



# Sadovaya Group



## QUARTERLY REPORT

### 1Q 2013



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3. Condensed consolidated financial statements for the 3-month period ended 31 March 2013
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”).

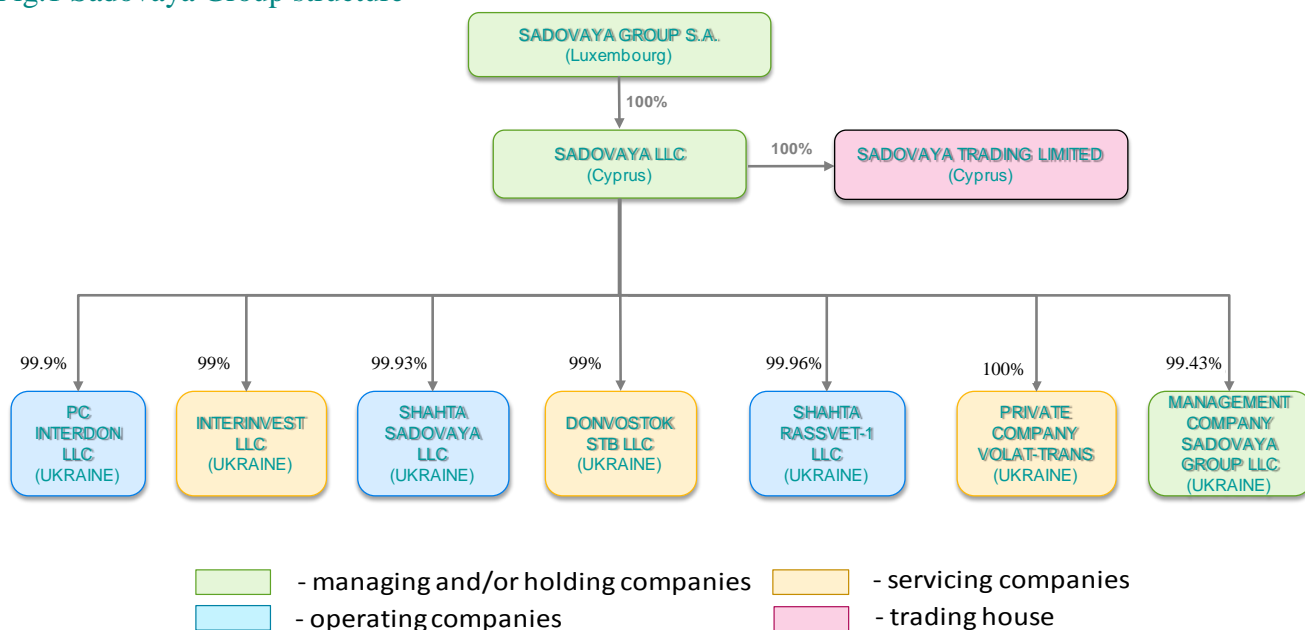
The Group comprises of operating, holding, servicing and trading companies (Fig.1).

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

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

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

Fig.1 Sadovaya Group structure



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



## Coal mining

The coal extraction at the mines was stopped on 15.10.2012 due to decrease of the demand for coal products.

## Waste recovery

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

PC Interdon LLC, engaged into waste recovery business, produced about 5 ths. t of coal from waste deposits in 1Q 2013. As of 26 April 2013, Modular enrichment complex “Vahrushevsky” constructed near Vakhrushevo town, Luhansk region was put into operation.

## 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.

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

In the nearest future we expect the price stabilization on the coal market and hope for increase in coal demand.



## Highlights of 1Q 2013

In March 2013, PC Interdon LLC, the Group subsidiary, fulfilled its current financial obligation towards the EBRD timely and in full. Shakhta Sadova LLC and Shahta Rassvet-1 LLC have settled the payments of financial interests related to loans with PJSC Otp in part. Under Additional Agreement with PJSC Otp Bank dated 29 March 2013, the payment terms for the principal amount related to the Loan 2 was prolonged to 30 April 2013, the loan 6 – to 31 May 2013. The Group is under further negotiations with the bank concerning the prolongation of principal amounts and interest payments.

In March 2013, Modular enrichment complex “Vahrushevsky” follows the formal process of registration and putting into operation. Sadovaya mine and Rassvet-1 mine continue working in sustaining mode to maintain safety conditions of underground mining.

PC Interdon LLC produced about 5 ths. t of coal from waste deposits in 1Q 2013.

## Review of financial results of 1Q 2013

**Revenue.** Total revenue reached USD 287 thousand for the 1Q 2013, revealing 98% decrease comparing to 1Q 2012 driven by substantial drop in sales volumes. For information on sales segmentation please refer to Note 4 of the condensed consolidated financial statements.

**Cost of sales.** Cost of sales decreased from USD 12,456 thousand in 1Q 2012 to USD 659 thousand in 1Q 2013, a 95% decrease.

Please refer to Figures 2,3 for the main cost components.

Fig.2 COS structure in 1Q 2013

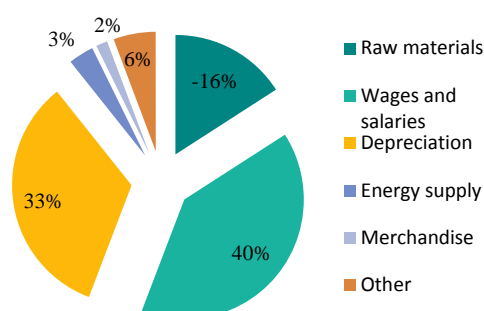
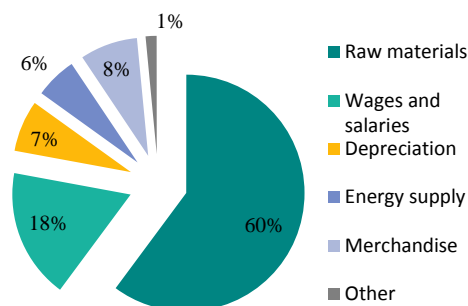


Fig.3 COS structure in 1Q 2012



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

**Gross profit.** Gross profit decreased from USD 2.1 million in 1Q 2012 to loss of USD 371 thousand in 1Q 2013.

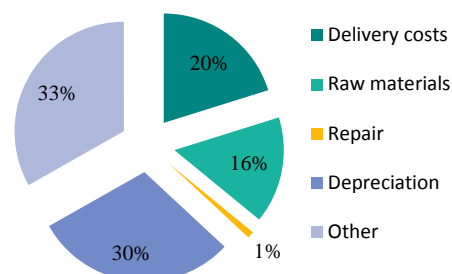
In 1Q2013, the coal market remained slow with coal demand and coal prices falling on the back of weak coal consumption by Ukrainian electricity generation industry.

### Operating expenses

The Group has implemented series of cost optimization actions to improve financial performance.

