



**Sadovaya Group**

**Sadovaya Group S.A.**

**Semi-Annual Report 2011**



**Alexander Tolstoukhov,**  
Founder and Co-owner

Dear shareholders,

After 6 months of 2011 behind I am pleased to inform you on developments of Sadovaya Group S.A. and provide with our expectations for the upcoming period.

Following promising start in 1Q 2011 we continued to advance in the second quarter, achieving strong results for the 1H 2011. The Group's total revenue reached USD 43.4 mln, 2.2 times more than a year earlier. EBITDA increased 63% y-o-y to USD 10.1 mln and net income increased 2.4 times y-o-y to USD 7.8 mln, almost beating the result for the whole 2010.

The increased capacity of our current mines, as well as growing demand for anthracite, allowed us to sell 601 ths tons of coal in the first 6 months of 2011 (+76% y-o-y), including 196 ths tons from our own mines and 21 ths tons recovered from waste dumps. Our coal extraction and waste processing capacities are both increasing from month to month, and we aim to sustain this growth in the future.

Upward coal pricing is another supporting factor for our financials. The past years were characterized by continuous coal price growth, with the latest increase of 2.5% q-o-q in 2Q 2011. Prices grew by a further 5-7% (depending on the client) in July 2011, which will help us achieve our target full year financials for 2011.

Following our declared plans in the 1H 2011 we have finalized the acquisition of a license to develop the Roskoshniy coal field, which increased our total underground resource base to 43.2 mmt. The acquisition of another license is to be finalized by November 2011.

We have already launched the new longwall on the k<sub>7</sub><sup>n</sup> seam of the Sadovaya mine and plan to put into operation another two on Rassvet-1 by the end of the year. This will enable us to double our daily coal mining volumes and support our strategy to reduce the share of purchased coal in total sales.

To improve our profitability margins we are paying great attention to our waste recovery segment. This year we expect to launch two waste recovery factories. Construction works are currently underway and after completion our recovery volumes will be boosted tenfold. This segment is supposed to generate the bulk of the Group's cash already next year.

The year 2011 is a time of building a solid foundation for the further development of Sadovaya Group. I am truly inspired by the work in progress and by our ambitious plans for the future, and I am confident that our vision, people and resources will bring Sadovaya Group to the top positions on Ukrainian coal market.

Sincerely Yours,

Alexander Tolstoukhov



**Report of the Board of Directors on  
operations for the 6-month period ended  
30 June 2011**



The Directors present their report to the shareholders for the 6-month period ended 30 June 2011.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

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

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).

**Financial highlights for the 6-month period ended 30 June 2011**

- Total revenue reached USD 43,375 thousand as compared to USD 19,145 thousand for the 1H 2010, representing a 127% y-o-y increase;
- Operating profit reached USD 8,148 thousand as compared to USD 4,158 thousand for the 1H 2010, representing a 96 % y-o-y increase;
- EBITDA reached USD 10,103 thousand, up by 63% y-o-y;
- Net profit increased 142% y-o-y to USD 7,804 thousand from USD 3,231 thousand in 1H 2010.

**Review of financial results for the 6-month period ended 30 June 2011***Revenue*

Total revenue increased from USD 19,145 thousand for 6-month period of 2010 to USD 43,375 thousand for 6-month period of 2011, representing a 127% y-o-y increase. The increase reflects the capacity and efficiency growth which resulted in an increase in production. For detailed information about the segments please refer to Note 4 of the Condensed pro forma consolidated financial statement for the 6-month period ended 30 June 2011.

*Cost of goods sold*

The cost of sales increased from USD 13,738 thousand for the 6-month period of year 2010 to USD 33,418 thousand for the 6-month period of year 2011, representing a 143% y-o-y increase. This increase is explained by the sales volume growth in the 6-month period of year 2011. For detailed information about the segments please refer to Note 5 of the Condensed pro forma consolidated financial statement for 6-month period ended 30 June 2011.

*Gross profit*

Gross profit increased from USD 5,408 thousands for 6-month period of year 2010 to USD 9,957 thousands for 6-month period of year 2011, representing a 84% y-o-y increase.

*Expenses*

General and administrative expenses increased from USD 411 thousands for 6-month period of year 2010 to USD 1,185 thousand for 6-month period of year 2011, representing a 189% y-o-y increase. This increase was mainly caused by increased professional service expenditures. For detailed information about the segments please refer to Note 7 of the Condensed pro forma consolidated financial statement for 6-month period ended 30 June 2011.

Selling and distribution expenses increased from USD 102 thousand for 6-month period of year 2010 to USD 217 thousand for 6-month period of year 2011, representing a 112% increase. For detailed information about the segments

please refer to Note 6 of the Condensed pro forma consolidated financial statement for 6-month period ended 30 June 2011.

Finance costs decreased from USD 1,497 thousands for 6-month period of year 2010 to USD 1,262 thousands for 6-month period of year 2011, representing a 16% y-o-y decrease. This decrease reflects a fall in the interest rate.

Finance income increased from USD 195 thousands for 6-month period of year 2010 to USD 682 thousands for 6-month period of year 2011, representing a 250% y-o-y increase. The increase primarily reflects the effect of long-term receivables discounting.

Comparative analysis of key operating and financial data for the 6-month periods ending June 30:

US\$ million	30-Jun-11	30-Jun-10	y-o-y change
Revenue	43.4	19.1	127%
EBITDA <sup>(1)</sup>	10.1	6.2	63%
EBITDA margin	23.3%	32.2%	-8.9%
Operating profit	8.1	4.2	96%
Operating margin	18.8%	21.8%	-3.0%
Profit/(loss) for the period	7.8	3.2	142%
Profit margin	18.0%	16.9%	1.1%
<b>Total assets</b>	<b>95.5</b>	<b>51.8</b>	<b>84%</b>
<b>Total equity</b>	<b>67.4</b>	<b>24.6</b>	<b>174%</b>
Cash and equivalents	14.2	0.1	14100%
Loans and borrowings (non-current)	0.2	-	n/m
Loans and borrowings (current)	16.3	14.2	15%

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

#### Cash flow

Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-term bank facilities and lines of credit. Our bank credit lines are provided by domestic banking institutions (Credit-Dnepr Bank). Banks provide financing to our Group either in US dollars or in Hryvnias. For detailed information about the Group's loans and borrowings please refer to Note 11 of the condensed financial report.

The cash outflow from operations in the 6-month period ended 30 June was USD 11,521 thousands. The negative cash flow from operations was primarily due to increased working capital. The Group purchased a large quantity of coal for cleaning and significantly reduced the accounts payable balance.

