Sadovaya Group S.A.

(incorporated as a public limited company (société anonyme), under the laws of Grand Duchy of Luxembourg, having its registered office at 412F, route d'Esch, L–2086 Luxembourg, the Grand Duchy of Luxemburg, and registered with the Trade and Companies Register (Registre de Commerce et des Sociétés) in Luxembourg under number B 153489)

Offering of up to 10,771,423 Shares, with a nominal value of USD 0.01 each, in the share capital of Sadovaya Group S.A., and admission of all the issued Offer Shares to trading on the main market of the Warsaw Stock Exchange

This document (the "Prospectus") has been prepared for the purpose of (i) the offering (the "Offering") of up to 10,771,423 ordinary bearer shares in the share capital, each with a nominal value of USD 0.01 (the "Offer Shares"), in Sadovaya Group S.A. (the "Company"), and (ii) the admission of all of the issued Offer Shares (i.e., up to 10,771,423 Shares) to trading on the main market of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, the "WSE"). The Offering will consist solely of newly issued shares to be issued by the Company. The Company will receive all the net proceeds from the sale of the Offer Shares. The Offer Shares offered in this Offering constitute a minority interest in the Company.

The Offering consists of: (i) public offering to retail investors in Poland (the "Retail Investors"), (ii) public offering to institutional investors in Poland (the "Polish Institutional Investors"), and (iii) private placement to institutional investors in certain jurisdictions outside the United States and Poland in reliance on Regulation S under the U.S. Securities Act (the "International Investors", and together with the Polish Institutional Investors, the "Institutional Investors"), in each case in accordance with applicable securities laws.

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or with any securities regulatory authority of any state or any jurisdiction in the United States. The Offer Shares are being offered and sold only outside the United States in accordance with the Regulation S under the US Securities Act (the "Regulation S") and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in the Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. See: "Selling Restrictions".

The Offer Shares are being offered, as specified in this Prospectus, subject to cancellation or modification of the Offering and subject to certain other conditions.

The Prospectus constitutes a prospectus in the form of a single document within the meaning of Art. 5.3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "Prospectus Directive") and the Luxembourg law dated July 10, 2005, relating to prospectuses for securities, implementing the Prospectus Directive into Luxembourg law (the "Prospectus Act 2005"), and has been prepared in accordance with the Prospectus Act 2005 and Commission Regulation (EC) 809/2004 of 29 April 2004. The Commission de Surveillance du Secteur Financier (the "CSSF") in its capacity as the competent authority in Luxembourg under the Prospectus Act 2005, has approved this document as a prospectus. The Company will be authorised to carry out the Offering to the public in Poland, once the CSSF has provided the Polish Financial Supervision Authority (the "PFSA"), which is the competent authority in Poland, (in accordance with Art. 19 of the Prospectus Act 2005, Art. 18 of the Prospectus Directive and Art. 37 of the Polish Public Offerings Act) with a certificate of approval of this Prospectus and after the Prospectus has been made available to the public together with a translation of the summary into the Polish language.

See "Risk Factors" for a discussion of certain considerations to be taken into account when deciding whether to invest in the Offer Shares.

Prior to the Offering, there was no public market for the Shares. Based on this Prospectus, the Company intends to apply for all of the issued Offer Shares (i.e., up to 10,771,423 Shares) to be admitted to listing and trading on the main market of the WSE (the "Admission"). The Company expects that trading in the Offer Shares on the WSE will commence on or about December 30, 2010 (the "Listing Date"). Settlement of the Offering is expected to occur on or about December 20, 2010 (the "Settlement Date"). Prospective retail and institutional investors in Poland (other than "U.S. persons" as defined in the Regulation S) may subscribe for the Offer Shares during a period which is expected to commence on or about December 8, 2010 and is expected to end on or about December 16, 2010. The final offer price per Offer Share (the "Offer Price") will not exceed PLN 17.50 (the "Maximum Price"). The final Offer Price and the final number of the Ofer Shares will be determined by the Company upon recommendation of the managers named herein (the "Managers") after completion of bookbuilding for institutional investors on or about December 10, 2010, based on interest from investors and will, in accordance with Art. 10 of the Prospectus Act 2005 and Art. 54 of the Polish Public Offerings Act, be filed with the CSSF and the PFSA and published in the same manner as this Prospectus and, if required, otherwise in accordance with applicable Polish and Luxembourg regulations.

All the Offer Shares are ordinary bearer shares and will exist in the territory of Poland in book entry form once they have been registered with the Polish clearing and settlement institution – the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A., the "NDS"). Shareholders in the Company may hold them through the NDS participants, such as investment firms and custodian banks operating in Poland.

Offer Price: To be determined in PLN and announced on or about 10 December, 2010

BG Capital JSC and BG Trading Limited (jointly the "Lead Managers") and Dom Maklerski BZWBK S.A. (the "Co-Lead Manager") will act as Managers and the bookrunners for the Offering. Dom Maklerski BZWBK S.A. (the "Offering Agent") will act as the offering agent in Poland for the purposes of the public offering and admission of the Offer Shares on the WSE.

Lead Managers

BG Trading Limited **BG Capital JSC**

Co-Lead Manager

Dom Maklerski BZ WBK S.A.

The date of this Prospectus is 29 November, 2010

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SUMMARY

The following constitutes the summary of the essential characteristics and risks associated with the Issuer, the Operating Companies, the Group and the Shares. This summary should be read only as an introduction to this Prospectus and contains information included elsewhere in this Prospectus. It is expressly pointed out that this summary is not exhaustive and does not contain all information which is of importance to prospective investors. Reading this summary should, in no way, be considered a substitute for reading this Prospectus in its entirety. Prospective investors should read this Prospectus thoroughly and completely, including the "Risk Factors", any supplements to this Prospectus required under applicable laws and the Combined Financial Statements and other financial information and related notes, before making any decision with respect to investing in the Offer Shares. No civil liability will attach to the Issuer and other companies of the Group in respect of this summary (including the Summary Financial and Operating Information) or any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Introduction of the Group

The Issuer, 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 (the “Group”).

The Issuer does not carry any business operations except for direct and indirect holding of shares in the Group companies. The Group’s operations are conducted through its Ukrainian subsidiaries.

The Group’s principal business is 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 main 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).

Sadovaya Group is Ukraine’s fourth largest private producer of anthracitic (energy) coal, according to data available as of first half of 2010 (Source: *Energobiznes Magazine*, No. 31 of Aug. 03, 2010, http://e-b.com.ua/)

The table below provides selected production data for the Group.

	December 31, 2007	**December 31, 2008**	**December 31, 2009**	**June 30, 2010**
	‘000t	**‘000t**	**‘000t**	**‘000t**
Coal mining	153.3	207.8	102.6	110.5
Coal recovery from waste	58.2	6.1	5.4	12.6
Coal trading	709.8	1,190.4	198.5	287.1

Source: Company data

The Group operates two full-cycle mine complexes in Ukraine’s Donetsk and Luhansk Regions with annual production capacity of about 600 thousand tonnes, controls 16 coal waste dumps and tailings ponds, and operates waste recovery facilities with annual coal output capacity of about 60 thousand tonnes. In the year 2011 the Group intends to launch a full-scale waste recovery business, and produce 738 thousand tonnes of coal from wastes in 2012. The Group’s coal sales volumes increased from 67 thousand tonnes in 2003 to 1,190 thousand tonnes in 2008. The Group intends to increase its coal production to 940,300 tonnes and sales to 2,122,200 tonnes by 2012.

The table below provides a summary of the Group's coal resources and reserves as at July 1, 2010 presented in accordance with JORC Code, and summarized from the Technical Report presented in Annex III.

	Proved and Probable reserves	Measured and Indicated resources
	mln t	mln t
Sadovaya Mine	12.4	9.9
Rassvet-1 Mine	5.5	13.2
Roskoshniy	9.1	17.6
Krasnoluchskaya Severnaya	14.5	81.4
Mines total	41.4	122.2
Waste dumps	1.3	1.4
Tailings ponds	5.5	6.5
Total	48.1	130.1

Key Strengths

The Management believes that the Group benefits from the following competitive strengths and advantages:

Long track record and established relationships with key customers. The Group has operated in the coal mining industry since 2003, and managed to increase coal trading volumes by 17 times over five years. The Group's activities were then primarily focused on developing coal trading. Owing to its extensive sales experience, the Group established business relations with major Ukrainian consumers of steam coal.

Full ownership over coal mines. The Group is one of a small number of privately owned coal mining companies in Ukraine that has significant experience in the industry. Compared to state-owned coal mining companies, most of which generate losses and are thus unable to invest in their own development, the Group is increasing its competitiveness by reducing costs, modernizing facilities, and introducing best practices in company management. In addition, the Group's full ownership of the operating mines (as opposed to the practice of leasing mines from the state) minimizes the risk of a loss of mining assets.

Significant coal reserves. The Group controls two operational mines that hold 23.1 million tonnes of coal resources (measured and indicated) classified as steam coal (anthracite and semi-anthracite), and in 2011 expects to complete the acquisition of two new mining fields with an additional 99.1 million tonnes of reserves (measured and indicated). Proven and probable coal reserves at the Group's mines, in accordance with JORC Code, stand at 41.4 million tonnes (as described in the Technical Report in Annex III).

Large coal waste reserves and experience in waste processing. The Croup controls 16 coal waste dumps and tailings ponds, and operates waste recovery facilities with annual coal output capacity of about 50 thousand tonnes. Proven and probable coal reserves at the Group's waste deposits, in accordance with JORC Code, stand at 6.7 million tonnes (as described in the Technical Report in Annex III). The Group has significant experience in retrieving coal from coal waste dumps and tailings ponds. The costs associated with the acquisition of the waste reserves, as well as, the recovery and enrichment costs are low, which translates into high profitability.

Strategy

The Group's strategy is to increase sales of its own coal to enhance overall value for its shareholders. The growth is expected to be facilitated by increased production efficiency at its current mines through the installation of modern extraction equipment, via the expansion of its coal reverses base, and via the introduction of modern and efficient waste recovery facilities. The Group's designed strategic development plan, audited by mineral experts as described in the Technical Report in Annex III, is estimated to provide for total NPV of USD 348 million.

The key strategic development points include:

Increase of coal mining productivity at existing mines. The Group intends to increase operating capacities and productivity at its current mines by increasing the number of working longwalls and the mechanization of coal extraction activities following the installation of modern mining equipment.

Establishment of a full-scale coal waste recovery business. The Group views the coal waste recovery business as its key profit generating direction in the mid-term outlook. The Group plans to construct two waste enrichment facilities in 2011 that will have annual production capacity of 0.7 million tonnes of marketable coal. With the costs of recovering coal from wastes estimated at 3-4 times lower than for coal mining, the Group estimates that the gross margin from this direction of business could exceed 75% in 2012. The total NPV of the Group's waste recovery projects, (as outlined in the Technical Report in Annex III) is estimated at USD 165.4 million.

Increase of coal deposits. The Group intends to acquire two new coal deposits, namely Roskoshniy and Krasnoluchskaya Severnaya. The two deposits' resources are estimated at 99.1 million tonnes (Measured and Indicated). After the acquisition of these two deposits, the Group's total deposits will increase by five times to 122.2 million tonnes (Measured and Indicated).

Increase of coal production capacities. The Group intends to increase its working capacities and production volumes through an increase in workforce efficiency at its current mines and an expansion of capacity with the acquisition of new mining sites. In particular, the Group intends to enlarge the capacities of its two existing mining complexes through the more extensive use of machinery. The Group also expects to develop two new coal deposits, namely Roskoshniy and Krasnoluchskaya Severnaya. The total NPV of the Group's mining projects (as outlined in the Technical Report in Annex III) is estimated at USD 136.7 million.

Change in coal trading structure. The Group intends to increase the share of its own coal in total coal trading in-line with the aforementioned planned increase in working capacities and coal extraction.

Use of Proceeds

The Group intends to use the net proceeds from the sales of Offer Shares to finance its development programs, which includes:

- Modernization and development of existing mines Sadovaya and Rassvet-1;
- Construction of two enrichment complexes to process the Group's on-ground coal waste deposits;
- Acquisition and development of the Roskoshniy and Krasnoluchskaya Severnaya coal deposits.

Summary Financial and Operating Data

The summary financial and operating data presented below refer to the financial years ended on December 31, 2007, 2008 and 2009 respectively and to the first half of the financial year 2010 that ended on June 30, 2010 with comparable data for 2009. It has been extracted from the Combined Financial Statements, without material adjustment, and should be read in conjunction with, and is qualified in its entirety by reference to, the Combined Financial Statements and the notes thereto included in this Prospectus and the information in the section titled "Operating and Financial Review". The Issuer is a holding company which does not have any operating assets, except for the equity interests in its subsidiaries. Furthermore, since the Issuer was established recently and the Group was only formed in the recent months, the Issuer has not yet prepared any combined financial statements.