**Distribution costs** decreased from USD 890 ths. in 1Q 2012 to USD 21 ths. 1Q 2013, a 98% decrease. For detailed information about delivery costs structure please refer to Note 7 of the condensed consolidated financial statements.

Fig.4 Selling and distribution expenses



*General and administrative expenses* decreased from USD 1,036 ths in 1Q 2012 to USD 288 ths. 1Q 2013, a 72% year-on-year decrease. For detailed information about general and administrative expenses structure please refer to Note 8 of the condensed consolidated financial statements.

*Cost of idle capacity* totaled USD 2,819 ths. in 1Q 2013, comparing to USD 135 ths. in 1Q 2012.

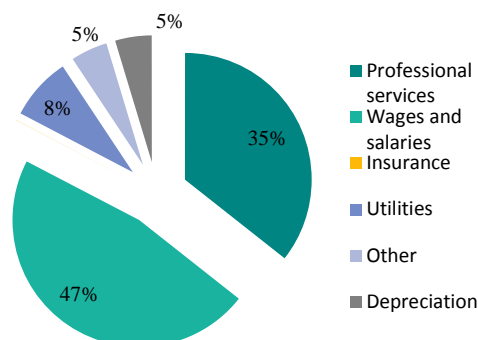
### *Finance income and expenses*

*Finance expenses* increased from USD 569 ths. in 1Q 2012 to USD 839 ths. in 1Q 2013, 47% increase comparing to 1Q 2012. The increase is explained by changes in the Group's loan portfolio balance from USD 33.8 million to USD 41.8 million.

*Finance income* decreased from USD 941 ths. in 1Q 2012 to USD 144 ths. in 1Q 2013. The decrease was affected by interest income from long-term receivables.

For additional information on Group's finance income and expenses please refer to Notes 10-11 of the condensed consolidated financial statements.

Fig.5 General and administrative expenses





## Cash flow and financial ratios

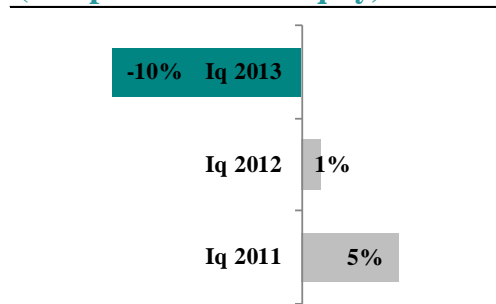
Cash inflows from operations in 1Q 2013 was USD 1.8 million. The positive cash flow from operations reflects the substantial discharge of trade receivables.

Cash used in financial activities was USD 1.870 ths. in 1Q 2013, reflecting the repayments of borrowings and payments of interests.

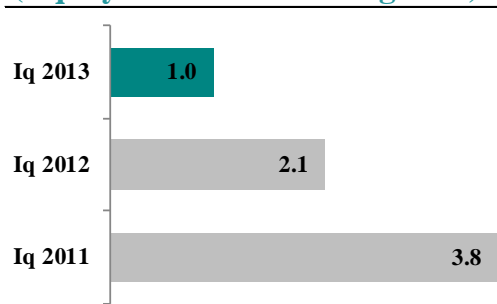
For detailed information please see the condensed consolidated statement of cash flows.

Fig.6 Basic financial ratios

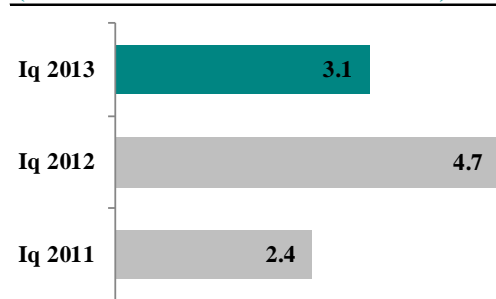
### ROE (Net profit to total equity)



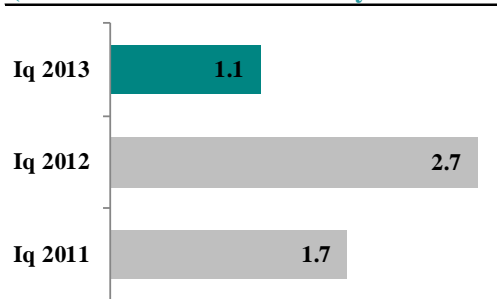
### Gearing Ratio (Equity to interest-bearing debt)



### Current ratio (Current assets to current liabilities)



### Quick ratio (Current assets less inventory to current liabilities)



## Events after the end of the reporting period

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

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

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



## Management Statement

This statement is provided to confirm that to the best of our knowledge the Condensed consolidated financial statements for the 3 month period ended 31 March 2013 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**

A handwritten signature in black ink, appearing to be 'A. Tolstoukhov', written over a horizontal line.

**Alexander Tolstoukhov,**

**Director A**

Luxembourg,

15 May 2013



Sadovaya Group S.A.  
Condensed Consolidated Financial  
Statements  
*for the 3-month period ended 31 March 2013*



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**Condensed consolidated income statement**for the 3-month period ended 31 March 2013 and 2012 (*all amounts are in US Dollars*)

|  | <b>Note</b> | <b>3 months ended<br/>31 March 2013<br/>(unaudited)</b> | <b>3 months ended<br/>31 March 2012<br/>(unaudited)</b> |
|--|-------------|---|---|
| Revenue  | 5           | 287,489   | 14,586,653  |
| Cost of sales  | 6           | (658,629)   | (12,456,323)  |
| <b>Gross profit/ (loss)</b>                            |             | <b>(371,140)</b>  | <b>2,130,330</b>  |
| Selling and distribution expenses                      | 7           | (21,103)  | (889,659)   |
| General administrative expenses                        | 8           | (288,432)   | (1,036,278)   |
| Cost of idle capacity                                  |             | (2,819,378)   | (135,072)   |
| Other income/(expenses), net                           | 9           | (323,459)   | 8,150   |
| <b>Operating profit/ (loss)</b>                        |             | <b>(3,823,512)</b>                                      | <b>77,471</b>   |
| Finance expenses                                       | 11          | (839,069)   | (569,073)   |
| Finance income   | 10          | 143,927   | 941,059   |
| Non-operating foreign currency translation gain/(loss) |             | (30,259)  | 4,601   |
| <b>Profit/ (loss) before tax</b>                       |             | <b>(4,548,913)</b>                                      | <b>454,058</b>  |
| Income tax (expense)/benefit                           |             | 207,565   | 292,331   |
| <b>Profit/ (loss) for the period</b>                   |             | <b>(4,341,348)</b>                                      | <b>746,389</b>  |
| Weighted average number of ordinary shares             |             | 43,085,693  | 43,085,693  |
| <b>Earnings per share</b>                              |             | <b>(0.10)</b>   | <b>0.02</b>   |