**DESCRIPTION OF SIGNIFICANT EVENTS FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2011**

Loans 3 and 5 from Note 11 of the condensed financial report were fully repaid in March 2011. Loan 2 was fully repaid in July 2010.

As at 28 March 2011 the “Volat Trans” PE obtained an 18% loan in the amount of 1,747,200 UAH from PJSC Bank “Credit Dnepr” according to Agreement #280311-K. The maturity date is 28 March 2014.

Loan 1 from Note 11 of the condensed financial report was extended from 1 April 2011 to 1 April 2012, according to agreement #010411 dated 1 April 2011.

Loan 4 from Note 11 of condensed financial report was extended from 1 April 2011 to 1 April 2012 and the interest rate was changed from 25% to 19% per annum in UAH and to 12% per annum in USD, according to agreement #010411 dated 1 April 2011.

As of 17 March 2011 the Group acquired a license to develop the Roskoshniy coal field, a natural extension of the Sadovaya field. Total resources of "A" grade coal (anthracite) at the Roskoshniy field within the bounds of the coal seams  $l_7^B$ ,  $l_6^H$ ,  $l_4^B$ ,  $k_7^H$  amounted to 17.6 million tons. Proven and probable reserves (2P), as confirmed by IMC under JORC code, are 9.1 million tons as of 1 July 2010. The license is issued for 20 years.

**Resource base in '000 tons, under JORC classification <sup>(1)</sup>**

	Old fields	Roskoshniy field	Total	Change
Total resources (measured and indicated)	25,580	17,617	43,197	69%
Total reserves for mine (proven and probable)	14,524	9,051	23,575	62%

*(1) Resource base as audited by IMC as of 1 July, 2010*

The acquisition is a part of the investment program of Sadovaya Group as described in the IPO prospectus.

In April 2011, due to geological reasons production at the 11west longwall on  $l_7$  seam of Rassvet-1 mine was stopped. After thorough investigation the Group decided not to exploit it anymore and shift efforts toward preparing and launching new longwalls.

In April 2010 Sadovaya Limited, the wholly owned subsidiary of the Sadovaya Group S.A., incorporated Sadovaya (Cyprus) Trading Limited. The share capital of Sadovaya (Cyprus) Trading Limited is USD 500,000 and will be paid in cash till the end of 2011. All shares in Sadovaya (Cyprus) Trading Limited will be held by Sadovaya Limited. The Registered Office of the Sadovaya (Cyprus) Trading Limited will be at 1, Lampousas Street, Nicosia 1095, Cyprus. The newly incorporated company will act as a trading house of the Sadovaya Group responsible for trading with international markets.

**RELATED PARTIES TRANSACTIONS**

Information in respect of related parties transactions is disclosed in Note 12 of the condensed financial report. The total amount of proceeds from goods and services arising from such transactions didn't exceed 1% of total revenue. The most significant transaction the Group executed with related parties in 1H 2011 is shown in the accounts payable. Accounts payable are interest-free at each date. Such liabilities arose due to a machinery lease from related parties and purchased coal. Accounts receivable from related parties at each date are interest-free as well. Prices of such transactions with



related parties are established in accordance with market prices. Provisions for the impairment of accounts receivable from related parties were not charged.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### *Coal price*

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

### *Demand for coal products*

Demand for coal is fluctuating and depends on the local and world economy, as well as on weather conditions. The Company understands this risk and is diversifying its customer base, signing long-term contracts and considering expansion into export markets.

### *Delay in the launch of new facilities*

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

### *Unexpected stoppages due to technological malfunctions and geological conditions*

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

## **FUTURE DEVELOPMENTS OF THE GROUP**

*Development of existing mines Sadovaya and Rassvet-1* to increase coal production via an increase in mining efficiency (through the purchase of new modern equipment) and an increase in the number of operational longwalls from the current four units to six till the end of the 2011.

*Construction of two enrichment complexes* to process the Group's on-ground coal waste deposits. The Group intends to finish the construction of a dense-media enrichment complex for processing waste dumps with a total processing capacity of 150 tonnes/h and an annual expected coal output of 264 thousand tonnes. The Group also intends to finish construction of an enrichment complex for processing tailings ponds deposits, with a total processing capacity of 150 tonnes/h and an expected annual coal output of 300 thousand tonnes. Both complexes are slated to be put into operation in 4Q 2011. For additional information regarding the construction of new complexes please refer to the Group current report #26 dated 29 August 2011.

*Boosting our total resource base by acquiring a license to develop the Krasnoluchskaya-Severnaya field.* The Group expects to finalize obtaining the license in November 2011. This will increase total Group resources by 159% from the current 51.1 mmt to 132.5 mmt. For additional information regarding the Krasnoluchskaya-Severnaya field's characteristics please refer to the Group IPO prospectus.



**MANAGEMENT STATEMENT**

This statement is provided to confirm that to the best of our knowledge the condensed consolidated pro forma financial statements for 6-month period ended 30 June 2011 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.

**By Order of the Board of Directors**

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**Daryina Iryna,**

**Director A**

Luxembourg,  
31 August 2011

# Sadovaya Group S.A.

Unaudited Condensed Consolidated Pro  
Forma Financial Statements

*for the 6 month period ended 30 June 2011*

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## Condensed pro forma consolidated income statement

for the 6-month period ended 30 June 2011 and 2010 (US dollars, unless other specified)

	Note	6 months ended 30/06/2011 (unaudited)	6 months ended 30/06/2010 (reviewed)
Revenue		43,374,660	19,145,293
Cost of sales	5	(33,417,806)	(13,737,591)
<b>Gross profit</b>		<b>9,956,854</b>	<b>5,407,702</b>
Selling and distribution expenses	6	(217,422)	(102,319)
General & administrative expenses	7	(1,185,285)	(410,690)
Other income/(expenses), net		(405,842)	(736,351)
<b>Operating profit/(loss)</b>		<b>8,148,305</b>	<b>4,158,342</b>
Finance expenses		(1,262,195)	(1,497,346)
Finance income		682,023	194,776
Foreign currency translation gain/(loss)	8	479,176	-
<b>Profit/(loss) before tax</b>		<b>8,047,309</b>	<b>2,855,772</b>
Income tax (expense)/benefit		(242,871)	375,648
<b>Profit/(loss) for the period</b>		<b>7,804,438</b>	<b>3,231,420</b>
<b>Earnings per share</b>		0.18	