Income statement data

	December 31, 2007 audited US$	December 31, 2008 audited US$	December 31, 2009 audited US$	June 30, 2009 reviewed US$	June 30, 2010 reviewed US$
Revenue	43,150,993	98,888,042	13,322,222	7,903,318	19,145,293
Gross profit/(loss)	7,791,344	31,598,737	(4,148,196)	(1,177,278)	5,407,702
Operating profit/(loss)	5,897,850	28,110,696	(7,296,596)	(2,109,532)	4,166,801
Profit/(loss) before tax	5,578,136	25,926,458	(9,247,956)	(3,044,931)	2,864,231
Profit/(loss) for the year/period	5,355,290	25,285,118	(8,411,773)	(2,751,556)	3,237,461

Source: the Company, based on the Combined Financial Statements

EBITDA reconciliation datafrom continuing operations ("EBITDA")

	December 31, 2007 audited US$	December 31, 2008 audited US$	December 31, 2009 audited US$	June 30, 2009 reviewed US$	June 30, 2010 reviewed US$
Operating profit/(loss)	5,897,850	28,110,696	(7,296,596)	(2,109,532)	4,166,801
Depreciation and amortization	1,092,135	1,712,263	3,738,613	1,930,059	2,028,523
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(5,934)	(103,676)	353,767	340,273	(26,025)
(Gain)/loss on revaluation of property, plant and equipment	-	130,156	-	-	-
EBITDA	6,984,051	29,849,439	(3,204,216)	160,800	6,169,299
EBITDA margin reconciliation data:	16.2%	30.2%	-24.1%	2.0%	32.2%

Source: the Company, based on data derived from the Combined Financial Statements

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 effects of the Company's operations which are difficult to recognize directly from the Combined Financial Statements. EBITDA calculations have not been subject to separate auditor's review although items used for calculation of EBITDA have been derived from the audited or reviewed Combined Financial Statements. This measure should not be considered in isolation or as an alternative to net profit for the period or other data presented in Combined Financial Statements as indicators of financial performance. EBITDA measure is not determined in accordance with generally accepted accounting principles, and thus is susceptible to varying calculations.

Balance sheet data

	December 31, 2007 audited US$	December 31, 2008 audited US$	December 31, 2009 audited US$	June 30, 2009 reviewed US$	June 30, 2010 reviewed US$
Total assets	28,554,210	56,692,056	49,247,514	53,850,469	51,666,327
Total equity	9,789,722	35,355,285	26,264,910	32,655,338	24,485,952
Total non-current liabilities	5,644,764	9,519,228	9,162,914	9,689,416	9,443,886
Total current liabilities	13,119,724	11,817,543	13,819,690	11,505,715	17,736,489
Loans and borrowings, non-current	2,475,248	41,904	1,627	46,726	-
Loans and borrowings, current	7,487,129	9,128 ,793	10,932,826	9,603,790	14,186,304
Cash and cash equivalents	1,210,212	1,405,124	39,678	1,626	2,920

Source: Company data, based on the Combined Financial Statements

Cash flow data

	December 31, 2007 audited US$	December 31, 2008 audited US$	December 31, 2009 audited US$	June 30, 2009 reviewed US$	June 30, 2010 reviewed US$
Net cash flows from operating activities	3,767,827	15,549,442	863,610	1,776,052	4,381,878
Net cash flows used in investing activities	(3,877,442)	(3,693,544)	(2,577,106)	(2,280,705)	(858,079)
Net cash flows from/(used in) financing activities	1,188,887	(10,299,673)	371,559	(899,370)	(3,560,728)
Net increase in cash and cash equivalents	1,079,272	1,556,224	(1,341,937)	(1,404,023)	(36,929)

Source: Company data, based on the Combined Financial Statements

Summary of Risk Factors

The investment in the Offer Shares involves risks that are listed below. Should any of these risks materialize, the operations of the Group and the financial results of the Issuer may be adversely affected. The risks listed below are discussed in detail in the "Risk Factors" section of the Prospectus:

Risks Relating to the Group's Operations and Industry

- *The Group's financial performance is dependent on the global price of and demand for coal*
- *Electricity prices may significantly increase*
- *The Group's business is subject to a number of risks and hazards, including the significant risk of disruption or damage to persons, property and environment*
- *The Group is subject to particular demands from customers, which vary from customer to customer and from time to time*
- *An increase in the Group's production costs and costs of technologies applied by the Group could materially adversely affect its business and results of operations*
- *The Group's future financial and operational performance depends on its ability to upgrade existing facilities and develop currently unexploited mining assets in accordance with its plans, on time and to budget*
- *Unexpected stoppages due to technological malfunctions may impact the Group's sales and revenues*
- *The Group depends on relations with third parties*
- *The volume and grade of the Group's reserves and its rate of production may not conform to current expectations*
- *Title to the Group's mineral properties or production facilities, or to any privatized assets acquired by the Group, may be challenged*
- *Customers may not pay their debts toward the Group companies and may become insolvent*
- *The legal framework limits the Group's workforce management*
- *The Group's business depends on mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not prolonged*
- *The Group may not reach the production levels established in the production projects for their licences*
- *Performance of activities without permit for commencement of works from the State Fire-Safety Control may lead to imposition of fines*
- *The Group has not yet obtained all necessary environmental permits*
- *Risk associated with reclamation and mining damage*
- *Annual changes in licencing procedure could have a material adverse effect on the Group's ability to participate in certain future auctions for exploration and production licences*
- *Difficulty in ascertaining the validity and enforceability of title to land or other real property in Ukraine and the extent to which it is encumbered may have a material adverse effect on the Group's business*
- *If the Ukrainian Anti-monopoly Committee were to conclude that the Group acquired or established a new company, or increased the level of control it exerts over certain entities, and/or acquired integral property complexes in contravention of anti-monopoly legislation, the Group could face administrative sanctions or be required to divest certain assets*
- *Decrease of demand for coal may result from Post – Kyoto Protocol regulations on greenhouse gas emissions*
- *Decrease of demand for coal may result from selling the CO2 emissions*
- *Decrease of demand for coal may result from development of alternative energy sources*
- *The Group's business may be affected by labour disruptions*

- *The coal industry is intensely competitive and the Group may have difficulty effectively competing with other coal mining companies*
- *The Group's compliance with health and safety laws may require increased capital expenditures, and non-compliance may subject the group to significant penalties*
- *Risk associated with related party transactions*
- [0]*The Group could be subject to liabilities if it is determined that the Group's past actions violated Ukrainian corporate laws or regulations*
- [0]*The credit facilities of the Group are repayable on demand*
- *The operating and financial results of the Group as presented in USD may be distorted by application of the corresponding UAH/USD exchange rate*

Risks relating to operating in Ukraine

- *Emerging markets are subject to greater risks than more developed markets*
- *Political considerations*
- *Economic considerations*
- *Regional relationships*
- *Ukraine's developing legal system*
- *Ukraine's judicial system*
- *The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings*
- *Official economic data and third-party information*
- *Ukraine's physical infrastructure is in poor condition, which could disrupt normal business activity*
- *Fluctuations in the global economy*
- *Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect its financial condition and results of operations*
- *The implications of the tax system in Ukraine are uncertain and various tax laws are subject to different interpretations*
- *Changes in Ukrainian tax legislation may adversely affect Group's business, financial condition and results of operations.*
- *Economic instability in Ukraine could adversely affect the Group's business*
- *The business environment in Ukraine could deteriorate*
- *The potential for labour and social unrest in Ukraine could have a materially adverse effect on the Group's ability to conduct its business effectively and on the market price of the Shares*

Risks relating to securities

- *The Offering may be delayed, suspended or cancelled*
- *The market value of Shares may be adversely affected by future sales or issues of substantial amounts of Shares*
- *Holders of the Shares may not be able to exercise pre-emptive rights, and as a result may experience substantial dilution upon future issuances of shares*
- *There is no guarantee that the Company will pay dividends in the future*
- *Existing shareholder will continue to exert significant influence on the management following the Offering*

- *The Company is established and organized under Luxembourg law*
- *Investors in the Shares will be subject to obligations resulting from various national laws*
- *Investors may have problems enforcing judgments against the Company*
- *Tax treatment for non-Luxembourg investors in a Luxembourg company may vary*

Risks relating to listing and market

- *The price of the Company's Shares may fluctuate*
- *Securities or industry analysts may cease to publish research or reports about Group's business or may change their recommendations regarding the Company's Shares*
- *There can be no assurance regarding the future development of the market for the Shares and its liquidity*
- *The marketability of the Company's Shares may decline and the market price of the Company's Shares may fluctuate disproportionately in response to adverse developments that are unrelated to the Company's operating performance and decline below the Offer Price*
- *The Company may be unable to list the Company's Shares on the WSE or the Company may be delisted from the WSE*
- *Trading in the Company's Shares on the WSE may be suspended*
- *The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares*
- *The Company has no experience in complying with requirements for publicly-listed companies*

Summary of the Offering

Issuer	Sadovaya Group S.A., a public limited company (*société anonyme*), incorporated under the laws of Grand Duchy of Luxembourg, having its registered office at 412F, route d'Esch, L-2086 Luxembourg, the Grand Duchy of Luxembourg.
Principal Shareholder	Connektico Ventures Limited, a limited liability company, incorporated under the laws of Cyprus, having its registered office at Lampousas, 1, P.C. 1095, Nicosia, Cyprus.
Offering	The Offering consists of: (i) public offering to retail investors in Poland (the "Retail Investors"), (ii) public offering to institutional investors in Poland (the "Polish Institutional Investors"), and (iii) private placement to institutional investors in certain jurisdictions outside the United States and Poland in reliance on Regulation S under the U.S. Securities Act (the "International Investors", and together with the Polish Institutional Investors, the "Institutional Investors"), in each case in accordance with applicable securities laws.
Offer Shares	Up to 10,771,423 ordinary bearer shares each with a nominal value of USD 0.01 to be issued by the Issuer.
Bookbuilding	During the Subscription Period for Retail Investors, a book building process amongst the Institutional Investors invited by the Managers will take place, during which such the Institutional Investors interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, being not higher than the Maximum Price.
Subscription Period	The subscriptions by the Retail Investors will be accepted between December 8, 2010 and December 10, 2010. Subscriptions by the Institutional Investors will be accepted between December 13, 2010 and December 16, 2010.
Offer Price	The final Offer Price per Offer Shares will not exceed PLN 17.50 (the "Maximum Price"). The Offer Price will be determined by the Issuer upon recommendation of the Managers after completion of bookbuilding for institutional investors on or about December 10, 2010. The final Offer Price will be based on the results of the Bookbuilding. Moreover, the following criteria will be taken into account while determining the Offer Price: (i) the size and price sensitivity of demand, as gauged during the Bookbuilding, (ii) the current and anticipated situation on the Polish and international capital markets, and (iii) the assessment of the growth prospects, risk factors and other information relating to Issuer's activities. The Issuer will announce the Offer Price by a way of current report that will be also available at the websites of the Issuer, the Co-Lead Manager and, if required, otherwise in accordance with applicable Polish and Luxembourg regulations.
Allotment	Allotment will take place on or about December 17, 2010, after closing of the Subscription Period.

Settlement and Delivery of the Offer Shares ...	The settlement of the Offering is expected to be made on the Settlement Date, on or about December 20, 2010, after which the issue of the Offer Shares and payment of the total Offer Price will follow. The delivery of the Offer Shares will be effected through the book-entry facilities of the NDS, in accordance with the NDS's settlement procedures.
Listing and Trading	The Issuer is planning to apply for admission to listing and trading on the main market of the WSE of all the Offer Shares issued in the Offering constituting up to 25% of all the Issuer's Shares (assuming all the Offer Shares have been issued), immediately after the Settlement Date. The Issuer believes that trading on the WSE will commence on or about December 30, 2010, or as soon as possible thereafter, barring unforeseen circumstances.
Form of Offer Shares	All the Offer Shares are ordinary bearer shares and will exist in book entry form once they have been registered with the NDS. Investors may hold the Offer Shares through the NDS participants, including investment firms and custodian banks. The Issuer will apply for registration of all of the Offer Shares with the National Depository for Securities. It is expected that on or soon after the Settlement Date, all of the issued Offer Shares, will exist in book-entry form.
Shares outstanding before and after the completion of the Offering	The Issuer's issued and outstanding share capital as of the date of this Prospectus is USD 323,142.70, divided into 32,314,270 Shares, each with a nominal value of USD 0.01. We expect that as at Admission a total of 43,097,603 Shares will be issued and outstanding which Shares will comprise our share capital in the amount of USD 430,976.03, assuming that the all Offer Shares offered are subscribed for, allotted and issued. In such case the Offer Shares will constitute up to 25% of the share capital and up to 25% of total votes at the General Meeting of Shareholders. Shares issued and outstanding as of the date of this Prospectus will be in registered form and are not intended to be admitted to trading on any stock exchange.
ISIN code	All the Offer Shares have ISIN code LU0564351582
Dividends..	All Shares carry full dividend rights if and when the distribution of profit is declared.
Voting Rights	Each Share entitles its holder to one vote at the General Meeting.
Lock-up	Subject to certain exceptions, the Company and the Principal Shareholder have agreed that for the period of 12 months from the Settlement Date, they will not, without the prior written consent of the Lead Managers, propose or otherwise support an offering of any of the Company's shares, announce any intention to offer new shares and/or to issue any securities convertible into Company's shares or securities that in any other manner represent the right to acquire the Company's shares, or conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling the Company's shares.
Lead Managers	BG Capital JSC and BG Trading Limited
Co-Lead Manager...	Dom Maklerski BZ WBK S.A.
Offering and Listing Agent	Dom Maklerski BZ WBK S.A.

