, as at 31 December 2011 (*in US Dollars unless otherwise stated*)

	Note	as at 30 June 2012 (unaudited)	as at 31 December 2011 (audited)	as at 30 June 2011 (unaudited)
Assets				
Non-current assets				
Property, plant and equipment	11	53,352,228	47,410,902	32,799,401
Intangible assets	12	955,313	972,828	916,710
Other financial assets	13	-	4,673,451	4,623,822
Deferred tax assets		697,193	667,157	336,685
		55,004,734	**53,724,338**	**38,676,618**
Current assets				
Inventories	15	32,591,055	24,225,258	20,148,464
Trade and other receivables	16	19,920,146	16,082,996	4,436,880
Prepayments and deferred expenses	17	8,695,444	7,298,772	17,971,519
Income tax prepayment		28,831	-	3,136
Other financial assets	13	1,915,188	-	-
Cash and cash equivalents		6,689,533	1,204,740	14,223,543
		69,840,197	**48,811,766**	**56,783,542**
Total assets		**124,844,931**	**102,536,104**	**95,460,160**
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		35,628,526	32,205,067	29,037,366
Revaluation reserve		17,003,659	17,622,143	18,262,776
Effect of foreign currency translation		(9,585,339)	(9,229,006)	(8,890,965)
Equity attributable to the parent		71,943,309	69,495,988	66,936,793
Non-controlling interest		60,296	58,975	429,143
		72,003,605	**69,554,963**	**67,365,936**
Non-current liabilities				
Loans and borrowings	14	35,531,308	17,904,938	206,635
Employee benefit liability		1,389,459	1,575,556	2,083,553
Provisions		1,245,118	1,139,846	902,276
Deferred tax liability		2,489,619	3,122,724	3,883,599
		40,655,504	**23,743,064**	**7,076,063**
Current liabilities				
Trade and other payables	18	7,117,907	8,271,121	4,614,218
Loans and borrowings	14	4,784,335	695,867	16,300,517
Provisions		247,584	211,795	43,547
Income tax payable		35,996	59,294	59,879
		12,185,822	**9,238,077**	**21,018,161**
		52,841,326	**32,981,141**	**28,094,224**
Total equity and liabilities		**124,844,931**	**102,536,104**	**95,460,160**

Notes on pages 21 - 54 are the integral part of these condensed consolidated financial statements

Director A CEO, MC Group Sadovaya LLC

Condensed consolidated statement of changes in equity
for the 6-month period ended 30 June 2012 (*in US Dollars unless otherwise stated*)

	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	-	-	2,804,975	-	-	**2,804,975**
Other comprehensive income	-	-	-	-	(356,333)	**(356,333)**
Depreciation transfer	-	-	618,484	(618,484)	-	-
Total comprehensive income	**-**	**-**	**3,423,459**	**(618,484)**	**(356,333)**	**2,448,642**
As at 30 June 2012	**430,857**	**28,525,902**	**35,628,526**	**17,003,659**	**(9,585,339)**	**72,003,605**

Notes on pages 21 - 54 are the integral part of these condensed consolidated financial statements

Director A

CEO, MC Group Sadovaya LLC

Condensed consolidated statement of cash flows
for the 6-month period ended 30 June 2012, 2011 (*in US Dollars unless otherwise stated*)

	6 months ended 30 June 2012 (unaudited)	6 months ended 30 June 2011 (unaudited)
Operating activities		
Profit before tax	2,313,265	8,047,309
Non-cash adjustment to reconcile profit before tax to net cash flows:		
Depreciation and amortization	2,085,276	1,954,537
Loss on disposal of property, plant and equipment and intangible assets	160,371	-
Impairment of receivables	11,180	(14,500)
Shortages and losses from impairment of inventory	57,810	77,913
Unrealised currency exchange differences	29,693	(479,176)
Finance expenses	1,504,030	1,262,195
Finance income	(1,051,122)	(682,023)
Movements in provisions, pensions	(110,499)	(44,291)
Working capital adjustments:		
Movements in provisions, pensions (cash part)	(37,987)	-
Increase in trade and other receivables and prepayments	(1,475,927)	(9,018,692)
Increase in inventories	(8,435,348)	(4,209,175)
Decrease in trade and other payables	(1,527,659)	(8,202,181)
Cash used in operations	**(6,476,917)**	**(11,308,084)**
Interest received	33,211	1,464
Income tax paid	(193,171)	(214,659)
Net cash flows used in operating activities	**(6,636,877)**	**(11,521,279)**
Investing activities		
Proceeds from sale of property, plant, equipment and intangible asset	1,360	-
Purchase of property, plant, equipment and intangible asset	(8,189,761)	(5,062,052)
Net cash flows used in investing activities	**(8,188,401)**	**(5,062,052)**
Financing activities		
Proceeds from borrowings	23,689,642	207,016
Repayment of borrowings	(2,006,055)	(586,010)
Interest paid	(1,399,671)	(1,295,156)
Net cash flows from/(used in) financing activities	**20,283,916**	**(1,674,150)**
Net increase/(decrease) in cash and cash equivalents	**5,458,638**	**(18,257,481)**
Net foreign exchange difference	26,155	29,009
Cash and cash equivalents at 1 January	**1,204,740**	**32,452,015**
Cash and cash equivalents at 30 June	**6,689,533**	**14,223,543**