## Condensed pro forma consolidated statement of comprehensive income

for the 6-month period ended 30 June 2011 and 2010 (US dollars, unless other specified)

	6 months ended 30/06/2011 (unaudited)	6 months ended 30/06/2010 (reviewed)
<b>Profit for the period</b>	<b>7,804,438</b>	<b>3,231,420</b>
<i>Other comprehensive income</i>		
Exchange differences on translation in presentation currency	150,705	246,862
<b>Other comprehensive income for the period</b>	<b>150,705</b>	<b>246,862</b>
<b>Total comprehensive income for the period</b>	<b>7,955,143</b>	<b>3,478,282</b>
<b>Attributable to:</b>		
Equity holders of the parent	7,856,435	3,442,943
Non-controlling interests	98,708	35,339

Notes on pages 7 - 27 are the integral part of these condensed pro forma consolidated financial statements

## Condensed pro forma consolidated statement of financial position

as at 30 June 2011, as at 31 December 2010, as at 30 June 2010 (US dollars, unless other specified)

	Note	as at 30/06/2011 (unaudited)	as at 31/12/2010 (audited)	as at 30/06/2010 (reviewed)
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	32,799,401	29,753,756	30,671,952
Intangible assets		916,710	901,309	449,256
Other financial assets		4,623,822	4,973,485	-
Deferred tax assets		336,685	608,758	962,386
Prepayments		-	-	-
		<b>38,676,618</b>	<b>36,237,308</b>	<b>32,083,594</b>
<b>Current assets</b>				
Inventories	9	20,148,464	16,046,131	8,754,257
Trade and other receivables		4,436,880	4,799,127	5,079,904
Prepayments and deferred expenses		17,971,519	7,588,233	3,588,580
Income tax prepayment		3,136	-	4,149
Other financial assets		-	-	2,155,339
Cash and cash equivalents		14,223,543	32,452,015	105,210
		<b>56,783,542</b>	<b>60,885,506</b>	<b>19,687,439</b>
<b>Total assets</b>		<b>95,460,160</b>	<b>97,122,814</b>	<b>51,771,033</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital		430,857	430,857	300,000
Share premium		28,525,902	28,525,902	-
Retained earnings		29,037,366	20,313,295	14,715,911
Revaluation reserve		18,262,776	19,182,409	18,101,024
Effect of foreign currency translation		(8,890,965)	(9,041,669)	(8,762,673)
Equity attributable to the parent		66,936,793	59,117,979	24,354,262
Non-controlling interest		429,143	292,815	229,377
		<b>67,365,936</b>	<b>59,410,794</b>	<b>24,583,639</b>
<b>Non-current liabilities</b>				
Loans and borrowings	11	206,635	-	-
Employee benefit liability		2,083,553	1,773,030	1,568,016
Provisions		902,276	965,016	902,046
Deferred tax liability		3,883,599	4,402,736	6,980,843
		<b>7,076,063</b>	<b>7,140,782</b>	<b>9,450,905</b>
<b>Current liabilities</b>				
Trade and other payables		4,614,218	12,818,608	3,529,105
Loans and borrowings	11	16,300,517	16,907,930	14,186,304
Provisions		43,547	751,029	1,383
Income tax payable		59,879	93,671	19,697
		<b>21,018,161</b>	<b>30,571,238</b>	<b>17,736,489</b>
		<b>28,094,224</b>	<b>37,712,020</b>	<b>27,187,394</b>
<b>Total equity and liabilities</b>		<b>95,460,160</b>	<b>97,122,814</b>	<b>51,771,033</b>

Notes on pages 7 - 27 are the integral part of these condensed pro forma consolidated financial statements

## Condensed pro forma consolidated statement of changes in equity

for the 6-month period ended 30 June 2011 (US dollars, unless other specified)

	Share capital	Share premium	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total equity
<b>As at 01 January 2010</b>	<b>43,143</b>	-	<b>16,315,299</b>	<b>19,057,707</b>	<b>(9,089,163)</b>	<b>26,326,986</b>
Profit for the period	-	-	7,889,668	-	-	7,889,668
Other comprehensive income	-	-	-	1,711,310	47,494	1,758,804
Depreciation transfer	-	-	1,586,608	(1,586,608)	-	-
<b>Total comprehensive income</b>	-	-	<b>9,476,276</b>	<b>124,702</b>	<b>47,494</b>	<b>9,648,472</b>
Increase in share capital	387,714	30,306,048	-	-	-	30,693,762
Expenses related to IPO	-	(1,780,146)	-	-	-	(1,780,146)
Dividends	-	-	(5,263,280)	-	-	(5,263,280)
<b>As at 31 December 2010</b>	<b>430,857</b>	<b>28,525,902</b>	<b>20,313,295</b>	<b>19,182,409</b>	<b>(9,041,669)</b>	<b>59,410,794</b>
Profit for the period	-	-	7,804,438	-	-	7,804,438
Other comprehensive income	-	-	-	-	150,704	150,704
Depreciation transfer	-	-	919,633	(919,633)	-	-
<b>Total comprehensive income</b>	-	-	<b>8,724,071</b>	<b>(919,633)</b>	<b>150,704</b>	<b>7,955,142</b>
Increase in share capital	-	-	-	-	-	-
Expenses related to IPO	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
<b>As at 30 June 2011</b>	<b>430,857</b>	<b>28,525,902</b>	<b>29,037,366</b>	<b>18,262,776</b>	<b>(8,890,965)</b>	<b>67,365,936</b>

Notes on pages 7 - 26 are the integral part of these condensed pro forma consolidated financial statements

## Condensed Pro forma consolidated statement of cash flows

for the 6-month period ended 30 June 2011, 2010 (US dollars, unless other specified)