**Condensed consolidated statement of comprehensive income**for the 3-month period ended 31 March 2012 and 2011 (*all amounts are in US Dollars*)

|  | <b>3 months ended<br/>31 March 2013<br/>(unaudited)</b> | <b>3 months ended<br/>31 March 2012<br/>(unaudited)</b> |
|--|---|---|
| <b>Profit/ (loss) for the period</b>                         | <b>(4,341,348)</b>                                      | <b>746,389</b>  |
| <i>Other comprehensive income/(expenses)</i>                 |   |   |
| Exchange differences on translation in presentation currency | (116,832)   | (332,658)   |
| <b>Other comprehensive income/(expenses) for the period</b>  | <b>(116,832)</b>  | <b>(332,658)</b>  |
| <b>Total comprehensive income/(expenses) for the period</b>  | <b>(4,458,180)</b>                                      | <b>413,731</b>  |
| <b>Profit/loss attributable to:</b>                          |   |   |
| Equity holders of the parent                                 | (4,340,187)   | 746,133   |
| Non-controlling interests                                    | (1,161)   | 256   |
| <b>Other comprehensive income/expenses attributable to:</b>  |   |   |
| Equity holders of the parent                                 | (106,964)   | (332,538)   |
| Non-controlling interests                                    | (9,868)   | (120)   |

Notes on pages 18 - 38 are the integral part of these condensed consolidated financial statements

**Condensed consolidated statement of financial position**

as at 31 March 2013, as at 31 March 2012, as at 31 December 2012 (all amounts are in US Dollars)

|  | Note | as at 31 March<br>2013<br>(unaudited) | as at 31<br>December 2012<br>(audited) | as at 31 March<br>2012<br>(unaudited) |
|--|------|---------------------------------------|--|---------------------------------------|
| <b>Assets</b>                          |      |                                       |  |                                       |
| <b>Non-current assets</b>              |      |                                       |  |                                       |
| Property, plant and equipment          | 12   | 43,474,529                            | 44,863,027                             | 48,574,602                            |
| Intangible assets                      | 13   | 912,190                               | 950,513                                | 980,319                               |
| Other financial assets                 | 14   | 2,616,925                             | 2,510,887                              | -                                     |
| Deferred tax assets                    |      | 991,409                               | 1,496,558                              | 682,560                               |
|  |      | <b>47,995,053</b>                     | <b>49,820,985</b>                      | <b>50,237,481</b>                     |
| <b>Current assets</b>                  |      |                                       |  |                                       |
| Inventories                            | 16   | 31,267,770                            | 31,239,835                             | 30,544,491                            |
| Trade and other receivables            | 17   | 9,130,747                             | 11,850,232                             | 23,160,074                            |
| Prepayments and deferred expenses      | 18   | 4,816,424                             | 4,615,268                              | 9,014,753                             |
| Income tax prepayment                  |      | 46,100                                | 124,658                                | -                                     |
| Other financial assets                 | 14   | 2,360,578                             | 2,626,403                              | 2,023,408                             |
| Cash and cash equivalents              |      | 153,272                               | 256,223                                | 6,408,592                             |
|  |      | <b>47,774,891</b>                     | <b>50,712,619</b>                      | <b>71,151,318</b>                     |
| <b>Total assets</b>                    |      | <b>95,769,944</b>                     | <b>100,533,604</b>                     | <b>121,388,799</b>                    |
| <b>Equity and liabilities</b>          |      |                                       |  |                                       |
| <b>Equity</b>                          |      |                                       |  |                                       |
| Share capital                          |      | 430,857                               | 430,857                                | 430,857                               |
| Share premium                          |      | 28,525,902                            | 28,525,902                             | 28,525,902                            |
| Retained earnings                      |      | 15,010,969                            | 18,965,451                             | 33,285,907                            |
| Revaluation reserve                    |      | 7,201,042                             | 7,586,747                              | 17,287,692                            |
| Effect of foreign currency translation |      | (9,327,327)                           | (9,210,495)                            | (9,561,664)                           |
|  |      | <b>41,841,443</b>                     | <b>46,298,462</b>                      | <b>69,910,425</b>                     |
| Equity attributable to the parent      |      | 41,841,443                            | 46,298,462                             | 69,910,425                            |
| Non-controlling interest               |      | 47,630                                | 58,659                                 | 58,269                                |
|  |      | <b>41,889,073</b>                     | <b>46,357,121</b>                      | <b>69,968,694</b>                     |
| <b>Non-current liabilities</b>         |      |                                       |  |                                       |
| Loans and borrowings                   | 15   | 33,690,564                            | 34,251,774                             | 30,692,113                            |
| Employee benefit liability             |      | 3,156,123                             | 2,832,642                              | 1,537,151                             |
| Provisions                             |      | 1,413,324                             | 1,350,690                              | 1,184,862                             |
| Deferred tax liability                 |      | 360,947                               | 1,074,261                              | 2,807,681                             |
|  |      | <b>38,620,958</b>                     | <b>39,509,367</b>                      | <b>36,221,807</b>                     |
| <b>Current liabilities</b>             |      |                                       |  |                                       |
| Trade and other payables               | 19   | 7,070,369                             | 5,879,225                              | 11,907,423                            |
| Loans and borrowings                   | 15   | 8,097,024                             | 8,664,199                              | 3,083,024                             |
| Provisions                             |      | 46,004                                | 118,177                                | 173,749                               |
| Income tax payable                     |      | 46,516                                | 5,515                                  | 34,102                                |
|  |      | <b>15,259,913</b>                     | <b>14,667,116</b>                      | <b>15,198,298</b>                     |
|  |      | <b>53,880,871</b>                     | <b>54,176,483</b>                      | <b>51,420,105</b>                     |
| <b>Total equity and liabilities</b>    |      | <b>95,769,944</b>                     | <b>100,533,604</b>                     | <b>121,388,799</b>                    |

Notes on pages 18 - 38 are the integral part of these condensed consolidated financial statements

**Condensed consolidated statement of changes in equity**for the 3-month period ended 31 March 2013 *(all amounts are in US Dollars)*