Selling Restrictions	The Offer Shares may not be offered outside Poland in any manner that would constitute public offering or would otherwise require authorization under applicable local regulations. The Offer Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or any jurisdiction in the United States and subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Regulation S) except in certain transactions exempt from the registration requirements of the US Securities Act. For information on further selling restrictions please see: "*Selling Restrictions*".

RISK FACTORS

In addition to the other information contained in this Prospectus, prospective investors in the Offer Shares should consider carefully the specific risks set out below before making a decision to invest in the Offer Shares. These risks and uncertainties may not be the only ones facing the Group. Additional risks and uncertainties not presently known to the Group, or that the Group currently deems immaterial, may also impair the Group's business operations. The business, results of operations, financial condition or prospects of the Group could be materially adversely affected by any of the following risks, together with possible additional risks and uncertainties of which the Group's management is currently unaware or which they currently consider not to be material in relation to the Group's business. The trading price of the Shares could decline due to any of these risks and investors could lose part or all of their investment.

Risks Relating to the Group's Operations and Industry

The Group's financial performance is dependent on the global price of and demand for coal

The Group's business is relatively dependent on the global market price of coal. Sale prices and volumes in the worldwide coal market depend predominantly on the prevailing and expected level of demand for coal, mainly from energy and steel manufacturers. A number of factors beyond the Group's control, the most significant of these being the prevailing level of worldwide demand for energy, influence the demand for coal and the parameters for the contract price which the Group may demand for its coal.

In recent years, the growth in demand for coal in emerging markets, particularly in China and to a lesser extent in India, Brazil and Russia, has had a significant effect on coal prices in the market. A significant reduction by these markets of their coal consumption, or a significant increase in global supplies of coal, would likely reduce the prices for the Group's products, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

In addition, local demand for and domestic consumption of coal in Ukraine and Russia has been relatively high in recent years. Any significant reduction in Ukrainian or Russian demand for, or consumption of, coal may result in an increase in the volume of exports of coal by Ukrainian and Russian producers, which would likely reduce the contract price which the Group is able to charge, and this could have a material adverse effect on its business, results of operations, financial condition and prospects.

Electricity prices may significantly increase

While the Group is taking steps to increase its energy efficiency and reduce consumption to help minimise the impact of current and future electricity price increases on its production costs, if it is unable to do so or if prices increase significantly, this may affect the Group's business, results of operations, financial condition and prospects.

The Group's business is subject to a number of risks and hazards, including the significant risk of disruption or damage to persons, property and environment

The Group's business operations, like those of other mining companies, are subject to a number of risks and hazards, including industrial accidents, equipment failure, unusual or unexpected geological conditions, environmental hazards, labour disputes, changes in the regulatory environment, extreme weather conditions (especially in winter) and other natural phenomena. Hazards associated with underground pit mining include accidents involving the operation of underground pit mining and rock transportation equipment, collapses of the underground pit walls and flooding of the underground pit. Hazards associated with processing include the risk of accidents associated with operating the coal enrichments plants and equipment.

The Group takes all possible measures to prevent any accidents of harmful environmental impact in the process of its activity. This notwithstanding, activities of the Group may still lead to non-controlled exposure of methane into the atmosphere and/or into the mining facilities, which may lead to accidents or air contamination. Condensation of coal dust in the mining facilities and on subsurface may also negatively affect human health or pollute environment. Finally, mines may be flooded with the subsoil waters, which may lead to accidents. The Group may experience material mine or plant shutdowns or periods of reduced production as a result of any of the above factors. Such occurrences could result in material damage to, or the destruction of, mineral properties or production facilities, human exposure to pollution, personal injury or death, environmental and natural resource damage, delays in mining, delays in shipment, monetary losses and possible legal liability. Also, the controlling authorities may require the Group to perform some corrective actions to decrease the amounts of emissions of pollutants.

In 2007, 2008, 2009, and 6 months of the year 2010, both the Sadovaya and Rassvet-1 mines, the Group's principal operating subsidiaries, experienced in total 7, 14, 9 and 6 accidents, respectively, which according to Ukrainian law are defined as work-related injuries that prevent the employee from working for at least one day. In 2007 and 2008 they had one fatality per year, compared with 2 in 2009. Any further such events could negatively affect the Group's results of operations. Moreover, the Group may be subject to investigations carried out by the authorities for non compliance of safety measures. Potential fines that the Group would be subject to could materially adversely affect its profits.

Any unexpected production disruption could have a negative effect on the Group's profitability and cash flows. In addition to the revenue losses, longer-term business disruption could result in a loss of customers. If this were to occur, the Group's future sales levels, and therefore its future profitability, could be materially adversely affected.

The Group is subject to particular demands from customers, which vary from customer to customer and from time to time

Energy plants worldwide, but in particular outside the CIS region, are more frequently seeking coal with higher efficiency characteristics as the need for production efficiency increases and power generation technology develops. Increased demand for higher grade coal may reduce demand and contract prices for coal with lower energy efficiency. Although the Group is focused on the supply of coal mainly to the Ukrainian market, this may require the Group to shift more to the extraction and processing of coal with higher energy characteristics. Such a shift would require additional capital expenditures and may increase its processing costs. These additional expenditures may reduce the Group's margin and place it at a competitive disadvantage, in particular in relation to competitors that mine richer coal deposits. Customers are also increasingly demanding coal that is of higher quality in terms of other characteristics such as moisture and ash content. If the Group is unable to meet its customers' current requirements for higher quality coal or increase the overall quality of its coal to meet their future requirements, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

An increase in the Group's production costs and costs of technologies applied by the Group could materially adversely affect its business and results of operations

The Group's main production expenses are energy costs (see "Risks relating to the Group's Operations and Industry - Electricity Prices may significantly increase"), salaries and consumables. Changes in costs of the Group's mining and processing operations could occur as a result of unforeseen events and consequently result in changes in profitability or the feasibility and cost expectations in mining and processing existing reserves. Many of these changes may be beyond the Group's control. Changes in the Group's production costs could materially adversely affect its business, results of operations, financial condition and prospects.

The technology of power coal extraction applied by the Group companies involves the extensive use of machines and equipment. As a result of the Company's investment plans described in this Prospectus, it will be necessary to make investments in new machines and equipment. In case of unexpected increase in prices for specialised machines and equipment, this could have impact on the increase of investment expenditures which must be borne in connection with implementation of the Company's development strategy.

The Group's future financial and operational performance depends on its ability to upgrade existing facilities and develop currently unexploited mining assets in accordance with its plans, on time and to budget

The Group's plans for future coal extraction and processing involve improving efficiency and reducing operating costs as part of its business improvement programme, upgrading its current plant and processes (such as coal mining and coal refining at waste dumps and tailing dams) and increasing annual coal production of the existing mines. If if events outside of the Group's control were to occur, the Group may reconsider the feasibility and necessity to complete the proposed improvements, upgrades and developments.

The Group has presented estimates in this Prospectus of the reserves and resources at the Krasnoluchskaya Severnaya and Roskoshniy deposits and is currently undertaking a feasibility study in relation to these deposits. Production is not expected to commence until the economic feasibility of production at these deposits has been completed and all appropriate licences and permits have been obtained, and therefore the viability of any project as a whole may change in the intervening period.

The Group also expects that it will need to obtain or renew a number of operating licences and permits as its production and processing operations expand and there can be some cases or circumstances, outside of the Group's direct control, when such licences will not be granted or renewed upon terms which are favourable to the Group or at all. In such case the Group's business may be materially adversely affected.

The Group’s long-term expansion plans and projects will require additional funding. Failure of the Group to obtain such funding on satisfactory terms may have a materially adverse effect on the Group’s business, results of operations, financial condition and prospects.

Unexpected stoppages due to technological malfunctions may impact the Group’s sales and revenues

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). Unplanned stoppages caused by serious malfunctions may have a material impact on the volume of production and sales and the punctuality of deliveries to the Group’s customers, and consequently on the Group’s financial results. The risk of adverse effect of such stoppages is minimised by the fact that the Group extracts coal by the longwall system and its target production capacity is obtained in two mines from different walls. Therefore, in the event of stoppages in one mine, the planned level of extraction can be maintained by intensifying work on the other mine from the reserve or dormant walls.

The Group depends on relations with third parties

The Group will be heavily dependent on the provision of certain services (such as railway transportation and services of mine-rescue and maintenance teams) and goods (such as electricity) by third-party contractors in order to carry out its operations and implement strategic developments.

Most of the coal in Ukraine is transported by rail. In this respect the Group, like other coal suppliers in Ukraine, relies on the rail freight network operated by Ukrzaliznytsia, the Ukrainian state-owned railway company, for transportation of its products. Railway tariffs for freight increase periodically. For example, in 2008 the railway tariffs increased by approximately 30 per cent in UAH terms. There can be no assurance that substantial additional increases will not occur in the future. Although the Group has generally been able to pass the higher transportation costs on to its customers through price increases, if it is unable to do so then a significant increase in rail freight or other transportation costs could materially adversely affect the Group’s business, results of operations, financial condition and prospects. Whilst the Group has arrangements currently in place for these services, there can be no guarantee that these arrangements will be sufficient for the Group’s future needs or that such provision of services will not be interrupted or cease altogether.

Railway transportation services and services of mine-rescue and maintenance teams, which are required for the Group’s operations and strategic developments, are currently only available from one or a limited number of providers. In order to fill in the gap with regard to the mine-rescue and maintenance services, the Group supports a voluntary mine-rescue team, which is able to cover up to 60% of the Group’s demand for this service.

The Group's operations are dependent on the continuous supply of electricity. The availability of electricity is influenced by a number of factors many of which are beyond the Group’s control including, but not limited to, supply interruptions, price fluctuations and natural disasters. There is no guarantee that power shortages to the Company’s mine and other facilities will not occur. The Company currently receives its electricity from State Enterprise Regional Electronetworks and a privately owned LLC Luhansk Energy Union. Disruptions of access to electricity and adverse changes in energy supply or price, may have a material adverse effect on the Group’s business, prospects, results of operations or financial condition. If the Group is forced to change a provider of electricity, there is no guarantee that this would not result in the Group experiencing additional costs, interruptions to supply continuity or some other adverse effect on its business. There is also no guarantee that the Group will be able to find adequate replacement services on a timely basis.

The Group's operations and developments may be interrupted or otherwise adversely affected by failure to supply, or delays in the supply of these services by third party providers, by any change to the terms on which these services are made available by third party providers, and by the failure of third party providers to provide services that meet the Group’s quality requirements.

The volume and grade of the Group’s reserves and its rate of production may not conform to current expectations

The Group’s reserves and resources, as described in this Prospectus, are estimates only and no assurance can be given that the estimated quantities or grades of coal will be available to extract, or that any particular level of recovery will in fact be realized. Therefore, the actual deposits and the grade of coal encountered may differ materially from the estimates disclosed in this document.

There can be no guarantee that an identified reserve or resource will continue to qualify as a commercially mineable deposit that can be legally and economically exploited over the medium to long term. Production of coal resources can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. The estimated resources described in this Prospectus should not be interpreted as an assurance of the commercial viability, potential or profitability of any future operations. Moreover, there can be no assurance that the Group’s production levels at any of its mines will ever reach expected production levels. The Group has engaged IMC, an independent technical consultant, to advise it with respect to estimation of mineral reserves and resources, and all such estimates contained in this Prospectus are extracted without adjustment from IMC’s Technical Report in Annex III of the Prospectus. The Company believes that IMC is competent and that it has carried out its work in accordance with internationally recognised industry standards. Investors should refer to the explanation of the basis of preparation of IMC’s Technical Report in Annex III of the Prospectus. Whilst IMC has taken all reasonable care to ensure that the information contained in its report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its impact, if the work conducted by IMC is ultimately found to be incorrect or inadequate in any material respect; if the information on which IMC’s reserves and resources estimates are based is found to be incorrect; or if, due to the inherent uncertainty regarding resources and reserves, these are found to be materially different to the current estimates, the Group may experience delays and/or increased operating costs, and the economic viability of its projects may be adversely affected.

Title to the Group’s mineral properties or production facilities, or to any privatized assets acquired by the Group, may be challenged

Certain of the Group's assets were acquired through privatisation. Privatisations in some former Soviet republics have been subject to political controversy and legal challenge. In addition, competitors may from time to time also seek to deny the Group’s rights to develop certain natural resource deposits by challenging its compliance with tender rules and procedures or compliance with licence terms. In the event that any title to, or the Group’s ownership stakes in, any privatised assets acquired by the Group is subject to challenge on the grounds of defects in the privatisation process or otherwise, and the Group is unable to defeat such claim, the Group risks losing its ownership interest in such assets, which could materially adversely affect the Group’s business, results of operations, financial condition and prospects.

Customers may not pay their debts toward the Group companies and may become insolvent

Majority of the Group's sales are entirely or partially on deferred payment basis. Certain customers of the Group may not pay at all their debts toward the Group companies or may pay them with delay. The level of payment delinquencies may increase at times of general economic hardship which periodically occurs worldwide and in Ukraine. As of end of 2009, trade debtors and other short-term receivables of the Group accounted for 12.3% of the Group’s annual coal trading turnover. The Group is conducting permanent monitoring of the debts level and manages risks by contractual and organizational means. If a material portion of the Group’s accounts receivables is not paid or is delayed this may have a material adverse affect on the Group’s business, financial condition, results of operations and prospects.