	Note	6-months ended 30/06/2011 (unaudited)	6-months ended 30/06/2010 (reviewed)
<b>Operating activities</b>			
Profit/(loss) before tax		8,047,309	2,864,231
<i>Non-cash adjustment to reconcile profit before tax to net cash flows:</i>			
Depreciation and amortization	10	1,954,537	2,028,523
(Profit)/loss on disposal of property, plant and equipment and intangible assets		-	(26,025)
Impairment of receivables/(reversal of impairment)		(14,500)	224
Shortages and losses from impairment of inventory		77,913	17,158
Net profit on exchange differences	8	(479,176)	349
Finance expenses		1,262,195	1,497,346
Finance income		(682,023)	(194,776)
Movements in provisions, pensions		(44,291)	309,525
<i>Working capital adjustments:</i>			
(Increase)/decrease in trade and other receivables and prepayments		(9,018,692)	(1,141,595)
(Increase)/decrease in inventories		(4,209,175)	(1,547,023)
Increase/(decrease) in trade and other payables		(8,202,181)	611,052
<b>Cash used in operations</b>		<b>(11,308,084)</b>	<b>4,418,989</b>
Interest received		1,464	14
Income tax paid		(214,659)	(37,125)
<b>Net cash flows from operating activities</b>		<b>(11,521,279)</b>	<b>4,381,878</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		-	48,404
Purchase of property, plant, equipment and intangible asset		(5,062,052)	(906,483)
<b>Net cash flows used in investing activities</b>		<b>(5,062,052)</b>	<b>(858,079)</b>
<b>Financing activities</b>			
Proceeds from borrowings		207,016	3,126,729
Repayment of borrowings		(586,010)	(1,633)
Interest paid		(1,295,156)	(1,422,543)
Dividends paid		-	(5,263,281)
Increase in share capital and establishment of the Group		-	-
<b>Net cash flows from/(used in) financing activities</b>		<b>(1,674,150)</b>	<b>(3,560,728)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(18,257,481)</b>	<b>(36,929)</b>
Net foreign exchange difference		29,009	102,461
<b>Cash and cash equivalents at 1 January</b>		<b>32,452,015</b>	<b>39,678</b>
<b>Cash and cash equivalents at 30 June</b>		<b>14,223,543</b>	<b>105,210</b>

Notes on pages 7 - 27 are the integral part of these condensed pro forma consolidated financial statements

## Notes to the condensed pro forma consolidated financial statements

### 1. General information

The Sadovaya Group S.A. (“the Group”) comprises 8 companies, operating in spheres indicated below. These pro forma 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.

<b>Group’s Company</b>	<b>Country of incorporation</b>	<b>Kind of activity</b>
Sadovaya Group S.A.	Luxemburg	Parent company
Sadovaya LLC	Cyprus	Intermediate holding company
Sadovaya Trading Ltd	Cyprus	Trading activity
“Shahta”Sadovaya” LTD	Ukraine	Mining and sale of coal, wholesale of coal
“Shahta”Rassvet-1” LTD	Ukraine	Mining and sale of coal, wholesale of coal
“Volat Trans” PE	Ukraine	Transportation
“Interinvest” LTD	Ukraine	The Company has machinery which is used by the Group
“Interdon” PE	Ukraine	Processing of waste dumps
“Donvostok” LTD	Ukraine	The Company has machinery which is used by the Group

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

Till December 2009 all corporate rights in six Ukrainian companies belonging to the Group and listed in the table above were jointly owned by the Final Owners. In October 2010 all shares of Sadovaya Group S.A. were purchased by Connectico LLC. Subsequently, Sadovaya Group S.A. received payment-free all shares in Sadovaya LLC. Sadovaya LLC purchased shares in the six Ukrainian companies from Connectico LLC. As a result of these transactions (the “Operations”):

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

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

“Shahta”Rassvet-1” LTD has been founded on the bases of “Shahta”Rassvet-1” State OJSK GP SHC "Zhovtenuhilllya" 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.

“Interdon” PE was registered on 12 May 1997. The Company processes waste dumps and trades with 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 crated as a trading house of the Sadovaya Group responsible for trading with international markets.

Today, the Group’s general quantity of resources equalling to 51.1 mln tons of coal. The Group employs more than 1,700 employees.

## 2.1 Basis of preparation

This report is intended solely for the purpose of performing and provision the Condensed pro forma consolidated financial statement for 6-month period ended 30 June 2011 of Sadovaya Group S.A. to the Warsaw Stock Exchange.

The Condensed pro forma consolidated financial statement for 6-month period ended 30 June 2011 prepared according to IAS 34 Interim financial reporting.

The consolidated financial statements are pro forma, as Sadovaya Group had been in existence and in control of the Group and its operations since December 31, 2008, in the same conditions as the ones applicable when it acquires the Group.

A consolidation of entities under common control is not in the scope of IFRS 3. As IFRS do not provide any specific guidance for business consolidations involving entities under common control, the management of the Group reviewed the provisions of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and in particular paragraphs 10-12 of the standard to select an appropriate accounting policy to account for this consolidation. The Group decided to account for such a consolidation in a manner similar to the “pooling-of-interests method”.

Under the “pooling-of-interests method”, the assets and liabilities contributed to entities under common control are transferred to the receiving entity at their carrying value at the date of transfer. To account for such transfer, the Group used the carrying amounts of such assets and liabilities in the pro forma consolidated financial statements of Sadovaya Group’s Ukrainian entities as of January 1st, 2010 prepared in accordance with IFRS.

The receiving entity shall report the results of operations for the period in which the transfer occurs as though the transfer has occurred at the beginning of the period and shall present adjusted financial statements and financial information for prior year that reflect retrospectively the effect of the consolidation, to the extent entities were under common control in that period.

Therefore, the Group's pro forma consolidated financial statements at June 30, 2011, including comparative information for the 6-month period ended June 30, 2010 is presented according to this accounting policy referred to as "pooling-of-interests method”.

### Statement of compliance

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

### Basis of consolidation

The pro forma consolidated financial statements were prepared for the purpose of the presentation of pro forma 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.

Accounting policies of the Group of companies were changed for the purpose of complying with the accounting policy accepted by the Group.

### Changes in accounting policy and disclosures

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

## 2.2 Summary of significant accounting policies

### a) Foreign currency translation

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

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

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

30 June 2010	6-months 2010	31 December 2010	2010	30 June 2011	6-months 2011
7.91	7.95	7.96	7.94	7.97	7.96

### i) Transactions and balances

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

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

## Notes to the condensed pro forma consolidated financial statements

All differences are taken to the income statement.

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

### *ii) Translation into presentation currency*

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

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

### **b) Revenue recognition**

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

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

#### *Sale of goods*

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

#### *Rendering of services*

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

#### *Interest income*

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

#### *Rental income*

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

### **c) Taxes**

#### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. In Ukraine the income tax rate is 23%.

Current income tax relating to items recognised directly 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 consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

## Notes to the condensed pro forma consolidated financial statements

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 consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

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

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

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

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

### **Value added tax**

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

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

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

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

Property, plant and equipment are measured at fair value, net of accumulated depreciation and/or accumulated impairment losses, recognised after the date of revaluation. Revaluation is conducted with sufficient frequency to provide confidence that fair value of a 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 consolidation 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.