|                                   | Share capital  | Share premium     | Retained earnings   | Revaluation reserve | Effect of foreign currency translation | Total               | NCI             | Total equity        |
|-----------------------------------|----------------|-------------------|---------------------|---------------------|--|---------------------|-----------------|---------------------|
| <b>As at 01 January 2012</b>      | <b>430,857</b> | <b>28,525,902</b> | <b>32,193,783</b>   | <b>17,542,036</b>   | <b>(9,196,590)</b>                     | <b>69,495,988</b>   | <b>58,975</b>   | <b>69,554,963</b>   |
| Profit for the period             | -              | -                 | (14,606,223)        | -                   | -                                      | (14,606,223)        | 9,317           | (14,596,906)        |
| Other comprehensive income        | -              | -                 | -                   | (8,577,398)         | (13,905)                               | (8,591,303)         | (9,633)         | (8,600,936)         |
| Depreciation transfer             | -              | -                 | 1,377,891           | (1,377,891)         | -                                      | -                   | -               | -                   |
| <b>Total comprehensive income</b> | <b>-</b>       | <b>-</b>          | <b>(13,228,332)</b> | <b>(9,955,289)</b>  | <b>(13,905)</b>                        | <b>(23,197,526)</b> | <b>(316)</b>    | <b>(23,197,842)</b> |
| <b>As at 31 December 2012</b>     | <b>430,857</b> | <b>28,525,902</b> | <b>18,965,451</b>   | <b>7,586,747</b>    | <b>(9,210,495)</b>                     | <b>46,298,462</b>   | <b>58,659</b>   | <b>46,357,121</b>   |
| Profit for the period             | -              | -                 | (4,340,187)         | -                   | -                                      | (4,340,187)         | (1,161)         | (4,341,348)         |
| Other comprehensive income        | -              | -                 | -                   | -                   | (116,832)                              | (116,832)           | (9,868)         | (126,700)           |
| Depreciation transfer             | -              | -                 | 385,705             | (385,705)           | -                                      | -                   | -               | -                   |
| <b>Total comprehensive income</b> | <b>-</b>       | <b>-</b>          | <b>(3,954,482)</b>  | <b>(385,705)</b>    | <b>(116,832)</b>                       | <b>(4,457,019)</b>  | <b>(11,029)</b> | <b>(4,468,048)</b>  |
| <b>As at 31 March 2013</b>        | <b>430,857</b> | <b>28,525,902</b> | <b>15,010,969</b>   | <b>7,201,042</b>    | <b>(9,327,327)</b>                     | <b>41,841,443</b>   | <b>47,630</b>   | <b>41,889,073</b>   |

Notes on pages 18-38 are the integral part of these condensed consolidated financial statements

## Condensed consolidated statement of cash flows

for the 3-month period ended 31 March 2013, 2012 (*all amounts are in US Dollars*)

|  | 3 months<br>ended 31<br>March 2013<br>(unaudited) | 3 months<br>ended 31<br>March 2012<br>(unaudited) |
|--|---|---|
| <b>Operating activities</b>  |   |   |
| Loss before tax  | (4,548,913)                                       | 454,058   |
| <i>Non-cash adjustment to reconcile profit before tax to net cash flows:</i> |   |   |
| Depreciation and amortization  | 1,760,378   | 1,044,122   |
| Loss on disposal of property, plant and equipment and intangible assets      | 1,164   | 7,028   |
| Impairment of financial assets   | 309,334   | 40,592  |
| Currency exchange differences  | (24,564)  | (337,294)   |
| Finance expenses   | 839,069   | 569,073   |
| Finance income   | (143,927)   | (941,059)   |
| Movements in provisions, pensions  | 278,983   | 107,100   |
| <i>Working capital adjustments:</i>  |   |   |
| Movements in provisions, pensions (cash part)                                | (26,878)  | (75,983)  |
| Decrease/(Increase) in trade and other receivables and prepayments           | 2,269,460   | (5,231,128)                                       |
| Increase in inventories  | (27,936)  | (6,308,820)                                       |
| Increase in trade and other payables   | 1,117,435   | 3,861,443   |
| <b>Cash used in operations</b>   | <b>1,803,605</b>                                  | <b>(6,810,868)</b>                                |
| Interest received  | 37,660  | 536   |
| Income tax paid  | (13,428)  | (63,712)  |
| <b>Net cash flows used in operating activities</b>                           | <b>1,827,837</b>                                  | <b>(6,874,044)</b>                                |
| <b>Investing activities</b>  |   |   |
| Purchase of property, plant, equipment and intangible asset                  | (332,991)   | (2,913,715)                                       |
| Proceeds from financial assets   | 265,825   | -   |
| <b>Net cash flows used in investing activities</b>                           | <b>(67,166)</b>                                   | <b>(2,913,715)</b>                                |
| <b>Financing activities</b>  |   |   |
| Proceeds from borrowings   | 843,799   | 16,190,992  |
| Repayment of borrowings  | (1,971,608)                                       | (696,014)   |
| Interest paid  | (741,734)   | (525,059)   |
| <b>Net cash flows from/(used in) financing activities</b>                    | <b>(1,869,543)</b>                                | <b>14,969,919</b>                                 |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                  | <b>(108,872)</b>                                  | <b>5,182,160</b>                                  |
| Net foreign exchange difference  | 5,921   | 21,692  |
| <b>Cash and cash equivalents at 1 January</b>                                | <b>256,223</b>                                    | <b>1,204,740</b>                                  |
| <b>Cash and cash equivalents at 31 March</b>                                 | <b>153,272</b>                                    | <b>6,408,592</b>                                  |

Notes on pages 18-38 are the integral part of these condensed consolidated financial statements

## Notes to the Condensed consolidated financial statements

### 1. General information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## 2.1 Basis of preparation

This report is intended solely for the purpose of performing and provision the Condensed consolidated financial statement for 3-month period ended 31 March 2013 of Sadovaya Group S.A. to the Warsaw Stock Exchange.

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

### Statement of compliance

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

### 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 2013 | 31 March 2013 | Average 2012 | 31 December 2012 |
|--------------|---------------|--------------|------------------|
| 7,99         | 7,99          | 7,99         | 7,99             |

### i) Transactions and balances

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

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

All differences are taken to the income statement.

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

### ii) Translation into presentation currency

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

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

## **b) Revenue recognition**

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

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

### ***Sale of goods***

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

### ***Rendering of services***

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

### ***Interest income***

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

### ***Rental income***

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

## **c) Taxes**

### ***Current income tax***

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

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

### ***Deferred tax***

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

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

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

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

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

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

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

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

### ***Value added tax***

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

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

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

### **d) Property, plant and equipment**

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

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

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

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

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

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

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

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

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

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

### **e) Intangible assets**

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

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

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

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

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

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

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

#### **f) Leases**

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

##### ***Group as a lessee***

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

##### ***Group as a lessor***

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

#### **g) Borrowing costs**

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

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

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

#### **h) Financial instruments – initial recognition and subsequent measurement**

##### ***i) Financial assets***

###### ***Initial recognition and measurement***

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

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

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

###### ***Subsequent measurement***

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

###### ***Loans and receivables***

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

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

#### *Available-for-sale financial investments*

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

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

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

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

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

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

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

#### *Derecognition*

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

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

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

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

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

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

## **ii) Financial liabilities**

#### *Initial recognition and measurement*

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

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

#### *Subsequent measurement*

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



### *Loans and borrowings*

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

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

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

### *Derecognition*

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

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

### **iii) Impairment of financial assets**

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

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

#### *Financial assets carried at amortised cost*

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

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement in other operating expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in other operating expenses in the income statement. In year 2012, the impairment loss is recognised as separate item that does not alter previous year results.