The legal framework limits the Group’s workforce management

The Group relies on the continued services of key managerial, marketing and technical personnel, who may be difficult to replace with equally qualified personnel if they were to depart. Currently, due to shortage of qualified personnel in Ukraine, the Group is engaging foreign specialists. In light of the planned intensive growth of the Group, there can be no assurance that at some point it may not lack the qualified personnel. In order to avoid this situation the Group is improving qualification of its current personnel and inviting foreign specialists.

Due to the shortage of the qualified personnel at the mines, the Sadovaya mine and Rassvet-1 mine occasionally enter into personnel outsourcing agreements between themselves to provide necessary workforce for the mines. Ukrainian law does not directly provide for the possibility of the personnel outsourcing and thus, this type of arrangements between the Operating Companies may be challenged either by employees or by the responsible governmental authorities. As a result, the Operating Companies may lack the qualified personnel to perform their activities and/or may be subject to administrative or civil liability.

The Group's business depends on mining licences issued by the Government of Ukraine and such licences may be withheld, revoked or not prolonged

In Ukraine, all subsurface resources belong to the people of Ukraine. Currently, exploration and mining licences are granted by the Ministry of Environmental Protection of Ukraine. Exploration and mining licences are issued for 20 years and the respective exploration and mining licences are granted for five years. Prolongation approval must be obtained before expiration of the relevant licence. Exploration and mining licences may be suspended or revoked, or an extension may be refused, if the Group does not satisfy the conditions of its licences, including the payment of exploration and mining fees, the commencement of work within the period stipulated in the licence and compliance with mining, environmental, health and safety regulations. There can be no assurance that the Group will be able to achieve compliance with all applicable regulations at all times.

Beginning from 2004, the Ukrainian Government generally sold subsurface licences by competitive auction (tender). In the absence of any specific exemption from the tender procedure, there can be no assurance that the licences will not be revoked or subject to challenge in the future, in which case the Group would need to re-apply for them before it can begin exploration or mining works at these further deposits. If any or all of such licences were to be revoked and the Group were unable to re-obtain them, this could negatively affect the Group's ability to implement its long-term expansion plans, which could have a materially adverse affect on its business, results of operations, financial conditions and prospects.

Moreover, the State exercises supervision of subsurface users by conducting regular audits. Such companies are also required to comply with the conditions of subsoil use and specific obligations indicated in mining licence and agreement on terms of subsoil use. Operating Companies do not fully comply with several of such requirements, which may result in suspension and/or annulment of relevant licences. If any or all of such licences were to be revoked and the Group were unable to re-obtain them, this could negatively affect the Group's business, results of operations, financial conditions and prospects.

The Group may not reach the production levels established in the production projects for their licences

Under the law, mining licences are issued subject to observance by the licencee of specific obligations related to the terms of subsoil use. Such obligations are listed in the licence itself and also are contained in an agreement on conditions for use of subsurface, signed with the Ministry of Environmental Protection of Ukraine. The agreement constitutes an integral part of the mining licence and, apart from other obligations, contains various production targets which must be met by a particular mine.

Work program imposed in the licence issued to Shahta Rassvet-1 LLC required the company to reach the production level of 130 thousand tonnes of coal per year by July 2010. Shahta Rassvet-1 LLC did not reach such rate. The company filed with the Ministry of Environmental Protection of Ukraine a request to amend the program. The satisfaction of the request is expected by the end of 2010.

Similarly, the work program imposed in the licence to Shahta Sadovaya LLC required the company to reach the production level of 350 thousand tonnes of coal per year by the end of 2009. The company did not comply with this requirement and requested the Ministry of Environmental Protection of Ukraine to amend the program. The satisfaction of the request is expected by the end of 2010.

Although the above inconformities may not be regarded as significant, they may serve as a formal reason for suspension or annulment of a mining licence. However, despite the fact that many mines in Ukraine failed to comply with such obligations, the Group is not aware of any such licences actually annulled. Rather, the Ministry of Environmental Protection used to extend deadlines for meeting the targets or amend the licence terms. If such licences were to be revoked and the Group were unable to re-obtain them, this could negatively affect the Group's business, results of operations, financial conditions and prospects.

Performance of activities without permit for commencement of works from the State Fire-Safety Control may lead to imposition of fines

The Law of Ukraine "On Fire Safety" requires any company to obtain a permit for commencement of works from relevant state fire-safety authority. Although Shahta Sadovaya LLC and Shahta Rassvet-1 LLC applied for obtaining of such permits, no such permits have been issued yet. Accordingly, both companies are currently carrying out mining activities without such permits. Ukrainian legislation provides for possibility to impose fines on entities violating requirements of the fire safety legislation. Amount of such fines depends on nature of violation; however, it may not exceed 2% of monthly salary fund of each company.

The Group has not yet obtained all necessary environmental permits

Having received its mining licence only recently, Shahta Rassvet-1 LLC is currently obtaining all necessary environmental permits and production projects. Under the licencing terms, the company had to complete the preparation and obtain ecological approval of the production project by October 1, 2009, however, it did not comply with such deadline and is currently in the process of preparing such project. Obtaining the environmental permits and ecological approvals of the production project are the time-consuming processes, there is no certainty as to timing when the company will be able to obtain all necessary permits. Apart from sanctions provided by environmental legislation (imposition of fines and suspension of works causing environmental contamination without relevant permit), Ukrainian mining legislation also provides for suspension of mining licences in cases of violation of environmental regulations. Further failure to fix such violations (or repeated violations) may also result with annulment of mining licences. If mining licence were to be revoked and the Group were unable to re-obtain it, this could negatively affect the Group's business, results of operations, financial conditions and prospects.

Risk associated with reclamation and mining damage

The Operating Companies are obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be stricter. Any possible tightening of the standards in this respect as well as increase of the mining capacity of the Group may result in higher costs for the Group. This may adversely affect the financial results of the Company.

Annual changes in licencing procedure could have a material adverse effect on the Group's ability to participate in certain future auctions for exploration and production licences

Every year beginning with 2004, the Cabinet of Ministers of Ukraine adopts a separate resolution to govern the issuance of mining licences (applicable to both exploration and production licences), according to which such licences, with certain exceptions, are to be sold pursuant to an auction procedure. For 2010, the relevant resolution was adopted only on June 23, 2010. Due to such annual changes the Group may face uncertainties in obtaining subsoil use rights for the new deposits, which could have a material adverse effect on the Group's business, prospects, results of operations or financial condition.

Difficulty in ascertaining the validity and enforceability of title to land or other real property in Ukraine and the extent to which it is encumbered may have a material adverse effect on the Group's business

After the Soviet Union ceased to exist, land reform commenced in Ukraine and real estate legislation changed continuously over the following years; more than one hundred laws, presidential decrees and governmental resolutions were issued. Until recently, the land legislation in Ukraine was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal or government body had power to sell, lease or otherwise dispose of land. Since 1992 a number of laws regulating land use and ownership have been enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Ukraine is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Ukraine and the extent to which it is encumbered. These uncertainties may have an impact on the Group's business, prospects, results of operations or financial condition.

If the Ukrainian Anti-monopoly Committee were to conclude that the Group acquired or established a new company or increased the level of control it exerts over certain entities, and/or acquired integral property complexes in contravention of anti-monopoly legislation, the Group could face administrative sanctions or be required to divest certain assets

The Group's business has grown substantially through the establishment and acquisition of companies in and outside of Ukraine as well as lease and acquisition of the integral property complexes in Ukraine. Certain of such transaction might have required obtaining of prior approvals form the Ukrainian Anti-monopoly Committee (the "AMC"). Similarly to many other businesses in Ukraine, members of the Group were not always in the position to comply with all the applicable AMC merger control requirements; in addition, the relevant legislation was not always certain or sufficiently developed and its implementation was often inconsistent. As a result, members of the Group did not receive AMC approvals for any transactions pertaining to the establishment of the Group. The failure to obtain necessary approvals for such transactions (if such transactions required the AMC approvals) may subject the Issuer, the Group and/or its Beneficial Owners, and the entities related to them by control, to fines of up to five per cent of the Group's consolidated revenue and the revenue of all other related by control to the Issuer, the Group and its Beneficial Owners, directly or indirectly, entities/persons, which are not included into Group's consolidated revenue, for the financial year immediately preceding the year in which the fine is imposed, or in the worst case the relevant transactions may be invalidated through court procedures and the relevant companies may be dissolved (such invalidation and dissolution may only apply if the transactions are found to have led to the creation of a monopoly or substantially reduced competition in the relevant market or part thereof).

The Beneficial Owners of the Group intend to make a filing to the AMC in December 2010 in respect of the transactions pertaining to the establishment of the Group and obtain a retrospective approval for the establishment thereof. The Group believes that none of the transactions pertaining to the establishment of the Group has led to the creation of a monopoly or substantially reduced competition in the relevant market in Ukraine, and any actions on the part of the AMC in relation to a number of such past transactions would be barred under the applicable statute of limitations in Ukraine, and it therefore expects that any administrative fine (in case it is imposed) in respect of the failure to obtain AMC approvals for such transactions is likely to be substantially less than the maximum amount specified above, or time-barred.

Decrease of demand for coal may result from Post – Kyoto Protocol regulations on greenhouse gas emissions

Ukraine is a signatory to the Kyoto Protocol which is a protocol to the Framework Convention of the United Nation on Climate Changes. The Kyoto Protocol entered into force in February 2005 and Ukraine committed itself not to exceed the 1990 gas emissions level until the end of first commitment period (2012). At the date of this Prospectus countries and international organisations work on new protocol which will regulate worldwide greenhouse gas emissions from 2013. New provisions, commitments and reduction levels as well as the date of passing new protocol are still unknown. If the new regulation decreases emission levels in Ukraine significantly, demand for coal in general, or for coal of lower quality, may fall, because of the fact that during coal combustion a significant amount of greenhouse gases, especially CO2 is emitted. The decrease of demand for coal may cause fall of volume of sales and pricing of coal, and in consequence, could have impact on the Group's business, results of operations, financial condition and prospects.

Decrease of demand for coal may result from selling the CO2 emissions

The EU climate policy resulting from the Framework Convention of the United Nation on Climate Changes (Kyoto Protocol) stipulates limiting the emission of greenhouse gases to the atmosphere. The European Commission declares limiting the CO2 emissions by 20% until 2020 and as to meet commitments EC introduced EU Emission Trading Scheme. Under the EU ETS emitters of CO2 must monitor and report their CO2 emissions, and they are obliged every year to return an amount of emission permits to the government that is equivalent to their CO2 emissions in that year. In the first two periods (2005-2007, 2008-2012) emission permits were allocated for free. The EC plans to introduce a system of auctions of emission permits from 2013. The system will mean that instead of receiving free emission rights, companies in Europe will be forced to purchase emission permits in open tenders. The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause companies to switch from technologies powered by coal to other technologies in which the emission of CO2 is reduced. In consequence, the demand for coal in general, or for coal of lower quality, may decrease. Such decrease of demand may have adverse effect on the volume of sales and pricing of coal, and in consequence, on the Group's business, results of operations, financial condition and prospects.

Decrease of demand for coal may result from development of alternative energy sources

One of the main aims of the EU's climate policy is promotion of the use of energy from renewable sources. According to the Directive 2009/28/EC the share of renewables in the EU's member states energy production should reach 20% by 2020. As a result of this policy the production of energy in coal power plants in Europe will fall in the near future. Moreover, alternative energy projects are developed under provisions of the Kyoto Protocol as so called Flexible Mechanisms: Clean Development Mechanism (CDM) and Joint Implementation (JI). The CDM projects have been developing since 2005 and many of them have already been completed. The JI projects started in 2008 and have recently became a popular way of investing in alternative energy sources. A rapid growth of renewables and other alternative energy sources may influence the market of traditional energy sources, especially coal. In consequence the demand for coal may fall and such decrease may have adverse effect on the volume of sales and pricing of coal, and in consequence, could materially adversely affect the Group's business, results of operations, financial condition and prospects. This risk is minimized by the heavy reliance of the Ukrainian energy system on the electricity produced by heat power plants, which are extensively consuming coal and supporting the demand for coal on the Ukrainian market.

The Group's business may be affected by labour disruptions

The Group is a significant employer in the region, employing in Ukraine an average total of 875 employees in the financial year ended December 31, 2009. Although management believes that current labour relations in the Group are good and despite that there have been no significant labour disputes between the employees and the management in the past, there can be no assurance that a work slowdown, a work stoppage or strike will not occur and the management is unable to estimate the effect of any such work slowdown, stoppage or strike on the Group's production levels. Work slowdowns, stoppages or other labour-related developments could have impact on the Group's business, results of operations, financial condition or prospects.

The coal industry is intensely competitive and the Group may have difficulty effectively competing with other coal mining companies

The coal industry is characterised by intense competition. The Group competes with a number of large mining companies, including both privately- and state-owned mining companies, some of which have total assets and financial resources substantially greater than those of the Group. Although, at present, the Group believes that it benefits from the close proximity of the Group's coal mines to the developed infrastructure, and therefore from a competitive cost of supply, some of these competitors may, in the future, use their substantial resources to enter into purchase agreements with the Group's customers, which may result in a loss of market share for the Group. These competitors may also acquire additional exploration rights over coal deposits, further develop coal extraction facilities or engage in pricing or other financial or operational practices that will increase competitive pressure on the Group. Competition from foreign direct investment in the Group's domestic competitors, may also result in losses of market share for the Group and materially adversely affect the Group's business, results of operations, financial condition and prospects. The Group is minimizing this risk by increasing the volumes of coal produced from the coal waste, which allows to establish competitive prices for the coal.