## Notes to the condensed pro forma consolidated financial statements

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

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

### *Subsequent measurement*

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

#### *Loans and receivables*

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

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

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

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

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

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

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

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

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

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

### *Derecognition*

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

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

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

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

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

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

## **ii) Financial liabilities**

### *Initial recognition and measurement*

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

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

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

### *Subsequent measurement*

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

#### *Loans and borrowings*

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

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

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

#### *Derecognition*

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

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

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

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

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

### *Financial assets carried at amortised cost*

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

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement in other expenses. Interest income continues to be accrued on the reduced carrying

## Notes to the condensed pro forma consolidated financial statements

amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in other operating expenses in the income statement.

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

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

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

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

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

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

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

### *iv) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the pro forma 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.

### **j) 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.

### **k) Inventories**

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

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

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

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

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

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

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously 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 insurance fund for temporary disability, Pension Fund and National Social Insurance Fund of Ukraine in case of unemployment for benefit of the employees. Payments are calculated as an interest of current gross amount of wages and salaries and are recognised in expenses as incurred.

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

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

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

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

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

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

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

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

#### **p) Provisions**

##### *General*

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

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

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

Obligations on environmental activity costs are recognised when there is probability of liquidation of damage for the environment from the Group's activity, outflow of economic benefits, which is required for settlement of the obligation, is probable and reliable assessment of this obligation can be received. Charged amount is the most exact assessment of expenses, necessary for regulation of this obligation at the end of the reporting period.

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

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

#### **Estimates and assumptions**

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

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

The Group measures its property, plant and equipment at 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. Comparative method was used for valuation of the machinery, substitution method – for valuation of buildings. It stems from lack of the comparable market information resulting from nature of the property.

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

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

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

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

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

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

of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.

### **Taxes**

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

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

On 2 December 2010 a new Tax Code was adopted in Ukraine with most of the changes introduced being effective from 1 January 2011. Among the main changes are a change in the rates for corporate income tax from 25% to 16% which is introduced in several stages during 2011-2014, a change in base rate for VAT starting from 1 January 2011 from 20% to 17%, and a change in the methodology for determining the base for VAT and corporate income tax application.

The tax base of the property, plant and equipment was changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has treated the respective change in tax legislation regarding the tax base of the property, plant and equipment as an adjusting event for the current financial statements.

### **Pension benefits**

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

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

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

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

#### 4. Operating segment information

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

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

Segment performance is evaluated based on operating profit or loss.

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

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

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

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

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

6-months ended 06/30/2011	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
<b>Revenue</b>						
External customer	686,621	42,256,004	411,539	20,496	-	<b>43,374,660</b>
Inter-segment				1,053,600	(1,053,600)	-
<b>Revenue-total</b>	<b>686,621</b>	<b>42,256,004</b>	<b>411,539</b>	<b>1,074,096</b>	<b>(1,053,600)</b>	<b>43,374,660</b>
<b>Financial results</b>						
Depreciation and amortisation	-	(1,683,867)	(38,936)	(121,764)	(109,971)	<b>(1,954,538)</b>
Segment profit	<b>(3,159,751)</b>	<b>12,783,344</b>	<b>312,765</b>	<b>20,496</b>	<b>(1,909,545)</b>	<b>8,047,309</b>
<b>Operating assets</b>	<b>706,119</b>	<b>62,329,484</b>	<b>8,156,174</b>	<b>644,317</b>	<b>23,624,066</b>	<b>95,460,160</b>
<b>Operating liabilities</b>	-	<b>3,029,376</b>	-	-	<b>25,064,848</b>	<b>28,094,224</b>
<b>Other disclosures</b>						
Capital expenditure	-	5,035,053	26,999	-	-	<b>5,062,052</b>

1. Inter-segment revenues are eliminated on combination.

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

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

4. Segment liabilities do not include income tax payable (59,879), loans and borrowings (16,507,152), trade and other payables (4,614,218), deferred tax liabilities (3,883,599), as these assets are managed on a group basis.

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

<b>Year ended 12/31/2010</b>	<b>Trade activities</b>	<b>Mining and coal cleaning</b>	<b>Processing of waste dumps</b>	<b>Others</b>	<b>Adjustments and eliminations</b>	<b>Total</b>
<b>Revenue</b>						
External customer	2,278,313	62,945,010	193,443	26,110	-	<b>65,442,876</b>
Inter-segment				1,020,912	(1,020,912)	-
<b>Revenue-total</b>	<b>2,278,313</b>	<b>62,945,010</b>	<b>193,443</b>	<b>1,047,022</b>	<b>(1,020,912)</b>	<b>65,442,876</b>
<b>Financial results</b>						
Depreciation and amortisation	-	(3,521,830)	(80,023)	(227,768)	(189,408)	<b>(4,019,029)</b>
Segment profit	<b>169,952</b>	<b>15,174,744</b>	<b>119,998</b>	<b>(423,930)</b>	<b>(7,771,633)</b>	<b>7,269,131</b>
<b>Operating assets</b>	<b>484,062</b>	<b>46,836,467</b>	<b>6,486,305</b>	<b>482,595</b>	<b>42,833,385</b>	<b>97,122,814</b>
<b>Operating liabilities</b>	-	<b>3,489,075</b>	-	-	<b>34,222,945</b>	<b>37,712,020</b>
<b>Other disclosures</b>						
Capital expenditure	-	2,160,316	40,671	-	-	<b>2,200,987</b>

1. Inter-segment revenues are eliminated on combination.

2. Profit for each operating segment does not include finance income (1,071), finance expenses (4,889,194), selling and distribution expenses (1,387,848), administrative expenses (1,516,598), and other income/(expenses), net (20,936).

3. Segment assets do not include cash and cash equivalents (32,452,015), other financial assets (4,973,485), prepayments (6,529,373), deferred tax assets (608,758), trade and other receivables (4,799,127), as these assets are managed on a group basis.

4. Segment liabilities do not include income tax payable (93,671), loans and borrowings (16,907,930), trade and other payables (12,818,608), deferred tax liabilities (4,402,736), as these assets are managed on a group basis.