#### *Available-for-sale financial investments*

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

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

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

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

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

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

#### ***iv) Offsetting of financial instruments***

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

#### ***v) Fair value of financial instruments***

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

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

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

#### ***i) Advance payments***

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

#### ***j) Inventories***

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

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

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The writing-off of inventories is reflected on FIFO basis.

#### ***l) Impairment of non-financial assets***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

#### **m) Obligations on employee benefits**

##### *i) Defined contribution plans*

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

##### *ii) Defined benefit plans*

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

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

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

#### **n) Cash and cash equivalents**

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

#### **o) Accounts payable**

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

#### **p) Provisions**

##### *General*

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

##### *Land restoration and abandoning of mines*

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

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

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

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

### **3. Significant accounting judgments, estimates and assumptions**

#### **Estimates and assumptions**

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

#### **Revaluation of property, plant and equipment**

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

#### **Impairment of non-financial assets**

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

#### **Net realisable value of inventories**

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

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

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

#### **Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective 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. As at 31 December 2012 the Group estimated 16% income tax rate for the purpose of deferred tax determination relates to property plant and equipment.

#### **Pension benefits**

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

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

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

#### **Fair value of financial instruments**

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

### **4. 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.

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



| Year ended 31 March 2013      | Trade activities | Mining and coal cleaning | Processing of waste dumps | Others         | Adjustments and eliminations | Total              |
|-------------------------------|------------------|--------------------------|---------------------------|----------------|------------------------------|--------------------|
| <b>Revenue</b>                |                  |                          |                           |                |                              |                    |
| External customer             | -                | 239,437                  | 32,735                    | 15,317         | -                            | <b>287,489</b>     |
| Inter-segment                 | -                | -                        | -                         | 37,048         | (37,048)                     | -                  |
| <b>Revenue-total</b>          | <b>-</b>         | <b>239,437</b>           | <b>32,735</b>             | <b>52,365</b>  | <b>(37,048)</b>              | <b>287,489</b>     |
| <b>Financial results</b>      |                  |                          |                           |                |                              |                    |
| Depreciation and amortization | -                | (1,591,258)              | (165,946)                 | (3,172)        | -                            | <b>(1,760,376)</b> |
| <b>Segment loss</b>           | <b>-</b>         | <b>(363,810)</b>         | <b>(7,330)</b>            | <b>-</b>       | <b>(4,177,773)</b>           | <b>(4,548,913)</b> |
| <b>Operating assets</b>       | <b>126,030</b>   | <b>53,602,115</b>        | <b>25,807,238</b>         | <b>935,530</b> | <b>15,299,031</b>            | <b>95,769,944</b>  |
| <b>Operating liabilities</b>  | <b>-</b>         | <b>4,604,428</b>         | <b>11,023</b>             | <b>-</b>       | <b>49,265,420</b>            | <b>53,880,871</b>  |
| <b>Other disclosures</b>      |                  |                          |                           |                |                              |                    |
| Capital expenditure           | -                | 98,409                   | 264,233                   | -              | -                            | <b>362,642</b>     |

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include finance income 143,927, finance expenses (839,069), selling and distribution expenses (21,103), administrative expenses (288,432), non-operating foreign currency translation loss (30,259), cost of idle capacity (2,819,378), and other expenses (323,459).
3. Segment assets do not include cash and cash equivalents 153,272, other financial assets 4,977,503, deferred tax assets 991,409, trade and other receivables 9,130,747, and income tax prepayments 46,100, as these assets are managed on a group basis.
4. Segment liabilities do not include income tax payable (46,516), loans and borrowings (41,787,588), trade and other payables (7,070,369), deferred tax liabilities (360,947), as these assets are managed on a group basis.
5. Capital expenditure consists of additions of property, plant and equipment.

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

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

**Geographic information**

All revenues of the Group are generated in Ukraine.

**5. Revenue**

|                                      | <b>I quarter 2013</b> | <b>I quarter 2012</b> |
|--------------------------------------|-----------------------|-----------------------|
| Revenue from sales of finished goods | 124,814               | 13,428,253            |
| Revenue from sales of merchandise    | 15,317                | 1,150,777             |
| Revenue from rendering of services   | 147,358               | 7,623                 |
|                                      | <b>287,489</b>        | <b>14,586,653</b>     |

**6. Cost of sales**

|   | <b>I quarter 2013</b> | <b>I quarter 2012</b> |
|---|-----------------------|-----------------------|
| Change in finished goods and work-in-progress | 299,660               | 138,524               |
| Raw materials                                 | (146,262)             | (7,631,279)           |
| Wages and salaries of operating personnel     | (385,370)             | (2,210,487)           |
| Depreciation of non-current assets            | (323,342)             | (874,393)             |
| Energy supply                                 | (32,936)              | (709,011)             |
| Held for resale merchandise                   | (15,055)              | (980,757)             |
| Subcontractors services                       | (44,578)              | (79,377)              |
| Taxes and obligatory payments                 | (6,796)               | (39,911)              |
| Repair and current maintenance                | (3,950)               | (69,632)              |
|   | <b>(658,629)</b>      | <b>(12,456,323)</b>   |

**7. Selling and distribution expenses**

|  | <b>I quarter 2013</b> | <b>I quarter 2012</b> |
|--|-----------------------|-----------------------|
| Delivery costs                               | (4,255)               | (323,032)             |
| Raw materials                                | (3,324)               | (286,583)             |
| Repair and current maintenance               | (211)                 | (19,286)              |
| Depreciation of non-current assets           | (6,307)               | (39,238)              |
| Wages and salaries of distribution personnel | (2,043)               | (73,817)              |
| Other expenses                               | (4,963)               | (147,703)             |
|  | <b>(21,103)</b>       | <b>(889,659)</b>      |

**8. General and administrative expenses**

|  | <b>I quarter 2013</b> | <b>I quarter 2012</b> |
|--|-----------------------|-----------------------|
| Professional services                          | (102,779)             | (483,645)             |
| Wages and salaries of administrative personnel | (135,622)             | (278,650)             |
| Insurance                                      | (69)                  | (172,600)             |
| Utilities                                      | (23,049)              | (43,146)              |
| Other expenses                                 | (5,174)               | (27,028)              |
| Depreciation of non-current assets             | (13,459)              | (19,049)              |
| Tax other than income tax                      | (8,280)               | (12,160)              |
|  | <b>(288,432)</b>      | <b>(1,036,278)</b>    |

**9. Other income/(expenses), net**

|   | <b>I quarter 2013</b> | <b>I quarter 2012</b> |
|---|-----------------------|-----------------------|
| Income/(expenses) from sale of foreign currency             | (3,261)               | 43,665                |
| Net income/(expenses) from operational exchange differences | 54,823                | (6,037)               |
| Profit/(loss) from sale of property, plant and equipment    | 44                    | (7,028)               |
| Fines and penalties (accrued)/received                      | (70,266)              | (110,233)             |
| Shortages and losses from impairment of inventories         | -                     | (40,592)              |
| (Impairment of receivables)/reversal of impairment          | (309,334)             | 12,969                |
| Writing-off of non-current assets                           | (1,209)               | (46,060)              |
| Other income/(expenses)                                     | 5,744                 | 161,466               |
|   | <b>(323,459)</b>      | <b>8,150</b>          |