Notes on pages 21 - 54 are the integral part of these condensed consolidated financial statements

Director A CEO, MC Group Sadovaya LLC

Notes to the Condensed consolidated financial statements

1. General information

SADOVAYA GROUP S.A. and its subsidiaries (the Parent or "SADOVAYA GROUP S.A."), a public limited company registered under the laws of Luxembourg, was formed on 31 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 L-1331 Luxembourg, 65, boulevard Grande-Duchesse Charlotte.

The financial year begins on January 1 of each year and terminates on December 31 of each year. The Sadovaya Group S.A. ("the Group") 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 or at its registered office.

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

Group's Company	Country of incorporation	Kind of activity
Sadovaya Group S.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. Oleksandr 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 Condensed consolidated financial statement for 6-month period ended 30 June 2012 of Sadovaya Group S.A. to the Warsaw Stock Exchange.

The Condensed consolidated financial statement for 6-month period ended 30 June 2012 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 resulting from 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 6 months ended 30 June 2012	30 June 2012	Average for the 6 months ended 30 June 2011	30 June2011
7,99	7,99	7,96	7,97

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 f oreign 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 s eparate 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 the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

v) Fair value of financial instruments

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

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

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

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 s eparate 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 a group basis and are not allocated to operating segments.

Assets and liabilities include items connected with these segments and which can be reasonably allocated. Management of the Group determined such operating segments:

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

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

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

Period ended 30 June 2012	**Trade activities**	**Mining and coal cleaning**	**Processing of waste dumps**	**Others**	**Adjustments and eliminations**	**Total**
Revenue						
External customer	978,062	26,186,855	181,745	8,384	-	**27,355,046**
Inter-segment				641,037	(641,037)	-
Revenue-total	**978,062**	**26,186,855**	**181,745**	**649,421**	**(641,037)**	**27,355,046**
Financial results						
Depreciation and amortization	-	(1,861,797)	(44,753)	(50,178)	(128,545)	**(2,085,273)**
Segment profit	**(2,588)**	**6,320,111**	**173,951**	**-**	**(4,178,209)**	**2,313,265**
Operating assets	**419,226**	**70,857,583**	**22,361,295**	**1,955,936**	**29,250,891**	**124,844,931**
Operating liabilities	**-**	**2,871,730**	**354,313**	**-**	**49,615,283**	**52,841,326**
Other disclosures						
Capital expenditure	-	4,778,552	3,391,028	12,246	-	**8,181,826**

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include finance income (1,054,610), finance expenses (1,504,050), selling and distribution expenses (1,406,472), administrative expenses (1,884,269), non-operating foreign currency translation loss (36,809) and other expenses (401,219).

3. Segment assets do n ot include cash and cash equivalents (6,689,533), other financial assets (1,915,188), deferred tax assets (697,193), trade and other receivables (19,920,146), as these assets are managed on a group basis.

4. Segment liabilities do not include income tax payable (35,996), loans and borrowings (40,315,643), trade and other payables (6,774,025), deferred tax liabilities (2,489,619), 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 n ot 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.