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

<b>6-months ended 06/30/2010</b>	<b>Trade activities</b>	<b>Mining and coal cleaning</b>	<b>Processing of waste dumps</b>	<b>Others</b>	<b>Adjustments and eliminations</b>	<b>Total</b>
<b>Revenue</b>						
External customer	1,933,350	17,163,040	38,078	10,825	-	<b>19,145,293</b>
Inter-segment	-	-	-	359,203	(359,203)	-
<b>Revenue-total</b>	<b>1,933,350</b>	<b>17,163,040</b>	<b>38,078</b>	<b>370,028</b>	<b>(359,203)</b>	<b>19,145,293</b>
<b>Financial results</b>						
Depreciation and amortisation	-	(1,885,741)	(38,416)	(84,626)	(19,740)	<b>(2,028,523)</b>
Segment profit	<b>281,267</b>	<b>5,321,789</b>	<b>10,716</b>	<b>(206,070)</b>	<b>(2,543,471)</b>	<b>2,864,231</b>
<b>Operating assets</b>	<b>1,760,550</b>	<b>37,553,707</b>	<b>562,678</b>	<b>872,608</b>	<b>10,916,784</b>	<b>51,666,327</b>
<b>Operating liabilities</b>	-	<b>2,482,740</b>	-	-	<b>24,697,635</b>	<b>27,180,375</b>
<b>Other disclosures</b>						
Capital expenditure	-	875,247	7,814	10,153	11,878	<b>905,092</b>

1. Inter-segment revenues are eliminated on combination.

## Notes to the condensed pro forma consolidated financial statements

2. Profit for each operating segment does not include finance income (194,776), finance expenses (1,497,346), selling and distribution expenses (102,319), administrative expenses (402,231), and other income/(expenses), net (736,351), and profit from inter-segment sales

3. Segment assets do not include cash and cash equivalents (2,920) other financial assets (2,155,339), deferred tax assets (959,970), prepayments (2,626,620), income tax prepayment (4,149), trade and receivables (5,079,904), property plant and equipment (87,882) as these assets are managed on a group basis .

4. Segment liabilities do not include income tax payable (1,383), loans and borrowings (14,186,304), trade and other payables (3,529,105), deferred tax liabilities (6,980,843), as these liabilities are managed on a group basis.

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

### Geographic information

Revenues from external customers

	<b>6-months 2011</b>	<b>2010</b>	<b>6-months 2010</b>
Ukraine	41,080,878	62,109,757	18,582,035
Export	2,293,782	3,333,119	563,258
	<b>43,374,660</b>	<b>65,442,876</b>	<b>19,145,293</b>

### 5. Cost of sales

	<b>6-months ended 30/06/2011</b>	<b>2010</b>	<b>6-months ended 30/06/2010</b>
Change in finished goods and work-in-progress	1,105,883	2,544,721	1,316,065
Held for resale merchandise	(454,428)	(2,108,361)	(1,652,082)
Raw materials	(25,434,859)	(39,243,326)	(8,682,172)
Wages and salaries of operating personnel	(4,326,847)	(4,613,354)	(1,922,769)
Depreciation of non-current assets	(1,610,096)	(3,245,399)	(1,477,882)
Energy supply	(1,079,490)	(1,499,875)	(1,048,709)
Subcontractors services	(1,535,089)	(2,094,536)	(215,410)
Taxes and obligatory payments	(82,880)	(141,982)	(54,632)
	<b>(33,417,806)</b>	<b>(50,402,112)</b>	<b>(13,737,591)</b>

### 6. Selling and Distribution expenses

	<b>6-months ended 30/06/2011</b>	<b>2010</b>	<b>6-months ended 30/06/2010</b>
Delivery costs	(86,045)	(488,884)	-
Raw materials	(50)	(566,020)	-
Wages and salaries of distribution personnel	(12,188)	(112,012)	(1,035)
Depreciation of non-current assets	(88,622)	(123,368)	(72,323)
Other expenses	(30,517)	(97,564)	(28,961)
	<b>(217,422)</b>	<b>(1,387,848)</b>	<b>(102,319)</b>

### 7. General and Administrative expenses

	<b>6-months ended 30/06/2011</b>	<b>2010</b>	<b>6-months ended 30/06/2010</b>
Wages and salaries of administrative personnel	(435,470)	(635,433)	(325,615)
Utilities	(53,281)	(50,481)	-
Depreciation of non-current assets	(25,585)	(66,678)	(17,584)
Cost of transportation	(11,842)	(13,293)	(8,459)
Professional services	(438,996)	(675,607)	(2,516)
Tax other than income tax	(180,326)	(19,687)	-
Other expenses	(39,785)	(55,419)	(56,516)
	<b>(1,185,285)</b>	<b>(1,516,598)</b>	<b>(410,690)</b>

## 8. Foreign currency translation gain

This type of income in amount of USD 479 thousand is a result of translation PLN 86,818 thousand into USD 29,775 thousand. This cash was obtained by the Group as proceeds from IPO on Warsaw Stock Exchange on December 2010.

## 9. Inventories

	<b>6-months ended 30/06/2011</b>	<b>2010</b>	<b>6-months ended 30/06/2010</b>
Finished goods	5,573,794	6,035,365	5,065,808
Merchandise	706,119	484,062	1,760,550
Raw materials	12,842,237	9,415,348	1,772,620
Spare parts	143,175	81,546	111,959
Work in progress	48	-	-
Other inventories	883,091	29,810	43,320
	<b>20,148,464</b>	<b>16,046,131</b>	<b>8,754,257</b>

The increase in Raw materials balance at 30/06/2011 in amount of kUSD 3,427 (36% increase compared to balance at 31/12/2010) reflects the increase in business activity of the Group and dynamic sales grows during year 2011.

## 10. Property, plant and equipment

	<b>Land and Buildings</b>	<b>Machinery</b>	<b>Vehicles</b>	<b>Furniture and fittings</b>	<b>Other assets</b>	<b>Construction in- progress</b>	<b>Total</b>
<i>Cost</i>							
<b>As at 31 December 2009</b>	<b>27,935,957</b>	<b>12,651,128</b>	<b>641,506</b>	<b>87,619</b>	<b>138,924</b>	<b>607,387</b>	<b>42,062,521</b>
Additions	510,691	629,504	184,556	9,522	28,463	838,251	2,200,987
Disposals	-	43,001	23,394	-	-	-	66,395
Effect of translation into presentation currency	80,872	(51,693)	(43,222)	224	262	(269)	(13,826)
<b>As at 31 December 2010</b>	<b>28,527,520</b>	<b>13,271,940</b>	<b>806,234</b>	<b>97,365</b>	<b>167,649</b>	<b>1,445,369</b>	<b>44,316,077</b>
Additions	913,538	705,863	688,943	9,508	107,460	4,542,799	6,968,111
Disposals	-	(449,453)	-	(287)	(59,608)	(1,719,630)	(2,228,978)
Effect of translation into presentation currency	(42,741)	25,329	6,637	2,358	(1,420)	(22,360)	(32,197)
<b>As at 30 June 2011</b>	<b>29,398,317</b>	<b>13,553,679</b>	<b>1,501,814</b>	<b>108,944</b>	<b>214,081</b>	<b>4,246,178</b>	<b>49,023,013</b>
<i>Accumulated depreciation</i>							
<b>As at 31 December 2009</b>	<b>(5,411,390)</b>	<b>(4,741,149)</b>	<b>(273,996)</b>	<b>(35,715)</b>	<b>(106,446)</b>	<b>-</b>	<b>(10,568,696)</b>
Additions	(1,961,811)	(1,854,235)	(115,005)	(13,117)	(53,593)	-	(3,997,761)
Disposals	-	10,535	13,216	-	-	-	23,751