**10. Finance income**

|  | <b>I quarter 2013</b> | <b>I quarter 2012</b> |
|--|-----------------------|-----------------------|
| Income from borrowings and receivables at amortized cost | 106,038               | 940,522               |
| Interest income  | 37,889                | 537                   |
|  | <b>143,927</b>        | <b>941,059</b>        |

**11. Finance expenses**

|                                 | <b>I quarter 2013</b> | <b>I quarter 2012</b> |
|---------------------------------|-----------------------|-----------------------|
| Interest expenses               | (741,954)             | (425,063)             |
| Borrowing costs                 | (35,279)              | (99,997)              |
| Effect of provision discounting | (61,836)              | (44,013)              |
|                                 | <b>(839,069)</b>      | <b>(569,073)</b>      |

**12. Property, plant and equipment**

|  | <b>Land and<br/>Buildings</b> | <b>Machinery</b>   | <b>Vehicles</b>    | <b>Furniture<br/>and<br/>fittings</b> | <b>Other<br/>assets</b> | <b>Constructio<br/>n in-<br/>progress</b> | <b>Total</b>        |
|--|-------------------------------|--------------------|--------------------|---------------------------------------|-------------------------|---|---------------------|
| <i>Cost</i>                                      |                               |                    |                    |                                       |                         |   |                     |
| <b>As at 31 December 2011</b>                    | <b>35,108,117</b>             | <b>15,645,756</b>  | <b>3,035,490</b>   | <b>126,329</b>                        | <b>120,090</b>          | <b>11,251,888</b>                         | <b>65,287,670</b>   |
| Additions  | 8,756,459                     | 2,831,376          | 68,085             | 137,609                               | 83,784                  | 4,705,846                                 | 16,583,160          |
| Disposals  | (34,306)                      | (132,399)          | (9,661)            | -                                     | (75,571)                | -   | (251,937)           |
| Transfers  | 9,145,931                     | 2,266,898          | 10,988             | -                                     | 39,041                  | (11,462,859)                              | -                   |
| Revaluations                                     | (20,608,504)                  | (531,846)          | 773,060            | 12,863                                | (7,546)                 | (1,306,946)                               | (21,668,920)        |
| Effect of translation into presentation currency | (2,438)                       | (477)              | (1,232)            | (84)                                  | (60)                    | (1,996)                                   | (6,287)             |
| <b>As at 31 December 2012</b>                    | <b>32,365,260</b>             | <b>20,079,309</b>  | <b>3,876,729</b>   | <b>276,717</b>                        | <b>159,738</b>          | <b>3,185,934</b>                          | <b>59,943,687</b>   |
| Additions  | 8,180                         | 62,810             | -                  | 146                                   | -                       | 291,506                                   | 362,642             |
| Disposals  | -                             | (957)              | -                  | (436)                                 | -                       | -   | (1,393)             |
| Effect of translation into presentation currency | -                             | -                  | -                  | -                                     | -                       | (1)                                       | (1)                 |
| <b>As at 31 March 2013</b>                       | <b>32,373,440</b>             | <b>20,141,162</b>  | <b>3,876,729</b>   | <b>276,427</b>                        | <b>159,738</b>          | <b>3,477,439</b>                          | <b>60,304,935</b>   |
| <i>Accumulated depreciation</i>                  |                               |                    |                    |                                       |                         |   |                     |
| <b>As at 31 December 2011</b>                    | <b>(9,615,256)</b>            | <b>(7,543,525)</b> | <b>(638,867)</b>   | <b>(65,002)</b>                       | <b>(14,118)</b>         | <b>-</b>                                  | <b>(17,876,768)</b> |
| Charge for the period                            | (2,253,389)                   | (1,483,395)        | (347,451)          | (28,469)                              | (96,302)                | -   | (4,209,006)         |
| Disposals  | 20,125                        | 120,410            | 9,288              | -                                     | 73,175                  | -   | 222,999             |
| Revaluations                                     | 6,001,309                     | 1,072,719          | (284,280)          | (9,913)                               | (4,062)                 | -   | 6,775,773           |
| Effect of translation into presentation currency | 2,797                         | 3,091              | 407                | 35                                    | 12                      | -   | 6,342               |
| <b>As at 31 December 2012</b>                    | <b>(5,844,414)</b>            | <b>(7,830,699)</b> | <b>(1,260,903)</b> | <b>(103,349)</b>                      | <b>(41,295)</b>         | <b>-</b>                                  | <b>(15,080,660)</b> |
| Charge for the period                            | (794,103)                     | (797,097)          | (148,580)          | (7,603)                               | (3,120)                 | -   | (1,750,503)         |
| Disposals  | -                             | 386                | -                  | 371                                   | -                       | -   | 757                 |
| Effect of translation into presentation currency | -                             | (1)                | -                  | 1                                     | -                       | -   | -                   |
| <b>As at 31 March 2013</b>                       | <b>(6,638,517)</b>            | <b>(8,627,411)</b> | <b>(1,409,483)</b> | <b>(110,580)</b>                      | <b>(44,415)</b>         | <b>-</b>                                  | <b>(16,830,406)</b> |
| <i>Net carrying amount</i>                       |                               |                    |                    |                                       |                         |   |                     |
| <b>As at 31 December 2011</b>                    | <b>25,492,861</b>             | <b>8,102,231</b>   | <b>2,396,623</b>   | <b>61,327</b>                         | <b>105,972</b>          | <b>11,251,888</b>                         | <b>47,410,902</b>   |
| <b>As at 31 December 2012</b>                    | <b>26,520,846</b>             | <b>12,248,610</b>  | <b>2,615,826</b>   | <b>173,368</b>                        | <b>118,443</b>          | <b>3,185,934</b>                          | <b>44,863,027</b>   |
| <b>As at 31 March 2013</b>                       | <b>25,734,923</b>             | <b>11,513,751</b>  | <b>2,467,246</b>   | <b>165,847</b>                        | <b>115,323</b>          | <b>3,477,439</b>                          | <b>43,474,529</b>   |

Carrying amount of temporarily idle capacity as at 31 March 2013 was USD 33,243,480 (as at 31 December 2012 – USD 31,117,878).

Under Loan Agreement with EBRD, the Group has started the procedure of pledging property, plant and equipment related to MEC Vahrushevsky in amount USD 5,564,846.

As at 31 March 2013, bank loans were secured by property, plant and equipment with carrying amount of USD 26,991,667 (as at 31 December 2012 - USD 24,932,997).