The Group's compliance with health and safety laws may require increased capital expenditures, and non-compliance may subject the Group to significant penalties

A violation of health and safety laws relating to a mine, or at a coal enrichment or other plant, or a failure to comply with the instructions of the relevant health and safety authorities, could lead to, amongst other things, a temporary shut down of all or a portion of the mine or other plant; a loss of the right to mine, or the imposition of costly compliance procedures. If health and safety authorities require the Group to shut down all or a portion of a mine or other plant or to implement costly compliance measures, whether pursuant to existing or new health and safety laws and regulations, or the more stringent enforcement of existing laws and regulations, such measures could materially adversely affect the Group's business, results of operations, financial condition and prospects. This risk is minimized by the fact that the Group has budgeted the costs for enhancing health and safety compliance and intends to undergo the certification of the health and safety standards of its Operating Companies.

Risk associated with related party transactions

The Group has engaged and may continue to engage in transactions with related parties including the Beneficial Owners and companies controlled by them or in which they own a controlling interest, and with entities with which the Directors are connected, which may be subject to inspection by tax authorities. The main subject of examining the transactions is whether they have been concluded on an arm's length basis. In the Group's opinion, all transactions concluded with related parties were and continue to be concluded solely on an arm's length basis. It cannot be ruled out however that the tax authorities will decide to the contrary in assessing the transactions conducted by the Group and its related parties, which could result in a difference in calculating the taxable income and the necessity of paying additional tax along with default interest.

The Group could be subject to liabilities if it is determined that the Group's past actions violated Ukrainian corporate laws or regulations

Ukrainian corporate laws and regulations have developed considerably since Ukraine's transition to a market economy. Some of these laws and regulations contain ambiguities, imprecision and inconsistencies, which make compliance with these laws difficult. As a result, the Group's prior transactions may not have fully complied with all corporate formalities. In particular, the Group may not have complied or may not have fully complied with all technical requirements of Ukrainian corporate law with respect to net assets sufficiency, organizational form of a legal entity, or certain transfers of interests in the Group's subsidiaries. Depending on the nature of a violation, the above instances of non-compliance with applicable laws and regulations may result in warnings from governmental authorities, requests from governmental authorities for the corrective actions within a prescribed time period, obligation to decrease charter capital which may lead to requests form creditors for early termination of contractual relations, requests for corporate reorganization proceedings, requests for mandatory winding-up proceedings, or requests to unwind a previous transaction. In some instances, once notified about the alleged violation of laws or regulations, the Group may be able to perform preventive measures, in particular, make additional contributions to charter capital. To date, the Group has not received any notice of violation from any interested parties or from governmental authorities, and we do not expect that any party will seek to review or modify any such transaction or challenge the above-mentioned irregularities. However, there can be no assurance that we will not receive any such notices or claims in the future. Any such event could have an adverse effect on our business, results of operations, and financial condition.

The credit facilities of the Group are repayable on demand

The Group's operations are partially financed through short and medium term loans from two Ukrainian banks. The loans are secured on material assets of the Group including shareholdings in Group companies (see "*Business Description – Material Contracts - Financing Agreements*". To date, the Group has repaid the installments due on such borrowings in accordance with their respective loan repayment schedules. However, all of the Group's loan facilities may be repayable on demand in case of breach of the terms and conditions of the facilities and there can be no guarantee that the Group will not be required to repay such facilities in the future with limited advance notice and when not provided for in the Group's budgets. Although the Management believes that it complies which the conditions of the facilities and that it is unlikely both lenders would simultaneously demand repayment of their respective facilities at the same time, the Group's ability to repay its debt as and when required will be dependent on is its ability to generate positive cash from operations or to refinance such indebtedness, neither of which can be assured.

The operating and financial results of the Group as presented in USD may be distorted by application of the corresponding UAH/USD exchange rate

The Group's operations have no exposure to the foreign currency risk. At the same time, the Group has chosen USD as the presentation currency for its operating and financial results, while the functional currency of the Group's Ukrainian companies is UAH. Consequently, the operating and financial results of the Group as presented in USD may be distorted by application of the corresponding UAH/USD exchange rate.

Risks relating to operating in Ukraine

Historically, the Group's total sales revenues were generated from operations in Ukraine. The Company expects that such pattern will be repeated in the foreseeable future. As a consequence, risks and events that have a material adverse effect on the Group's operations in Ukraine could, in turn, have a material adverse effect on its overall business, financial condition, results of operations or prospects. Set forth below is a brief description of some of the risks incurred by investing in a company with substantial assets and operations in Ukraine.

Emerging markets are subject to greater risks than more developed markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as Ukraine's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the Shares.

Political considerations

Since obtaining independence in 1991, Ukraine has undergone substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. In parallel with this transformation, Ukraine is transitioning from a centrally planned economy to a market economy However, this process of economic transition is not complete. Historically, a lack of political consensus in the Verkhovna Rada, or Parliament of Ukraine has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster economic reform and financial stability.

The first round of the recent presidential elections was held on January 17, 2010; however, no candidate won 50% or more of the popular vote and the two highest polling candidates, Victor Yanukovych, a leader of Partiya Regioniv (the Party of Regions), and Yuliya Tymoshenko, leader of Yuliya Tymoshenko's Bloc, took part in the second round of elections. On February 7, 2010 Victor Yanukovych and Yuliya Tymoshenko won 48.95% and 45.47% of the popular vote, respectively. Although Yuliya Tymoshenko initially contested the results of the elections, she subsequently conceded and Viktor Yanukovych was inaugurated as President of Ukraine on February 25, 2010.

On March 3, 2010, the incumbent Prime Minister Yuliya Tymoshenko was voted out of the Government following a vote of no confidence by the Parliament. On March 11, 2010, factions of Party of Regions, Volodymyr Lytvyn Bloc and the Communist Party of Ukraine and several other deputies formed a new parliamentary coalition consisting of 235 deputies. On the same day, the Parliament appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister of Ukraine and endorsed the new members of the Government. Currently, the Government consists mainly of members of the President's Party of Regions with a few positions being occupied by representatives of other political forces.

On September 30, 2010 the Constitutional Court of Ukraine declared unconstitutional the law according to which the Constitution of Ukraine had been amended and Ukraine's state regime had been changed from presidentially-parliamentarian to parliamentary-presidential. Following this, the Parliament of Ukraine adopted a law on the Government of Ukraine. As a result, the President of Ukraine regained the powers, *inter alia,* to appoint, upon consent of majority of the parliamentarians, and dismiss a prime-minister, to appoint and dismiss ministers upon submission of the prime-minister, to appoint and dismiss heads of other central state bodies and regional governors; to abolish decrees of the Government; and to dismiss the prosecutor general without consent of the Parliament.

As of the date of this Prospectus, relations between the President, the Government and Parliament, as well as the procedures and rules governing the political process in Ukraine, remain in a state of uncertainty and may be subject to change through the process of political alliance-building or, if the required action is taken, through constitutional amendments and decisions of the Constitutional Court. Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences. A number of factors could adversely affect political stability in Ukraine. These could include: court action taken by opposition parliamentarians against decrees and other actions of the President or the Government; or court action by the President against parliamentary or governmental resolutions or actions.

If political instability occurs, it may have negative consequences for the Ukrainian economy and, as a result, a material adverse effect on Group's business, prospects, results of operations, financial condition or the price of the Shares.

Economic considerations

In recent years, the Ukrainian economy has been characterized by a number of features that contribute to economic instability, a relatively weak banking system providing limited liquidity to Ukrainian businesses, tax evasion, significant capital flight, and low wages and pensions for a large portion of the Ukrainian population.

The implementation of reforms has consistently faced the obstacles of a lack of political consensus, controversies over privatization (including privatization of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

The negative trends in the Ukrainian economy may continue while commodity prices on the external market remain low and access to foreign credit is limited, unless Ukraine undertakes certain important economic and financial structural reforms. The most critical structural reforms that need to be implemented or continued include: (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector); and (iii) reform of social benefits and pensions.

In 2009, the Ukrainian government incurred a budget deficit of UAH 19.9 billion (according to the Ministry of Finance of Ukraine) and GDP, as calculated in the national currency, decreased by 20.2% in the first quarter of the year, 17.8% in the second quarter of the year, 16.0% in the third quarter of the year and 6.8% in the fourth quarter of the year, each as compared to the corresponding periods in 2008. However, it should be noted that the international investment markets generally evaluate Ukrainian GDP in U.S. dollar terms and that the recent U.S. dollar/Hryvnia exchange rate volatility has further impacted the reported GDP decrease. Accordingly, the IMF reported that Ukraine’s GDP amounted to USD 179.6 billion in 2008 and USD 115.7 billion in 2009, a decrease of 35.6% year-on-year. In 2010, the CMU and the National Bank of Ukraine decided not to wait until the publication of the growth index of the actual gross domestic product of Ukraine for the first half of the year by the Derzhkomstat in mid-August. In July 2010, Mykola Azarov, Prime-Minister of Ukraine, reported that GDP in January-June grew by 6.3%. The Administration of the President has previously reported of the GDP growth by 6.1% in January-May 2010.

Failure to achieve the political consensus necessary to support and implement such reforms and any resulting instability could adversely affect the country’s macroeconomic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform, may have negative impact on the Ukrainian economy and, as a result, on the Group’s business, prospects, results of operations, financial condition or the price of the Shares.

In addition, the current global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The crisis has prompted the government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks, and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation’s banks could have a material adverse effect on the Ukrainian economy and, as a result, on the Group’s business, prospects, results of operations, financial condition or the price of the Shares.

Regional relationships

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS countries largely because Ukraine imports a large proportion of its energy requirements, mainly from Russia (and from other countries that deliver energy to Ukraine through Russia). In addition, a large portion of Ukrainian service proceeds come from transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. Apart from Russia, Ukraine also developed significant relationships with certain countries of the European Union ("EU") (including Germany, Poland, Hungary, Slovakia and Romania), as well as with Turkey.

Relations between Ukraine and Russia cooled to a certain extent due to disagreements in late 2005 and early 2006 and 2009 over the prices and methods of payment for gas delivered by the Russian gas monopoly OJSC Gazprom, and the stationing of the Russian Black Sea Fleet (Chornomorskyi Flot). In January 2006, Russia introduced a ban on imports of meat and milk products from Ukraine, which was partially lifted in July 2010.

Although following the recent election of President Yanukovych, Ukraine's relations with Russia are generally expected to improve, if bilateral trade relations were to deteriorate, this may have negative impact on the Ukrainian economy as a whole and thus on the Group's business, results of operations, financial condition and prospects. On April 21, 2010, the Presidents of Ukraine and the Russian Federation agreed to amend existing gas supply agreements between Naftogaz of Ukraine and Gazprom to the effect that Gazprom will introduce a discount to the previously agreed price formula. According to media reports, the formulas in the 2009 agreements, which tie the price of imported gas to European benchmark prices, remain intact but Gazprom will offer a discount of: (i) a maximum USD 100 per cubic meter if the price for natural gas is USD 333 (or higher); or (ii) 30% if the price is below USD 333 per cubic meter. The discount was provided in exchange for certain concessions for stationing the Russian Black Sea Fleet on the territory of Ukraine, such as extending the lease terms for an additional 25 years from 2017 with further 5-year period extensions after the 25-year term. On April 27, 2010 the Ukrainian and Russian Parliaments ratified the agreement.

More than 20% of Ukrainian goods are currently exported to Russia, while much of Russian exports of energy resources are delivered to the EU via Ukraine. Considerable dependence of the Ukrainian economy on Russian energy exports together with increase in natural gas price by Russia may adversely affect the pace of economic growth of Ukraine. Furthermore, gas price increases may force Ukraine to launch certain reforms in the energy sector and modernization of major energy-consuming industries through the implementation of efficient technologies and modernization of production facilities. However, there can be no assurance that this will take place.

Any major adverse changes in Ukrainian relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or affecting Ukrainian revenues from transit charges for Russian oil and gas, would likely have negative effects on certain sectors of the Ukrainian economy and thus may materially adversely affect the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Ukraine's developing legal system

Since independence in 1991, as Ukraine has been developing from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is however, in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to:

- inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- difficulty in predicting the outcome of judicial application of Ukrainian legislation;
- not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organized form,
- several fundamental Ukrainian laws either have only recently become effective or are still pending in Parliament.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. All of these weaknesses could affect the Group's ability to enforce its rights or to defend itself against claims by others, which could have a material adverse effect on the Group's business, prospects, results of operations, financial condition or the price of the Shares.