Period ended 30 June 2011	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	686,621	42,256,004	411,539	20,496	-	**43,374,660**
Inter-segment				1,053,600	(1,053,600)	-
Revenue-total	**686,621**	**42,256,004**	**411,539**	**1,074,096**	**(1,053,600)**	**43,374,660**
Financial results						
Depreciation and amortization	-	(1,683,867)	(38,936)	(121,764)	(109,971)	**(1,954,538)**
Segment profit	**(3,159,751)**	**12,783,344**	**312,765**	**20,496**	**(1,909,545)**	**8,047,309**
Operating assets	**706,119**	**62,329,484**	**8,156,174**	**644,317**	**23,624,066**	**95,460,160**
Operating liabilities	**-**	**3,029,376**	**-**	**-**	**25,064,848**	**28,094,224**
Other disclosures						
Capital expenditure	-	5,035,053	26,999	-	-	**5,062,052**

1. Inter-segment revenues are eliminated on consolidation.

2. Profit for each operating segment does not include finance income (1,463), finance expenses (581,635), selling and distribution expenses (217,422), administrative expenses (1,185,285), and other income/(expenses), net (405,842).

3. Segment assets do not include cash and cash equivalents (14,223,543), other financial assets (4,623,822), prepayments (16,857,110), deferred tax assets (336,685), trade and other receivables (4,436,880), as these assets are managed on a group basis.

4. Segment liabilities do not include income tax payable (59,879), loans and borrowings (16,507,152), trade and other payables (4,614,218), deferred tax liabilities (3,883,599), 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

	6 months ended 30 June 2012	2011	6 months ended 30 June 2011
Ukraine	26,072,390	84,407,865	41,080,878
Export	1,282,656	5,677,679	2,293,782
	27,355,046	**90,085,544**	**43,374,660**

5. Revenue

	6 months ended 30 June 2012	6 months ended 30 June 2011
Revenue from sales of finished goods	26,368,600	42,667,543
Revenue from sales of merchandise	978,062	686,621
Revenue from rendering of services	8,384	10,606
Revenue from lease	-	9,890
	27,355,046	**43,374,660**

6. Cost of sales

	6 months ended 30 June 2012	6 months ended 30 June 2011
Change in finished goods and work-in-progress	1,723,893	1,105,883
Raw materials	(13,643,116)	(25,434,859)
Wages and salaries of operating personnel	(4,447,446)	(4,326,847)
Depreciation of non-current assets	(1,702,243)	(1,610,096)
Energy supply	(1,331,987)	(1,079,490)
Held for resale merchandise	(980,650)	(454,428)
Subcontractors services	(302,404)	(1,412,955)
Taxes and obligatory payments	(122,086)	(82,880)
Repair and current maintenance	(57,533)	(122,134)
	(20,863,572)	**(33,417,806)**

7. General and administrative expenses

	6 months ended 30 June 2012	6 months ended 30 June 2011
Professional services	(850,191)	(438,996)
Wages and salaries of administrative personnel	(555,877)	(435,470)
Insurance	(266,187)	-

Utilities	(85,911)	(53,281)
Other expenses	(67,025)	(39,785)
Depreciation of non-current assets	(34,524)	(25,585)
Tax other than income tax	(24,554)	(180,326)
Cost of transportation	-	(11,842)
	(1,884,269)	**(1,185,285)**

8. Selling and distribution expenses

	6 months ended 30 June 2012	6 months ended 30 June 2011
Delivery costs	(415,720)	(86,045)
Raw materials	(361,108)	(50)
Cargo insurance	(219,040)	-
Repair and current maintenance	(170,753)	(2,299)
Depreciation of non-current assets	(132,722)	(88,622)
Wages and salaries of distribution personnel	(90,993)	(12,188)
Other expenses	(16,136)	(28,218)
	(1,406,472)	**(217,422)**

9. Finance income

	6 months ended 30 June 2012	6 months ended 30 June 2011
Income from borrowings and receivables at amortized cost	1,021,379	680,560
Interest received	33,231	1,463
	1,054,610	**682,023**

10. Finance expenses

	6 months ended 30 June 2012	6 months ended 30 June 2011
Interest expenses	(1,150,722)	(1,084,105)
Borrowing costs	(248,972)	(61,048)
Effect of provision discounting	(104,356)	(117,042)
	(1,504,050)	**(1,262,195)**

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	890,803	491,293	67,411	4,749	228,501	6,499,069	8,181,826
Disposals	-	(73,080)	(8,591)	-	(217,905)	-	(299,576)
Effect of translation into presentation currency	(7,251)	475	(1,052)	(44)	(46)	49,987	42,069
As at 30 June 2012	**35,991,669**	**16,064,444**	**3,093,258**	**131,034**	**130,640**	**17,800,944**	**73,211,989**
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	(1,105,373)	(765,338)	(169,340)	(9,470)	(12,019)	-	(2,061,540)
Disposals	-	63,817	8,218	-	150	-	72,185
Effect of translation into presentation currency	3,535	2,505	286	26	10	-	6,362
As at 30 June 2012	**(10,717,094)**	**(8,242,541)**	**(799,703)**	**(74,446)**	**(25,977)**	**-**	**(19,859,761)**

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 30 June 2012	**25,274,575**	**7,821,903**	**2,293,555**	**56,588**	**104,663**	**17,800,944**	**53,352,228**

As at 30 June 2012, bank loans were secured by property, plant and equipment with carrying amount of USD 24,028,619 (as at 31 December 2011 - USD 25,146,491).