Notes to the condensed pro forma consolidated financial statements

Effect of translation into presentation currency	(8,592)	(9,757)	(1,117)	(65)	(84)	-	(19,615)
<b>As at 31 December 2010</b>	<b>(7,381,793)</b>	<b>(6,594,606)</b>	<b>(376,902)</b>	<b>(48,897)</b>	<b>(160,123)</b>	-	<b>(14,562,321)</b>
Additions	(1,085,424)	(774,252)	(64,060)	(6,447)	(24,354)	-	(1,954,537)
Disposals	-	266,165	-	153	-	-	266,318
Effect of translation into presentation currency	11,681	26,613	(11,879)	81	432	-	26,928
<b>As at 30 June 2011</b>	<b>(8,455,536)</b>	<b>(7,076,080)</b>	<b>(452,841)</b>	<b>(55,110)</b>	<b>(184,045)</b>	-	<b>(16,223,612)</b>

*Net carrying amount*

<b>As at 31 December 2009</b>	<b>22,524,567</b>	<b>7,909,979</b>	<b>367,510</b>	<b>51,904</b>	<b>32,478</b>	<b>607,387</b>	<b>31,493,825</b>
<b>As at 31 December 2010</b>	<b>21,145,727</b>	<b>6,677,334</b>	<b>429,332</b>	<b>48,468</b>	<b>7,526</b>	<b>1,445,369</b>	<b>29,753,756</b>
<b>As at 30 June 2011</b>	<b>20,942,781</b>	<b>6,477,599</b>	<b>1,048,973</b>	<b>53,834</b>	<b>30,036</b>	<b>4,246,178</b>	<b>32,799,401</b>

As at 30 June 2011, bank loans were secured by property, plant and equipment with carrying amount of USD 22,556,454 (as at 31 December 2010 - USD 23,155,590).

Carrying amount of temporarily idle capacity as at 30 June 2011 was USD 2,184,410 (as at 31 December 2010 – USD 2,413,886).

As at 30 June 2011 there were no indicators of impairment of property, plant and equipment. Approach of the Group to impairment of property, plant and equipment is described in note 2.2 “Summary of significant accounting policies”.

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

Notes to the condensed pro forma consolidated financial statements

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>Construction in- progress</b>	<b>Total</b>
<b>As at 31 December 2010</b>							
Cost	2,308,178	3,285,757	768,836	3,123,936	167,463	1,281,299	<b>10,935,469</b>
Accumulated depreciation	(535,160)	(2,601,315)	(345,859)	(41,137)	(161,910)	-	<b>(3,685,381)</b>
<b>As at 30 June 2011</b>							
Cost	2,309,673	7,411,591	1,602,964	176,154	201,433	2,455,090	<b>14,156,905</b>
Accumulated depreciation	(571,061)	(3,411,862)	(438,422)	(84,724)	(196,667)	-	<b>(4,702,736)</b>
<b>Net carrying amount</b>							
<hr/>							
<b>As at 31 December 2010</b>	<b>1,773,018</b>	<b>684,442</b>	<b>422,977</b>	<b>3,082,799</b>	<b>5,553</b>	<b>1,281,299</b>	<b>7,250,088</b>
<hr/>							
<b>As at 30 June 2011</b>	<b>1,738,612</b>	<b>3,999,729</b>	<b>1,164,542</b>	<b>91,430</b>	<b>4,766</b>	<b>2,455,090</b>	<b>9,454,169</b>

**11. Loans and borrowings**

	Currency	6-months ended 30/06/2011		2010		6-months ended 30/06/2010	
		Interest rate, %	Residual debt	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	USD	12%	8,643,252	19%	8,558,311	19%	8,617,517
Loan 2	UAH	30%	-	30%	-	30%	377,185
Loan 3	UAH	18%	-	18%	7,536	18%	27,823
Loan 4	USD	12%	7,657,265	25%	7,661,680	25%	4,679,398
Loan 5	UAH	20%	-	20%	481,053	20%	484,381
Loan 6	UAH	18%	206,635		-		-
Promissory notes	UAH		-		199,350		-
			<b>16,507,152</b>		<b>16,907,930</b>		<b>14,186,304</b>
Short-term			16,300,517		16,907,930		14,186,304
Long-term			206,635		-		-

**Loan 1**

Loan was received in July 2009 in SB "Credit-Dnepr". The borrower is "Shahta Sadovaya" LTD. Initially, maturity date was 05 September 2010, in 2009 it was prolonged to 5 October 2010, in year 2010 it was prolonged to 1 April 2011 and in year 2011 it was prolonged to 1 April 2012.

Obligations under the credit contract are guaranteed by property, plant and equipment of "Interinvest" LTD, "Shahta"Sadovaya" LTD, "Shahta"Rassvet-1" LTD, property complex of "Donvostok" LTD.

**Loan 2**

Loan is an overdraft, opened by "Shahta Sadovaya" LTD in May 2009 in SB "Credit-Dnepr". Overdraft limit is equal to UAH 3 000 000. Maturity date is 1 June 2011.

**Loan 3**

Loan was received in March 2008 in Prominvestbank. The borrower is "Volat Trans" PE. Maturity date is 30 March 2011. Obligations under credit contract are guaranteed by borrower's vehicles.

**Loan 4**

Loan was received in October 2009 in SB "Credit-Dnepr". The borrower is "Shahta Rassvet-1" LTD. Initially, maturity date was 01 March 2010 then prolonged to 1 April 2012. Obligations under credit contract are guaranteed by property, plant and equipment of "Interinvest" LTD, "Shahta"Sadovaya" LTD, "Volat Trans" PE, corporative rights in share capital of "Shahta"Rassvet-1" LTD.

**Loan 5**

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

**Loan 6**

Loan was received in March 2011 from SB "Credit-Dnepr". The borrower is "Volat Trans" PE. Maturity date is 28/03/2014.