Ukraine's judicial system

The independence of the judicial system and its immunity from economic and political influences in Ukraine remains questionable. Although the Constitutional Court of Ukraine is the only body authorized to exercise constitutional jurisdiction and has been mostly impartial, the system of constitutional jurisdiction itself remains complicated and, accordingly, it is difficult to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

The court system lacks staffing and funding. Judicial decisions under Ukrainian law generally have no precedent effect, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Only a small number of judicial decisions are publicly available and therefore the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public is generally limited. However, according to the law "On Access to Court Decisions" which became effective on June 1, 2006, all decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters issued from June 1, 2006 have been made generally available to the public from January 1, 2007.The Ukrainian judicial system became more complicated and hierarchical as a result of recent judicial reforms. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system may have a negative impact on the Ukrainian economy as a whole, and thus may materially adversely affect the Group's business, financial condition, results of operations or prospects in Ukraine.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings

The independence of the judicial system and its immunity from economic and political influences in Ukraine is continuing to develop. Ukraine is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Additionally, court claims can be used in furtherance of personal aims different from the formal substance of the claims. The Group may be subject to such claims, and courts may render decisions with respect to those claims that are adverse to the Group and its investors.

State authorities have a high degree of discretion in Ukraine and at times they exercise their discretion arbitrarily, without due process or prior notice, and sometimes in a manner that is contrary to law. Unlawful or unilateral state actions could include the withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. National and local government entities could also use common defects in matters surrounding share issuances and registration as a basis for court claims and other demands to invalidate such issuances and registrations and/or to void transactions, often to further interests different from the formal substance of the claims. Such state action, if directed at the Group, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Official economic data and third-party information

Official statistics and other data published by Ukrainian state, regional and local authorities and governmental agencies are substantially less complete or reliable than those published by comparable bodies in other more developed jurisdictions. Official statistics may also be produced on different basis than those used in Western countries. Accordingly, the Group cannot assure prospective investors that the official sources from which the Group has drawn some of the information set out herein are reliable or complete. Any discussion of matters relating to Ukraine herein may therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The Issuer accepts responsibility only for the correct extraction and reproduction of such information.

Ukraine's physical infrastructure is in poor condition, which could disrupt normal business activity

Ukraine's physical infrastructure largely dates back to the Soviet times and in certain respects has not been adequately funded and maintained. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Ukraine are poor, with many roads not meeting minimum requirements for usability and safety. Breakdowns and failures of any part of Ukraine's physical infrastructure may disrupt the Group's normal business activity. Further deterioration of Ukraine's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Ukraine and interrupt business operations, any or all of which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Fluctuations in the global economy

Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or by other major export markets. Any such developments may have negative effects on the Ukrainian economy as a whole and thus may materially adversely affect the Group's business, financial condition, results of operations or prospects in Ukraine.

Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect its financial condition and results of operations

The weakened economic conditions in Ukraine, caused by the recent global crisis, have resulted in higher unemployment and increased levels of social unrest. In addition, both the Ukrainian and international press continue to report high levels of official corruption in Ukraine. Press reports have described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. The Group's business, and the value of the Shares, could be adversely affected by white-collar crime, illegal activities, corruption or by claims implicating the Group in illegal activities.

Independent analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU and other state authorities, as well as various entities carrying out financial transactions, are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, the Financial Action Task Force on Money Laundering ("FATF") removed Ukraine from its list of Non-Cooperative Countries and Territories in February 2004 and discontinued the formal monitoring of Ukraine in January 2006.

In February 2010 Ukraine was mentioned by FATF as having demonstrated progress in improving its AML/CFT regime despite still having certain strategic AML/CFT deficiencies. In early June 2009, the Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine. In particular, the laws contain provisions relating to measures to prevent corruption, introduce a more detailed regulation of responsibility for involvement in corruption (including the responsibility of legal entities) and provide for international cooperation in combating corruption. Although the newly adopted legislation is expected to facilitate anti-corruption efforts in Ukraine upon its entry into force on January 1, 2011, there can be no assurance that the laws will be effectively applied and implemented by the relevant supervising authorities. Any future allegations of corruption in Ukraine or evidence of money laundering may have a negative effect on the ability of Ukraine to attract foreign investment and thereby on the Ukrainian economy as a whole and thus may materially adversely affect the Group's business, financial condition, results of operations or prospects in Ukraine.

The implications of the tax system in Ukraine are uncertain and various tax laws are subject to different interpretations

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value-added tax, personal income tax, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Group's Ukrainian business. For example, with effect from January 1, 2004, the rate of corporate income tax was reduced from 30% to 25%, and a new flat personal income tax was introduced initially at a rate of 13% for almost all types of income, which subsequently increased to 15% from January 1, 2007. Reports indicate that Parliament will pass a new Tax Code in 2010, which would combine principal tax rules in one document and may result in a number of changes to the existing tax rules.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organizations, including the tax authorities, creating uncertainties and areas of conflict. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorized by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine which are more significant than typically found in countries with more developed tax systems. Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. However, this statutory limitation period may not be observed or may be extended in certain circumstances.

While the Group believe that it is currently in compliance in all material respects with the tax laws affecting its operations, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may have a material adverse effect on the Group's business, prospect, results of operations, financial condition or the price of the Shares.

Changes in Ukrainian tax legislation may adversely affect Group’s business, financial condition and results of operations.

On June 17, 2010 the Parliament of Ukraine passed in first reading the draft Tax Code of Ukraine. The exact timing for the ultimate enactment of the new Tax Code remains unclear, at the same time one understands that the intention is for a new Tax Code to be effective from January 1, 2011. A benefit of the Tax Code is that it is a single document that supersedes and consolidates a number of separate tax laws and regulations that are currently in force. However, it appears that, in its current version, the draft Tax Code does not introduce much in the way of the hoped for tax reform, and, in fact, contains numerous new provisions which suggest a negative impact on the business in Ukraine. In case such unfavorable provisions are adopted or the Group is not ready for the new provisions, it may material adverse impact on the Group’s financial results, operations and prospects.

Economic instability in Ukraine could adversely affect the Group’s business

Since the dissolution of the Soviet Union, the Ukrainian economy has experienced at various times: (i) significant declines in gross domestic product; (ii) hyperinflation; (iii) an unstable currency; (iv) high state debt relative to gross domestic product; (v) a weak banking system providing limited liquidity to Ukrainian enterprises; (vi) a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings; (vii) significant use of barter transactions and illiquid promissory notes to settle commercial transactions; (viii) widespread tax evasion; (vix) the growth of "black" and "grey" market economies; (x) high levels of capital flight; (xi) high levels of corruption and the penetration of organised crime into the economy; (xii) significant increases in unemployment and underemployment; and (xiii) the impoverishment of a large portion of the Ukrainian population.

The business environment in Ukraine could deteriorate

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, and communications, banks and other financial infrastructure are less well developed and less well regulated than their counterparts in more developed jurisdictions. Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes and limited lending by the banking sector to the industrial sector, among other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees.

The potential for labour and social unrest in Ukraine could have a materially adverse effect on the Group’s ability to conduct its business effectively and on the market price of the Shares

The failure of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism including calls for restrictions on foreign ownership of Ukrainian businesses, and violence. Any of these events could restrict the Group’s operations and lead to the loss of revenue, thereby materially adversely affecting both the Group’s ability to conduct its business effectively and the market price of the Shares.

Risks relating to securities

The Offering may be delayed, suspended or cancelled

Public offerings are subject to various circumstances independent from the Company and the Principal Shareholder. In particular, the demand for the Shares is shaped by, among others, investors' sentiment toward sector, legal and financial conditions of the Offering. In case such circumstances would have adverse impact on the results of the Offering, the Principal Shareholder and the Company may decide to delay, suspend or cancel the Offering. Consequently, the investors may be unable to successfully subscribe for the Shares and payments made by investors during the Offering, if any, may be returned without any compensation.

The market value of Shares may be adversely affected by future sales or issues of substantial amounts of Shares

There can be no assurance as to whether or not issues or sales of substantial amounts of the Shares will take place on the market in the foreseeable future. In connection with the Offering certain lock-up arrangements will be made with respect to the issue of new shares by the Company and the Principal Shareholder. Once the lock-ups have expired or have been terminated, new shares may be issued without any restrictions and the Principal Shareholder may sell the existing Shares.

The Company cannot predict what effect such future sales of the existing Shares held by the Principal Shareholder or issues of new shares by the Company, if any, may have on the market value of the Shares. However, there can be no assurance that sales of Shares by the Principal Shareholder, or issue of new shares by the Company or the perception that such sales or issues could occur, would not adversely affect, even if temporarily, the market value of the Shares and would not adversely affect the Company's ability to raise capital through future capital increases.

Holders of the Shares may not be able to exercise pre-emptive rights, and as a result may experience substantial dilution upon future issuances of shares

Holders of the Shares generally will have a pre-emptive right with respect to any issue of shares or the granting of rights to subscribe for shares, unless explicitly provided otherwise in a resolution by the General Meeting or other corporate body having the right to exclude pre-emptive rights. The Board of Directors is authorized to issue up to 12,685,730 new shares in the Issuer during the period ending on five (5) years from the date of publication of the resolution to create the authorized capital and may limit or exclude pre-emptive rights of existing shareholders in connection with such issue of new shares. Of that number, up to 10,771,423 new shares will be issued in connection with the Offering. The authority of the Board of Directors to exclude pre-emptive rights may be extended by a majority vote of the shareholders for a further period. As a result of an issuance of additional Shares with exclusion of pre-emptive rights shareholding and voting rights in the Company and the earnings per Share may be diluted.

There is no guarantee that the Company will pay dividends in the future

The Company is under no continuous obligation to pay regular dividends to its shareholders. Any payment of dividends in the future will depend upon decisions of the Board of Directors and the General Meeting (at which the Principal Shareholder may represent a majority of voting rights). Payment of (future) dividends may be made only if mandatory provisions so allow, as required by law or by the Articles of Association and the respective articles of association of the Group Companies. Furthermore, for the decision to pay dividend the following factors (among others) shall also be taken into account: future results of operations, cash flows, financial position, reinvestment needs, expansion plans, contractual restrictions, and other factors the Board of Directors and/or the General Meeting deem relevant, which do not necessarily have to coincide with the short-term interests of all the Company's shareholders.

There can be no assurance that the Company will make any dividend payments in the future. As at the date hereof, the Company does not expect to pay dividends in the near future, however the formal decision will be taken each year by the General Meeting. Accordingly, investors cannot rely on dividend income from the Shares and any returns on an investment in the Shares will likely depend entirely upon any future appreciation in the price of the Shares.

Existing shareholder will continue to exert significant influence on the management following the Offering

Following completion of the Offering, the Principal Shareholder will continue to own an aggregate of not less than 75% of the Company's outstanding shares (depending on the number of Offer Shares sold in the Offering). As a result, the Principal Shareholder will be in a position to exert significant influence over the outcome of matters submitted to a vote of the Company's shareholders, including matters such as approval of the annual financial statements, declarations of dividends, the election and removal of the members of the Board of Directors, capital increases and amendments to the Articles of Association.

The Company is established and organized under Luxembourg law

The Company is a company organized and existing under the laws of the Grand Duchy of Luxembourg. Accordingly, the Company's corporate structure as well as rights and obligations of its shareholders may be different from the rights and obligations of shareholders in Polish companies listed on the WSE. The exercise of certain shareholders' rights for Polish investors in a Luxembourg company may be more difficult and costly than the exercise of rights in a Polish company. Resolutions of the General Meeting may be taken with majorities different from the majorities required for adoption of equivalent resolutions in Polish companies. Action with a view to declaring a resolution invalid must be filed with, and will be reviewed by a Luxembourg court, in accordance with the law of the Grand Duchy of Luxembourg.

Investors in the Offer Shares will be subject to obligations resulting from various national laws

The Company is organized and existing under the laws of the Grand Duchy of Luxembourg while the Offer Shares will be listed on a regulated market in Poland. Consquently, Luxembourg will be the home Member State of the Company for the purpose of the EU securities regulations and Poland will be its host Member State. The EU directives provide different competencies for home Member State and host Member States with respect to rights and obligations of the investors in public companies, depending on the subject of regulations. In addition, the directives are not always implemented in the proper manner at a national level. Consequently, the investors in the Shares may be forced to seek complex legal advice in order to comply with all regulations when exercising its rights or when fulfilling obligations. In case an investor fails to fulfill its obligations or violates law when exercising rights from or regarding Shares, he or she may be fined or sentenced for such non-compliance or be unable to exercise rights from the Shares.

Investors may have problems enforcing judgments against the Company

The Company is a holding company organized and existing under the laws of the Grand Duchy of Luxembourg with virtually no assets except for the equity interest in its subsidiaries. The Group assets are located in Ukraine. For this reason investors may encounter difficulties in service of process and the conduct of proceedings with respect to any other entities within the Group and their assets.

Tax treatment for non-Luxembourg investors in a Luxembourg company may vary

The Company is organized and existing under the laws of the Grand Duchy of Luxembourg and as such Luxembourg tax regime applies to distribution of profit and other payments from the Company to its investors. The taxation of incomes from such payments as well as other incomes, from sale of shares, for instance, may vary depending on tax residence of particular investors as well as on provision of double tax treaties with the Grand Duchy of Luxembourg in force. Provisions applying to particular investors may be unfavourable or may change adversely.