Carrying amount of temporarily idle capacity as at 30 June 2012 was USD 1,723,631 (as at 31 December 2011 – USD 2,049,182).

As at 30 June 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 30 June 2012							
Cost	12,130,260	9,436,718	3,057,927	120,130	137,313	17,262,659	**42,145,007**
Accumulated depreciation	(4,048,110)	(3,666,499)	(683,378)	(61,888)	(29,165)	-	**(8,489,040)**
Net carrying amount							
As at 31 December 2011	**7,834,894**	**5,758,365**	**2,385,998**	**59,521**	**108,517**	**11,251,888**	**27,399,183**
As at 30 June 2012	**8,082,150**	**5,770,219**	**2,374,549**	**58,242**	**108,148**	**17,262,659**	**33,655,967**

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	-	7,895	-	**7,895**
Disposals	(295)	(353)	(135)	**(783)**
Transfer from expenses on acquisition of IA	-	-	-	**-**
Effect of translation into presentation currency	(17)	(802)	(144)	**(963)**
As at 30 June 2012	**50,450**	**968,694**	**111,766**	**1,130,910**
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	(6,273)	(17,460)	-	**(23,733)**
Effect of translation into presentation currency	7	62	-	**69**
As at 30 June 2012	**(18,676)**	**(156,921)**	**-**	**(175,597)**
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 30 June 2012	**31,774**	**811,773**	**111,766**	**955,313**

Intangible assets of "Shahta "Sadovaya" LTD as at 30 June 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 30 June 2012 equals to USD 100,348 (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 30 June 2012 equals to USD 405,432 (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"LTD. Carrying amount of this permission as at 30 June 2012 equals to USD 238,369 (as at 31 December 2011 equals to USD 261,429).

The Group has no intangible assets with indefinite useful life.

13. Other financial assets

	at 30/06/2012	at 31/12/2011	at 30/06/2011
Receivables acquired under factoring contract	-	1,604,012	1,842,776
Long term receivables	-	3,069,439	2,781,046
Total non-current	**-**	**4,673,451**	**4,623,822**
Receivables acquired under factoring contract	1,915,188	-	-
Total current	**1,915,188**	**-**	**-**

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 agreements with State entity "Shakhtarskantracit", State entity "Donbassantracit" and State OJSC "Shakhta Rassvet". According to The Law of Ukraine "On measures aimed at safeguarding the stable functioning of the fuel and energy complex enterprises" №2711-IV dated 23.06.05 is effective, which relieves fuel and energy complex enterprises from discharge of obligations up to 01 January 2013.
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 30/06/2012		at 31/12/2011		at 30/06/2011	
	Currency	Interest rate, %	Residual debt	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	UAH	-	-	-	-	12%	8,643,252
Loan 2	UAH	-	-	-	-	12%	7,657,265
Loan 3	UAH	3M LIBOR+6.5%	18,000,000	-	-	-	-
Loan 4	USD	1M LIBOR+8.5%	21,815,485	1M LIBOR+8.5%	17,996,747	-	-
Loan 5	UAH	16%	441,862	16%	435,364	-	-
Loan 6	UAH	18%	37,475	18%	168,694	18%	206,635
Promissory notes	UAH		20,821		-	-	-
			40,315,643		**18,600,805**		**16,507,152**
Short-term			3,083,024		695,868		16,300,517
Long-term			37,232,619		17,904,937		206,635

Loan 1

Loan was received in July 2009 in SB "Credit-Dnepr". The borrower is "Shahta Sadovaya" LTD. Initially, maturity date was 05 September 2010, in 2009 it was prolonged to 5 October 2010 and in year 2010 it was prolongated to 1 April 2011.
This loan was refinanced by funds received form OTP bank under Agreement CR 11-321/28-2 dated 09/12/2011.