**Promissory notes**

Short-term promissory notes which will be repay during year 2011.

## 12. Related parties

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

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

<b>Purchase of goods and services</b>			
	<b>6-months period ended 30/06/2011</b>	<b>2010</b>	<b>6-months period ended 30/06/2010</b>
VZSM LLC	69,694	70,410	36,428
Tolstouhov A.U.	13,803	61,501	32,573
Tolstouhova V.V.	3,801	15,583	7,659
Gornoe oborudovanie LLC	-	73,977	73,977
	<b>87,299</b>	<b>221,471</b>	<b>150,636</b>

<b>Proceeds from goods and services</b>			
	<b>6-months period ended 30/06/2011</b>	<b>2010</b>	<b>6-months period ended 30/06/2010</b>
Vostok Ugol LLC	325,345	18,839,372	8,462,923
VZSM LLC	1,157	2,396	1,289
Miroshnik A.V.	-	257	257
Gornoe oborudovanie LLC	-	522,640	112,341
	<b>326,502</b>	<b>19,364,665</b>	<b>8,576,810</b>

<b>Liabilities to related parties</b>			
	<b>6-months period ended 30/06/2011</b>	<b>2010</b>	<b>6-months period ended 30/06/2010</b>
VZSM LLC	10,697	86,802	43,521
Vostok Ugol LLC	-	8,233	4,400
Tolstouhov A.U.	-	39,979	20,990
Tolstouhova V.V.	-	7,109	3,955
	<b>10,697</b>	<b>142,124</b>	<b>72,865</b>

<b>Liabilities of related parties</b>			
	<b>6-months period ended 30/06/2011</b>	<b>2010</b>	<b>6-months period ended 30/06/2010</b>
VZSM LLC	70,887	1,917	9,417
Pavlogradstroydetal LLC	20,044	5,501	5,501
Gornoe oborudovanie LLC	-	620	620
Vostok Ugol LLC	-	383,670	573,670
	<b>90,932</b>	<b>391,709</b>	<b>589,209</b>

### ***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.

### 13. Description of significant events for the 6-months period ended 30 June 2011

Loans 3 and 5 from Note 11 of the condensed financial report were fully repaid in March 2011. Loan 2 was fully repaid in July 2010.

As at 28 March 2011 the “Volat Trans” PE obtained an 18% loan in the amount of 1,747,200 UAH from PJSC Bank “Credit Dnepr” according to Agreement #280311-K. The maturity date is 28 March 2014.

Loan 1 from Note 11 of the condensed financial report was extended from 1 April 2011 to 1 April 2012, according to agreement #010411 dated 1 April 2011.

Loan 4 from Note 11 of condensed financial report was extended from 1 April 2011 to 1 April 2012 and the interest rate was changed from 25% to 19% per annum in UAH and to 12% per annum in USD, according to agreement #010411 dated 1 April 2011.

As of 17 March 2011 the Group acquired a license to develop the Roskoshniy coal field, a natural extension of the Sadovaya field. Total resources of "A" grade coal (anthracite) at the Roskoshniy field within the bounds of the coal seams l<sub>7</sub><sup>B</sup>, l<sub>6</sub><sup>H</sup>, l<sub>4</sub><sup>B</sup>, k<sub>7</sub><sup>H</sup> amounted to 17.6 million tons. Proven and probable reserves (2P), as confirmed by IMC under JORC code, are 9.1 million tons as of 1 July 2010. The license is issued for 20 years.

#### Resource base in '000 tons, under JORC classification <sup>(1)</sup>

	Old fields	Roskoshniy field	Total	Change
Total resources (measured and indicated)	23,129	17,617	40,746	76%
Total reserves for mine (proven and probable)	17,853	9,051	26,904	51%

(1) Resource base as audited by IMC as of July 1, 2010

The acquisition is a part of the investment program of Sadovaya Group as described in the IPO prospectus.

In April 2011, due to geological reasons production at the 11 west longwall on l<sub>7</sub> seam of Rassvet-1 mine was stopped. After thorough investigation the Group decided not to exploit it anymore and shift efforts toward preparing and launching new longwalls.

In April 2010 Sadovaya Limited, the wholly owned subsidiary of the Sadovaya Group S.A., incorporated Sadovaya (Cyprus) Trading Limited. The share capital of Sadovaya (Cyprus) Trading Limited is USD 500,000 and will be paid in cash till the end of 2011. All shares in Sadovaya (Cyprus) Trading Limited will be held by Sadovaya Limited. The Registered Office of the Sadovaya (Cyprus) Trading Limited will be at 1, Lampousas Street, Nicosia 1095, Cyprus. The newly incorporated company will act as a trading house of the Sadovaya Group responsible for trading with international markets.

### 14. Events after the reporting date

On 1 July 2011 the new longwall on k<sub>7</sub>H coal-seam on Sadovaya mine was successfully put into operation. It is expected to operate at full capacity since October 2011 with monthly coal output of up to 9 ths. tons or 108 ths. tons per year. Coal reserves at the longwall comprise 146 ths. tons with the seam thickness of about 1.4 meters. Launch of this longwall is a part of Sadovaya Group development plan.

According to the Agreement # 290611 dd 29 June 2011 amending the Loan Agreement # 050906-JI dd 5 September 2006 with CREDIT DNEPR BANK PJSC, SHAKHTA SADOVA LLC has increased a limit of its 12%-loan to USD 9,804,469. Maturity date of the loan remains 1 April 2012.

On 4 July 2011 VOLAT-TRANS PC attracted a UAH 4,174,000 (USD 523,584) loan from CREDIT DNEPR BANK PJSC in order to acquire transport vehicles (bought within July 2011). The loan will be paid off by 14 June 2014.

In August 2011, INTERDON PC acquired 888.2 ths tones of inventories (waste coal) amounting to UAH 18,492,969 (USD 2,319,653).

Sadovaya Limited, the wholly owned subsidiary of the Sadovaya Group S.A., and Connectico Ventures Limited incorporated on 22 August 2011 a Management Company Sadovaya Group LLC (Ukraine). The share capital of Management Company Sadovaya Group LLC (Ukraine) is UAH 3,003,000 with 99.9% held by Sadovaya Limited (Cyprus)

Notes to the condensed pro forma consolidated financial statements

and 0.01% held by Connectico Ventures Limited; the share capital of Management Company Sadovaya Group LLC (Ukraine) will be paid in cash till the end of the year 2011.

The newly established Management Company Sadovaya Group LLC (Ukraine) will act solely as managerial authority for Ukrainian companies.