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 at 31 March 2013 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:

|                               | <b>Buildings</b>  | <b>Machinery</b> | <b>Vehicles</b>  | <b>Furniture and fittings</b> | <b>Other assets</b> | <b>Constructi on in-progress</b> | <b>Total</b>       |
|-------------------------------|-------------------|------------------|------------------|-------------------------------|---------------------|----------------------------------|--------------------|
| <b>As at 31 December 2011</b> |                   |                  |                  |                               |                     |                                  |                    |
| Cost                          | 11,268,999        | 8,966,017        | 3,008,639        | 115,422                       | 124,812             | 11,278,081                       | <b>34,761,970</b>  |
| Accumulated depreciation      | (3,434,105)       | (3,207,652)      | (622,641)        | (55,901)                      | (16,295)            | -                                | <b>(7,336,594)</b> |
| <b>As at 31 December 2012</b> |                   |                  |                  |                               |                     |                                  |                    |
| Cost                          | 29,199,199        | 13,633,768       | 3,058,427        | 247,008                       | 247,388             | 3,332,439                        | <b>49,718,229</b>  |
| Accumulated depreciation      | (4,260,252)       | (3,871,469)      | (927,405)        | (81,045)                      | (40,702)            | -                                | <b>(9,180,873)</b> |
| <b>As at 31 March 2013</b>    |                   |                  |                  |                               |                     |                                  |                    |
| Cost                          | 29,207,380        | 11,325,821       | 3,058,427        | 246,805                       | 134,860             | 6,153,656                        | <b>50,126,949</b>  |
| Accumulated depreciation      | (4,542,071)       | (4,214,240)      | (1,005,366)      | (91,205)                      | (46,960)            | -                                | <b>(9,899,842)</b> |
| <b>Net carrying amount</b>    |                   |                  |                  |                               |                     |                                  |                    |
| <b>As at 31 December 2011</b> | <b>7,834,894</b>  | <b>5,758,365</b> | <b>2,385,998</b> | <b>59,521</b>                 | <b>108,517</b>      | <b>11,278,081</b>                | <b>27,425,376</b>  |
| <b>As at 31 December 2012</b> | <b>24,938,947</b> | <b>9,762,299</b> | <b>2,131,022</b> | <b>165,963</b>                | <b>206,686</b>      | <b>3,332,439</b>                 | <b>40,537,356</b>  |
| <b>As at 31 March 2013</b>    | <b>24,665,309</b> | <b>7,111,581</b> | <b>2,053,061</b> | <b>155,600</b>                | <b>87,900</b>       | <b>6,153,656</b>                 | <b>40,227,107</b>  |

**13. Intangible assets**

|  | Computer software | Licenses and rights to use natural resource | Expenses on acquisition of intangible assets | Total            |
|--|-------------------|---|--|------------------|
| <i>Cost</i>                                      |                   |   |  |                  |
| <b>As at 31 December 2012</b>                    | <b>57,032</b>     | <b>1,057,973</b>                            | <b>60,086</b>                                | <b>1,175,091</b> |
| Additions  | 222               | -   | 52,362                                       | <b>52,584</b>    |
| Disposals  | -                 | (72,981)                                    | -  | <b>(72,981)</b>  |
| Effect of translation into presentation currency | -                 | (47)  | -  | <b>(47)</b>      |
| <b>As at 31 March 2013</b>                       | <b>57,254</b>     | <b>985,039</b>                              | <b>112,448</b>                               | <b>1,154,741</b> |
| <i>Accumulated amortization</i>                  |                   |   |  |                  |
| <b>As at 31 December 2012</b>                    | <b>(24,980)</b>   | <b>(199,598)</b>                            | <b>-</b>                                     | <b>(224,578)</b> |
| Charge for the period                            | (3,129)           | (14,845)                                    | -  | <b>(17,974)</b>  |
| Effect of translation into presentation currency | (1)               | -   | -  | <b>(1)</b>       |
| <b>As at 31 March 2013</b>                       | <b>(28,108)</b>   | <b>(214,443)</b>                            | <b>-</b>                                     | <b>(242,551)</b> |
| <i>Net carrying amount</i>                       |                   |   |  |                  |
| <b>As at 31 December 2012</b>                    | <b>32,052</b>     | <b>858,375</b>                              | <b>60,086</b>                                | <b>950,513</b>   |
| <b>As at 31 March 2013</b>                       | <b>29,146</b>     | <b>770,596</b>                              | <b>112,448</b>                               | <b>912,190</b>   |

Intangible assets of “Shahta “Sadovaya” LLC as at 31 March 2013 represent:

- special permission for subsurface use #4488 dated 08 November 2007 issued by the Ministry of Ecology and Natural Resources of Ukraine for 19 years. Carrying amount of this permission as at 31 March 2013 equals to USD 94,219 (as at 31 December 2012 equals to USD 98,316).

- special permission for subsurface use #5259 dated 27 December 2010 issued by the Ministry of Ecology and Natural Resources of Ukraine for 20 years. Carrying amount at 31 March 2013 equals to USD 419,205 (as at 31 December 2012 equals to USD 425,109).

A special permission for subsurface use #4982 dated 11 June 2009 for 20 years comprises intangible assets of “Shahta”Rassvet-1“LTD. Carrying amount of this permission as at 31 March 2013 equals to USD 243,176 (as at 31 December 2012 equals to USD 246,806).

**14. Other financial assets**

|   | at 31/03/2013    | at 31/12/2012    | at 31/03/2012    |
|---|------------------|------------------|------------------|
| Receivables acquired under factoring contract | -                | -                | -                |
| Long term receivables                         | 2,616,925        | 2,510,887        | -                |
| <b>Total non-current</b>                      | <b>2,616,925</b> | <b>2,510,887</b> | <b>-</b>         |
| Receivables acquired under factoring contract | 446,403          | 446,403          | 2,023,408        |
| Deposits                                      | 1,914,175        | 2,180,000        | -                |
| <b>Total current</b>                          | <b>2,360,578</b> | <b>2,626,403</b> | <b>2,023,408</b> |

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

According to amicable agreement signed in 1Q2013 with the obligor, receivables acquired under factoring contract will be discharged in amount USD 446,403.

**Long term receivables**

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

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

This obligation is accounted at amortized cost. Effective interest rate is 18%.

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

**Deposits**

Deposits comprise funds placed by Interdon PC with Otp Bank. The deposit is nominated in USD, interest rate is 2.5% per annum, maturity date is 30 December 2013.