Loan 2

Loan was received in October 2009 in SB "Credit-Dnepr". The borrower is "Shahta Rassvet-1" LTD. Initially, maturity date was 01 March 2010 then prolongated to 1 April 2011.
This loan was refinanced by funds received form OTP bank under Agreement CR 11-321/28-2 dated 09/12/2011.

Loan 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" LTD. Maturity date is 28 December 2018. On February 15, 2012, the Parent Company entered into a Deed of guarantee and indemnity in order to secure the loan concluded between the group company Production Company Interdon LLC and the European Bank for Reconstruction and Development (EBRD) for an amount of USD 36,000,000. Pursuant to the share pledge agreement as of February 15, 2012, the main shareholder of the Company, Connektico Ventures Ltd, has pledged 17.50% of its shares held in the Company in favor of EBRD.

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

Loan 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 30/06/2012	at 31/12/2011	at 30/06/2012
Raw materials	27,296,286	19,998,886	12,842,237
Finished goods	4,254,492	3,534,402	5,573,794
Other inventories	437,613	79,092	883,091
Merchandise	419,226	441,985	706,119
Spare parts	183,438	170,893	143,175
Work in progress	-	-	48
	32,591,055	**24,225,258**	**20,148,464**

16. Trade and other receivables

	at 30/06/2012	at 31/12/2011	at 30/06/2011
Trade receivables	17,136,463	14,821,350	3,300,551
Provision for impairment of trade receivables	(112,112)	(93,501)	(44,787)
VAT recoverable	2,786,612	1,269,878	1,159,675
Other receivables	98,878	71,371	7,185
Prepayments for other taxes	10,305	13,898	14,256
	19,920,146	**16,082,996**	**4,436,880**

17. Prepayments and deferred expenses

	at 30/06/2012	at 31/12/2011	at 30/06/2011
Prepayments to suppliers	8,084,373	6,706,839	16,893,309
Provisions for impairment of prepayments	(42,315)	(82,031)	(36,199)
Deferred expenses	653,386	673,964	1,114,409
Total current	**8,695,444**	**7,298,772**	**17,971,519**

18. Trade and other payables

	at 30/06/2012	at 31/12/2011	at 30/06/2011
Trade payables	4,354,655	5,767,150	2,148,625
Accrued salaries, wages and related taxes	847,631	909,554	718,144
Provision for unused vacations	982,466	1,062,921	842,285
Accounts payable for other taxes	77,264	212,201	344,685
Advances from customers	302,874	71,326	139,591
Current portion of non-current liabilities on defined benefit plan	215,178	107,625	136,273
Accrued interest	139,869	47,952	160,098
Other current liabilities	197,970	92,392	124,517
	7,117,907	**8,271,121**	**4,614,218**

19. Related party transactions

	6 month period ended 30/06/2012	Year ended 31/12/2011	6 month period ended 30/06/2011
Purchase of goods and services	**547,938**	**185,635**	**87,299**
Revenues from goods and services	**35,179**	**356,452**	**326,502**
	as at 30/06/2012	**as at 31/12/2011**	**as at 30/06/2011**
Accounts payable	**580,525**	**237,969**	**10,697**
Accounts receivable	**498,037**	**445,758**	**90,932**

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 liabilities to related parties

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

Proceeds from goods and services and liabilities of related parties

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

Remunerations of top management:

	6 month period ended 30/06/2012	Year ended 31/12/2011	6 month period ended 30/06/2011
Wages and salaries	247,690	515,379	20,599
Social security contributions and similar taxes	9,754	11,509	9,302
	257,444	**526,888**	**29,901**

20. Events after the reporting date

On 15 August 2012 the new longwall on l_6 coal-seam, Rassvet-1 mine was successfully put into operation in the test mode. The Group expects the longwall to operate at full capacity since November 2012 with monthly coal output of up to 14,000 tonnes. Coal reserves at the longwall comprise 269 ths. tonnes, which is sufficient for 19 months of operation in full mode; seam thickness is about 1.0 m. Launching of the longwall is part of Sadovaya Group announced development plan.

In August 2012, the Group subsidiary “PC Interdon” LLC purchased 800 cbm of inventories (waste coal) for total amount of 15,482,880 UAH (1,937,176 USD).

21. Approval of the financial statements

The Condensed Consolidated Financial Statements of the Group for the 6-month period ended 30 June 2012 were approved for issue and signed on behalf of the Management Board on 29 August 2012.