Risks relating to listing and market

The price of the Company's Shares may fluctuate

The market price of shares listed on a regulated market is determined by supply and demand, which depends on a number of factors (including changes in Company's financial results, differences between the financial results and market expectations, changes in the profit estimates made by analysts, comparison of the perspectives of various sectors of the economy, the overall economic situation, changes in laws applicable to the sector in which the Group Companies and the Company operate and other events and factors which are independent of the Company), as well as reactions of investors that are difficult to predict. In the event of significant price fluctuations, the shareholders may fail to achieve their planned gains or incur losses. Furthermore, consideration should be given to the fact that the market value of the Company Shares may differ significantly from the expected Offer Price. This is possible, in particular, as a result of periodic changes in the Company's financial results, the liquidity of the stock market, the conditions prevailing on the WSE, the conditions prevailing on world markets, as well as changes in economic and political factors.

Securities or industry analysts may cease to publish research or reports about Group's business or may change their recommendations regarding the Company's Shares

The market price and/or trading volume of the Company's Shares may be influenced by the research and reports that industry or securities analysts publish about the Company and the Group's business. There can be no guarantee of continued and sufficient analyst research coverage for the Company, as the Company has no influence on analysts who prepare such researches and reports. If analysts fail to publish reports on the Company regularly or cease publishing such reports at all, the Company may lose the visibility in the capital markets, which in turn could cause the Company's Shares price and/or trading volume to decline. Furthermore, analysts may downgrade the Company's Shares or give negative recommendations regarding the Company's Shares, which could result in a decline of the Share price.

There can be no assurance regarding the future development of the market for the Shares and its liquidity

There was no prior market for the Shares and therefore, there can be no assurance regarding the future development of such market and future demand for the Company's Shares. The lack of a primary and/or developed and liquid public market for the Shares may have a negative effect on the ability of shareholders to sell their Shares or the price at which the holders may be able to sell their Shares. Moreover, if a market for the Shares on the WSE was to develop, the Shares could trade at prices that may be higher or lower than the Offer Price, depending on many factors. Therefore, there can be no assurance as to the liquidity of any trading in the Shares or that the Shares will be actively traded on the WSE, which may limit or prevent the Company's shareholders from readily selling their Shares.

The marketability of the Company's Shares may decline and the market price of the Company's Shares may fluctuate disproportionately in response to adverse developments that are unrelated to the Group's operating performance and decline below the Offer Price

The Company cannot assure that the marketability of the Company's Shares will improve or remain consistent. The Offer Price in the Offering may not be indicative of the market price for the Company's Shares after the Offering has been completed. Shares listed on regulated markets, such as the WSE, have from time to time experienced, and may experience in the future, significant price fluctuations in response to developments that are unrelated to the operating performance of particular companies. The market price of the Company's Shares may fluctuate widely, depending on many factors beyond the Company's control. These factors include, amongst other things, actual or anticipated variations in operating results and earnings by the Group Companies and/or its competitors, changes in financial estimates by securities analysts, market conditions in the industry and in general the status of the securities market, governmental legislation and regulations, as well as general economic and market conditions, such as recession. These and other factors may cause the market price and demand for the Company's Shares to fluctuate substantially and any such development, if adverse, may have an adverse effect on the market price of the Company's Shares which may decline disproportionately to the Group Companies' operating performance. The market price of the Company's Shares is also subject to fluctuations in response to further issuance of shares by the Company, sales of Shares by the Company's major shareholders, the liquidity of trading in the Shares and capital reduction or purchases of Shares by the Company as well as investor perception. As a result of these or other factors, there can be no assurance that the public trading market price of the Company's Shares will not decline below the Offer Price.

The Company may be unable to list the Company's Shares on the WSE or the Company may be delisted from the WSE

The admission of the Company's Shares to trading on the WSE requires that (i) the Company's Shares are registered with the clearing and settlement system of the NDS and (ii) the management board of the WSE approves the listing and trading of the Company's Shares on the WSE. To obtain the WSE management board's approval the Company has to meet certain requirements provided for in the respective regulations of the WSE and other applicable laws. Such requirements include, but are not limited to: (i) the appropriate free float of the Company's Shares (ii) no restriction on transferability of the Company's Shares (iii) preparation and publication of the audited financial statements for the past three accounting years. Furthermore, while examining the Company's application for admission of the Company's Shares to trading on the WSE, the management board of the WSE will take into consideration: (i) the Company's financial situation and its economic forecasts, (ii) the Group's development perspectives, in particular, the chances for successful completion of its investment plans, (iii) experience and qualifications of the members of the Company's Management Board and (iv) security of public trading on the WSE. Some of the conditions mentioned above are of discretional nature and, therefore, the Company cannot assure that the management board of the WSE will conclude that the Company meets all of them.

The rules of the WSE require the Company to file an application for introduction of Shares to trading on the WSE within a period of six months from the date on which the Company's Shares have been admitted to such trading. If the Company fails to comply with this obligation, the decision of the management board on the admission of the Company's Shares to trading on the WSE could be annulled.

The Company intends to take all the necessary steps to ensure that its Shares are admitted to trading on the WSE as soon as possible after the closing of the Offering. However, there is no guarantee that all of the aforementioned conditions will be met and that the Company's Shares will be admitted to trading on the WSE on the Listing Date as expected or at all.

Moreover, if the Company fails to fulfill certain requirements or obligations under the applicable provisions of securities laws, including in particular the requirements and obligations provided for under the Polish Public Offerings Act and Trading in Financial Instruments Act, the PFSA could impose a fine on the Company or delist its Shares from trading on the WSE.

The WSE management board shall delist the Company's Shares from trading upon the request of the PFSA, if the PFSA concludes that trading in the Company's Shares imposes a significant threat to the proper functioning of the WSE or the safety of trading on that exchange, or infringes investors' interest. The mandatory delisting will be also effected by the WSE management board where: (i) transferability of Shares has become restricted, (ii) Shares are no longer in book entry form, (iii) the PFSA has requested so, (iv) the Company's Shares have been delisted from another regulated market by a competent supervisory authority over such market, provided that the Company's Shares were traded on another regulated market.

The WSE management board may also delist the Company's Shares where, (i) the Shares cease meeting all requirements for admission to trading on the WSE; (ii) the Company persistently violates the regulations of the WSE; (iii) the Company has requested so; (iv) the Company has been declared bankrupt or a petition for bankruptcy has been dismissed by the court because the Company's assets do not suffice to cover the costs of the bankruptcy proceedings; (v) the WSE considers it necessary to protect the interests of the market participants; (vi) following a decision on a merger, split or transformation of the Company; (vii) no trading was effected in the Shares within a period of three previous months; (viii) the Company has become involved in a business that is illegal under the applicable provisions of laws; and (ix) the Company is in liquidation proceedings.

The Company believes that as at the date hereof there are no circumstances which could give grounds for delisting of the Shares from the WSE in the foreseeable future. However, there can be no assurance that any of such circumstances will not arise in relation to the Company's Shares in the future. Delisting of the Company's Shares from the WSE could have an adverse effect on the liquidity of the Shares and, consequently, on investors' ability to sell the Shares at a satisfactory price.

Trading in the Company's Shares on the WSE may be suspended

The WSE management board has the right to suspend trading in the Company's Shares for up to three months (i) at the request of the Company, (ii) if the Company fails to comply with the respective regulations of the WSE (such as specific disclosure requirements), or (iii) if it concludes that such a suspension is necessary to protect the interests and safety of market participants.

Furthermore, the WSE management board shall suspend trading in Shares for up to one month upon the request of the PFSA, if the PFSA concludes that trading in the Company's Shares is carried out in circumstances which may impose a possible threat to the proper functioning of the WSE or the safety of trading on that exchange, or may harm investors' interest.

The Company will make all endeavours to comply with all applicable regulations in this respect. However, there can be no assurance that trading in the Company's Shares will not be suspended. Any suspension of trading could adversely affect the Company's Share price.

The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares

Prior to the Offering, the Principal Shareholder owns 100% of the Issuer's outstanding Shares and immediately after the Offering the Principal Shareholder will own 75% of the Issuer's outstanding Shares, provided that all Offer Shares are placed with investors. Consequently, the free float of Shares held by the public will be limited.

In addition, the WSE requires that the share capital of a company to be listed on the main market of the WSE must be adequately diluted, i.e. part of the capital must be held by minority shareholders holding individually less than 5% of that company's share capital. If the Offer Shares are acquired by a limited number of large investors, there is a risk that the share capital would not be adequately diluted and as a result the WSE would not approve the Shares for listing on the main market of the WSE and, consequently, the Shares would be listed on the parallel market of the WSE.

The Company has no experience in complying with requirements for publicly-listed companies

A public company is subject to a number of obligations mostly relating to disclosure of respective information, in particular current and periodic reports as well as making public of notifications on large shareholdings made by investors. The Company has never been subject to such obligations and may fail to fulfill such obligations. As a consequence, the investors may not be provided on time or at all with price-sensitive information or the content of materials made public may be of unsatisfactory quality. In addition, the Company may be fined or punished otherwise for non-compliance with regulations relating to public company what may have adverse impact on the Company's financial results, share price and demand for Shares.

EXCHANGE RATES

The Combined Financial Statements included in this Prospectus are presented in US Dollars ("USD" or "US$"). Financial statements were prepared by means of summarizing the share capital, assets, liabilities, revenues and expenses of the companies, which are under the common control of the Beneficial Owners. All intra-Group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-Group transactions are eliminated in full.

The following table shows, for the periods provided, and unless indicated otherwise, certain information regarding the exchange rates between Hryvnia, US$ and EUR, used in the preparation of the Combined Financial Statements and management figures appearing in this Prospectus.

The principal UAH exchange rates to USD, used in the preparation of combined financial statements are as follows:

December 31, 2006	**2007**	**December 31, 2007**	**2008**	**December 31, 2008**	**2009**	**December 31, 2009**
5.05	5.05	5.05	5.28	7.70	7.79	7.98

The principal exchange rates between UAH and EUR are as follows:

December 31, 2006	**2007**	**December 31, 2007**	**2008**	**December 31, 2008**	**2009**	**December 31, 2009**
6.65	6.92	7.41	7.71	10.85	10.88	11.44

USE OF PROCEEDS

Depending on the final number of Offer Shares and final Offer Price, the Company intends to raise approximately between USD 40 million and USD 62.5 million of gross proceeds from the issue of the Offer Shares in the Offering. The Company estimates that the expenses from the Offering and costs related to introduction of the Shares to trading on the WSE will amount to approximately USD 2.5 million and the total net proceeds from the Offering will therefore approximately amount from USD 37.5 million to USD 60 million.

Net proceeds from the Offering will finance the Company's development program, including:

Modernization and development of existing mines Sadovaya and Rassvet-1 to increase coal production via both an increase in mining efficiency (through the purchase of new modern equipment) and an increase in the number of working longwalls from the current four units to seven in 2011.

Construction of two enrichment complexes to process the Group's on-ground coal waste deposits. The Group intends to invest into the construction of a dense-media enrichment complex for processing the waste dumps with a total processing capacity of 150 tonnes/h and annual expected coal output of 198 thousand tonnes. The Group also intends to invest into the construction of an enrichment complex capable of processing tailings dams, with a total processing capacity of 200tonnes/h and an expected annual coal output of 540 thousand tonnes. Both complexes are slated to be put into operation in the second half of 2011. The Company may consider financing part of the project costs related to equipment purchase by attracting a project financing facility, while costs related to construction works are planned to be financed by net proceeds from issue of the Offer Shares.

Acquisition and development of the Roskoshniy and Krasnoluchskaya Severnaya coal deposits. In 2011, the Group expects to complete the acquisition of two coal deposits, Roskoshniy (a field that is attached to the Group's currently operational Sadovaya Mine) and Krasnoluchskaya Severnaya. These two deposits will increase the Group's total coal resources under control from 23.1 million tonnes to 122.2 million tonnes and provide for significant growth opportunities.

Any proceeds from the Offering exceeding USD 50 million will be directed for working capital financing and/or partial repayment of debt.

Management's cost estimates for 2011 investment program, USD million

Modernization of on mining equipment at existing mines	18.5
Investment into mining infrastructure	11.6
New enrichment facility for processing waste dumps processing	6.1
New enrichment facility for processing tailing dams	8.2
Purchase of two mining licenses	5.6
Total	50.0

The amounts provided above are the Company's estimates based on current management expectations. These estimates are subject to change and actual costs of investments may differ from the above estimates.

The Group may consider attracting a project financing facility to cover equipment purchase costs for the recovery and enrichment of waste dumps and tailing ponds/dams. Other items of the investment program are planned to be financed by net proceeds from the Offering, and from the Group's operating cash flow.

DIVIDENDS AND DIVIDEND POLICY

The Company intends to pursue a dividend policy consistent with the Group's growth and development plans, reflecting the planned investments the Group is making in order to drive future growth and the cash generated by the existing operations. Pursuant to this policy, the Company does not expect that the Board of Directors will recommend to the General Meeting any dividend payments in the medium term.

In accordance with the Articles of Association of the Company, every year five per cent (5%) of the net profit of the Company will be set aside in order to build up the legal reserve. This deduction ceases to be compulsory when the legal reserve amounts to ten per cent (10%) of the issued share capital. The remaining balance of the net profit will be at the disposal of the General Meeting. Dividends, when payable, will be distributed at the time and place fixed by the Board of Directors within the limits of the decision of the General Meeting. Furthermore, interim dividends may be paid by the Board of Directors, in accordance with the conditions provided for by the Luxembourg Companies' Act 1915 and the Issuer's Articles of Association.