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

**15. Loans and borrowings**

|                  |          | at 31/03/2013       |                   | at 31/12/2012       |                   | at 31/03/2012       |                   |
|------------------|----------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
|                  | Currency | Interest rate,<br>% | Residual<br>debt  | Interest rate,<br>% | Residual<br>debt  | Interest rate,<br>% | Residual<br>debt  |
| Loan 1           | USD      | 3M                  |                   | 3M                  |                   | 3M                  |                   |
|                  |          | LIBOR+6.5%          | 18,000,000        | LIBOR+6.5%          | 18,000,000        | LIBOR+6.5%          | 13,000,000        |
| Loan 2           | USD      | 1M                  |                   | 1M                  |                   | 1M                  |                   |
|                  |          | LIBOR+8.5%          | 21,293,720        | LIBOR+8.5%          | 21,293,720        | LIBOR+8.5%          | 19,871,747        |
| Loan 3           | UAH      | 16%                 | 277,855           | 16%                 | 279,850           | 16%                 | 391,980           |
| Loan 4           | UAH      | 18%                 | 68,700            | 18%                 | 74,946            | 18%                 | 150,009           |
| Loan 5           | UAH      | 14%                 | -                 | 14%                 | 1,119,568         | -                   | -                 |
| Loan 6           | USD      | 7%                  | 1,876,642         | 7%                  | 1,876,642         | -                   | -                 |
| Loan 7           | UAH      | 0%                  | 250,219           | 0%                  | 250,219           | -                   | -                 |
| Promissory notes | UAH      | 0%                  | 20,452            | 0%                  | 21,028            | 0%                  | 361,401           |
|                  |          |                     | <b>41,787,588</b> |                     | <b>42,915,973</b> |                     | <b>33,775,137</b> |
| Short-term       |          |                     | 8,097,024         |                     | 8,664,199         |                     | 3,083,024         |
| Long-term        |          |                     | 33,690,564        |                     | 34,251,774        |                     | 30,692,113        |

**Loan 1**

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

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

## Loan 2

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

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

## Loan 3

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

## Loan 4

Loan was received in March 2011 from SB "Credit-Dnepr" under agreement #280311-K dated 28/03/2011. The borrower is "Volat Trans" PE. Maturity date is 28/03/2014. The Loan is secured by property rights according to sale-purchase agreement #2011/2 dated 17.02.2011,

between Volat Trans PE and "Amkodor-Ukrspeskmash" LLC in amount USD 312,398 (UAH 2,496,000) and guaranteed by Guarantee agreement of "Shakhta "Sadovaya" LLC #280311-П dated 28.03.2011.

## Loan 5

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

## Loan 6

Loan was received in April 2012 from OTP Bank according to agreement CR12-049/28-2 dated 28/04/2012. The borrower is "Shahta Rassvet-1" LTD. Maturity date is 31/05/2013.

## Loan 7

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

## Promissory notes

Short-term promissory notes issued in year 2012.

## 16. Inventories

|                   | at 31/03/2013     | at 31/12/2012     | at 31/03/2012     |
|-------------------|-------------------|-------------------|-------------------|
| Raw materials     | 27,127,047        | 27,298,724        | 26,464,741        |
| Finished goods    | 3,621,708         | 3,422,866         | 3,413,170         |
| Other inventories | 226,078           | 238,074           | 259,821           |
| Merchandise       | 126,030           | 103,758           | 241,340           |
| Spare parts       | 166,907           | 176,413           | 165,419           |
|                   | <b>31,267,770</b> | <b>31,239,835</b> | <b>30,544,491</b> |



**17. Trade and other receivables**

|   | at 31/03/2013    | at 31/12/2012     | at 31/03/2012     |
|---|------------------|-------------------|-------------------|
| Trade receivables                             | 10,219,599       | 12,912,619        | 19,675,573        |
| Provision for impairment of trade receivables | (4,388,152)      | (4,078,477)       | (107,103)         |
| VAT recoverable                               | 3,080,186        | 2,790,465         | 3,389,162         |
| Other receivables                             | 213,378          | 215,022           | 28,796            |
| Prepayments for other taxes                   | 5,737            | 10,603            | 173,646           |
|   | <b>9,130,747</b> | <b>11,850,232</b> | <b>23,160,074</b> |

**18. Prepayments and deferred expenses**

|  | at 31/03/2013    | at 31/12/2012    | at 31/03/2012    |
|--|------------------|------------------|------------------|
| Prepayments to suppliers                 | 4,300,891        | 4,145,226        | 8,441,126        |
| Provisions for impairment of prepayments | (81,384)         | (81,813)         | (43,283)         |
| Deferred expenses                        | 596,917          | 551,855          | 616,910          |
|  | <b>4,816,424</b> | <b>4,615,268</b> | <b>9,014,753</b> |

**19. Trade and other payables**

|  | at 31/03/2013    | at 31/12/2012    | at 31/03/2012     |
|--|------------------|------------------|-------------------|
| Trade payables   | 2,978,936        | 2,302,333        | 6,961,122         |
| Accrued salaries, wages and related taxes                          | 1,549,731        | 1,657,753        | 1,147,855         |
| Provision for unused vacations                                     | 926,807          | 1,062,393        | 1,040,694         |
| Accounts payable for other taxes                                   | 271,166          | 30,885           | 1,611,359         |
| Advances from customers  | 188,440          | 27,551           | 299,429           |
| Current portion of non-current liabilities on defined benefit plan | 143,787          | 143,787          | 107,667           |
| Accrued interest   | 391,520          | 135,246          | 51,132            |
| Other current liabilities  | 619,982          | 519,277          | 688,165           |
|  | <b>7,070,369</b> | <b>5,879,225</b> | <b>11,907,423</b> |

**20. Related party transactions**

|                                  | 3 month period ended 31/03/2013 | Year ended 31/12/2012 | 3 month period ended 31/03/2012 |
|----------------------------------|---------------------------------|-----------------------|---------------------------------|
| Purchase of goods and services   | -                               | 23,305                | 278,911                         |
| Revenues from goods and services | 1,375                           | 89,203                | 21,011                          |
|                                  |                                 |                       |                                 |
|                                  | at 31/03/2013                   | at 31/12/2012         | at 31/03/2012                   |
| Accounts payable                 | 213,442                         | 231,720               | 485,474                         |
| Accounts receivable              | 10,845                          | 100,509               | 480,700                         |
|                                  |                                 |                       |                                 |
| Loans                            | 250,219                         | -                     | -                               |

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.

***Loans***

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

**Remunerations of top management:**

|   | <b>3 month period<br/>ended 31/03/2013</b> | <b>Year ended<br/>31/12/2012</b> | <b>3 month period<br/>ended 31/03/2012</b> |
|---|--|----------------------------------|--|
| Wages and salaries                              | 94,756                                     | 473,780                          | 123,845                                    |
| Social security contributions and similar taxes | 3,207                                      | 21,035                           | 4,877                                      |
|   | <b>97,963</b>                              | <b>494,815</b>                   | <b>128,722</b>                             |

**21. Events after the reporting date**

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

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

**22. Approval of the financial statements**

The Condensed Consolidated Financial Statements of the Group for the 3-month period ended 31 March 2013 were approved for issue and signed on behalf of the Management Board on 15 May 2013.