Payment of any future dividends will effectively depend on the discretion of the General Meeting after taking into account various factors, including the Group's business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of the Luxembourg law (as described above).

All Shares, including the Offer Shares, carry equal dividend rights.

As a holding company the ability of the Company to pay dividends will principally depend upon dividends or interest paid to it by its subsidiaries.

For information related to dividend rights and dividend payments, please see "*Dividends and Other Distributions - Description of the shares and corporate rights and obligations*".

SELECTED HISTORICAL FINANCIAL INFORMATION

The following tables set out selected combined financial and operating information of the Group for the financial years ended December 31, 2007, 2008 and 2009, and first half of financial years ended June 30, 2009 and 2010 respectively.

Such information is extracted without material adjustment from the Combined Financial Statements that together with the report of Baker Tilly Ukraine LLC dated 25 October 2010 and the accompanying notes are included in this Prospectus. It should also be read in conjunction with the "Operating and Financial Review" section of this Prospectus.

Income statement data

	December 31, 2007 audited US$	December 31, 2008 audited US$	December 31, 2009 audited US$	June 30, 2009 reviewed US$	June 30, 2010 reviewed US$
Revenue	43,150,993	98,888,042	13,322,222	7,903,318	19,145,293
Gross profit	7,791,344	31,598,737	(4,148,196)	(1,177,278)	5,407,702
Operating profit/(loss)	5,897,850	28,110,696	(7,296,596)	(2,109,532)	4,166,801
Profit (loss) before tax	5,578,136	25,926,458	(9,247,956)	(3,044,931)	2,864,231
Profit (loss) for the year/period	5,355,290	25,285,118	(8,411,773)	(2,751,556)	3,237,461

Source: the Company, based on the Combined Financial Statements

EBITDA reconciliation data

	December 31, 2007 audited US$	December 31, 2008 audited US$	December 31, 2009 audited US$	June 30, 2009 reviewed US$	June 30, 2010 reviewed US$
Operating profit/(loss)	5,897,850	28,110,696	(7,296,596)	(2,109,532)	4,166,801
Depreciation and amortization	1,092,135	1,712,263	3,738,613	1,930,059	2,028,523
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(5,934)	(103,676)	353,767	340,273	(26,025)
(Gain)/loss on revaluation of property, plant and equipment	-	130,156	-	-	-
EBITDA	6,984,051	29,849,439	(3,204,216)	160,800	6,169,299
EBITDA margin	16.2%	30.2%	-24.1%	2.0%	32.2%

Source: the Company, based on data derived from the Combined Financial Statements

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 effects of the Company's operations which are difficult to recognize directly from the Combined Financial Statements. EBITDA calculations have not been subject to separate auditor's review although items used for calculation of EBITDA have been derived from the audited or reviewed Combined Financial Statements. This measure should not be considered in isolation or as an alternative to net profit for the period or other data presented in Combined

Financial Statements as indicators of financial performance. EBITDA measure is not determined in accordance with generally accepted accounting principles, and thus is susceptible to varying calculations.

Balance sheet data

	December 31, 2007 audited US$	**December 31, 2008 audited US$**	**December 31, 2009 audited US$**	**June 30, 2009 reviewed US$**	**June 30, 2010 reviewed US$**
Total assets	28,554,210	56,692,056	49,247,514	53,850,469	51,666,327
Total equity	9,789,722	35,355,285	26,264,910	32,655,338	24,485,952
Total non-current liabilities	5,644,764	9,519,228	9,162,914	9,689,416	9,443,886
Total current liabilities	13,119,724	11,817,543	13,819,690	11,505,715	17,736,489
Loans and borrowings, non- current	2,475,248	41,904	1,627	46,726	-
Loans and borrowings, current	7,487,129	9,128 ,793	10,932,826	9,603,790	14,186,304
Cash and cash equivalents	1,210,212	1,405,124	39,678	1,626	2,920

Source: Company data, based on the Combined Financial Statements

Cash flow data

	December 31, 2007 audited US$	**December 31, 2008 audited US$**	**December 31, 2009 audited US$**	**June 30, 2009 reviewed US$**	**June 30, 2010 reviewed US$**
Net cash flows from operating activities	3,767,827	15,549,442	863,610	1,776,052	4,381,878
Net cash flows used in investing activities	(3,877,442)	(3,693,544)	(2,577,106)	(2,280,705)	(858,079)
Net cash flows from/(used in) financing activities	1,188,887	(10,299,673)	371,559	(899,370)	(3,560,728)
Net increase in cash and cash equivalents	1,079,272	1,556,224	(1,341,937)	(1,404,023)	(36,929)

Source: Company data, based on the Combined Financial Statements

CAPITALISATION AND INDEBTEDNESS

The following table sets out indebtedness and capitalization of the Group on a combined basis as at September 30, 2010.

Total Current debt	US
Guaranteed[1]	0
Secured[2]	15,054,236
Unguaranteed/ Unsecured	861,566
Total Non-Current debt (excluding current portion of long – term debt)	
- Guaranteed[1]	0
- Secured[2]	0
- Unguaranteed/ Unsecured	0
Shareholder's equity:	
Share capital	2,778,491
Legal Reserve	0
Other Reserves	9,056,281
Total	27,750,574

Source: management combined IFRS accounts as at September 30, 2010.

A. Cash	90,297
B. Cash equivalent (Detail)	0
C. Trading securities	0
D. Liquidity (A) + (B)+(C)	**90,297**
E. Current Financial Receivable	**2,251,459**
F. Current Bank debt	**15,915,802**
G. Current portion of non current debt	0
H. Other current financial debt	0
I. Current Financial Debt (F)+(G)+(H)	**15,915,802**
J. Net Current Financial Indebtedness (I)-(E)-(D)	**13,574,046**
K. Non current Bank loans	0
L. Bonds Issued	0
M. Other non current loans	0
N. Non current Financial Indebtedness (K)+(L)+(M)	**0**
O. Net Financial Indebtedness (J)+(N)	**13,574,046**

Source: Source: management combined IFRS accounts as at September 30, 2010.

[1] No guarantees used as collateralization for loans
[2] Property, plant and equipment of the Group

OPERATING AND FINANCIAL REVIEW

Certain information contained in the section set forth below includes forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and assumptions about the Group. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

The following review relates to the Group's historical financial condition and results of operations in the financial years ended on December 31, 2007, 2008 and 2009 respectively and in the first half of the financial year 2010 that ended on June 30, 2010 with comparable data for 2009. The "Operating and Financial Review" section was based on the Combined Financial Statements that are contained in the Prospectus and this section should be read in conjunction with the Combined Financial Statements.

Overview

The Issuer, Sadovaya Group S.A., is a holding company incorporated in Luxembourg, whose principal assets are equity interests in its operating subsidiaries incorporated and operating in Ukraine.

Sadovaya Group is Ukraine's fourth largest private producer of anthracitic (energy) coal according to data available as of first half of 2010 (Source: *Energobiznes Magazine*, No. 31 of Aug. 03, 2010, http://e-b.com.ua/). The Group specializes in the extraction, enrichment and processing of coal, as well as the extraction and processing of coal wastes, and coal trading activities. The Group also consists of companies that provide complementary production facilities and services (e.g. logistics) and that control integral property complexes that are leased to the operating companies. All of the Group's facilities are located in Ukraine's Donbas region. The Group carries out diversified mining and mining-related operations that are divided into the following business 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). The Group processes all of its mined coal.

The Group operates two coal mines with its own exploitation infrastructure, with total confirmed and licenced coal resources of 23.1 million tonnes and a further 99.1 million tonnes expected to be acquired in 2011. The Group extracts two types of coal, anthracite and semi-anthracite. The annual combined capacity of all of the Group's mines is approximately 0.6 million tonnes. The Group also owns coal processing facility with a total annual capacity of 1.02 million tonnes.

Extracts From Significant Accounting Policies And Estimates

Foreign currency translation

The Group's Special Purpose Combined Financial Statements are presented in U.S. dollars. The functional currency for all the Group's entities is UAH. For more information, see Note 2 to the Group's Special Purpose Combined Financial Statements included elsewhere in this document. Under International Accounting Standard ("IAS") No. 21 "The Effects of Changes in Foreign Exchange Rates", the Group uses UAH as its functional currency since its major assets and sources of finance are denominated in UAH.

Upon consolidation, the assets and liabilities of the subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Any exchange differences arising are recognized in equity and included in *"Effect of foreign currency translation"*.

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

Currency	**Closing rate as of December 31, 2006**	**Average rate for the 12 months ended December 31, 2007**	**Closing rate as of December 31, 2007**	**Average rate for the 12 months ended December 31, 2008**	**Closing rate as of December 31, 2008**	**Average rate for the 12 months ended December 31, 2009**	**Closing rate as of December 31, 2009**
USD/UAH	5.05	5.05	5.05	5.28	7.7	7.79	7.98

Source: Sadovaya Audited Special Purpose Combined Financial Statements

Basis of combination

The Group comprises of the companies, which are under the common control of the Beneficial Owners, but are not connected by the formal structure and have no single parent company. The special purpose combined financial statements were prepared for the purpose of the presentation of combined balances and transactions results, which show that the Group is under the common control of the Beneficial Owners.

Business combination, which includes the companies under the common control is not regulated by IFRS 3 "Business combination", therefore financial statements were prepared by means of summarising of the share capital, assets, liabilities, revenues and expenses of the Companies, which are under the common control of the Beneficial Owners. All intra-Group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-Group transactions are eliminated in full.

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 25%.

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

Deferred tax

Deferred tax 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.

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. The Group engaged independent valuation specialists to determine fair value as at December 31, 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.

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

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.

Intangible assets

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 intangible assets with a finite useful life are reviewed at least at each financial year end.

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

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

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).

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

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further actuarial assumptions are summarized below:

	2009	**2008**	**2007**
Discounting rate	15%	15%	9%

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

Provisions for 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 Ukraine "On Subsurface", Land Code of Ukraine, Mining Law, Law of Protection of Land and other legislation documents, the Group is responsible for the 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.

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

	2009	**2008**	**2007**
Discounting rate	18.3%	18.3%	16.4%
Long-term inflation	8.0%	8.0%	8.0%
Medium-term inflation	12.3%	22.3%	16.6%

Factors Affecting Comparability

Expansion of mining operations

During the periods presented in the Group's Special Purpose Combined Financial Statements, the Group made the following expansion, which may affect the period-to-period comparability of the Group's Special Purpose Combined Financial Statements:

In the course of 2007 year Shahta Rassvet-1 LLC rented rights to extraction of mineral resources and property and equipment from State OJSK GP SHC "Zhovtenvuhillya". For that purpose 2 new subsidiaries were established:

- Shahta Rassvet-1 LLC, with coal extraction as the primary activity, and
- Donvostok LLC, which have been leasing to Shahta Rassvet-1 LLC the equipment purchased from OJSK "Zhovtenvuhillya".

During 2008 when Shahta Rassvet-1 LLC was not holding the mining licence, it provided mining services and purchased extracted coal from "Zhovtenvuhillya". Shahta Rassvet-1 LLC received the mining licence in June 2009.

Receivables acquired under factoring agreement

In December 2007 the Group acquired receivables of "Thermal Power Plant-2" ESHAR" SE under factoring agreement with a view of making profit. Total cost of acquisition to the Group was US$ 1.2 million. The Group recognized the following revenues associated with factoring transaction:

	For the year ended December 31, 2007	**For the year ended December 31, 2008**	**For the year ended December 31, 2009**
	US$	**US$**	**US$**
Income from borrowings and receivables at amortized cost	847,808	435,228	331,419

On the date of acquisition of the receivables the Law of Ukraine "On measures aimed at safeguarding the stable functioning of the fuel and energy complex enterprises" №2711-IV dated June 23, 2005 was effective, which relieved fuel and energy complex enterprises from discharge of obligations up to January 1, 2011. The law was amended several times. The Group expects that receivables will be settled in full amount in January 2011.

Factors Influencing Results Of Operation

Pricing

The price for energy coal is set by Coal of Ukraine, the state-controlled wholesale energy coal market operator, which sells all coal produced by state-controlled miners (60% of the market) to state-owned power generation companies. The regulated benchmark price used by Coal of Ukraine is agreed upon by the Ministry of Coal and the Ministry of Fuel and Energy, as well as state bodies responsible for energy sector regulation, namely the National Electricity Regulation Commission and the National Joint-Stock Energy Company of Ukraine. The resulting price for energy coal and the expected prices for gas and electricity are then approved by the Cabinet of Ministers as a special resolution called the *Forecasted Balance of Electricity, Fuel and Thermal Generating Companies' Costs* (the Balance), which is then approved by the deputy prime minister of Ukraine. Although it is not an official regulatory act, the document acts as the benchmark for coal pricing by Coal of Ukraine. The average price of energy coal was set at UAH 560/tonne, UAH 515/tonne and UAH 446/tonne in 2010, 2009 and 2008 respectively. Since August of 2010 the price was set at UAH 621/tonne. The Group's approximate average selling price to the major state owned companies was 527 UAH, 511 UAH and 402 UAH per tonne in 2010, 2009 and 2008 respectively.

The second largest group of customers of the Group is steel mills which purchase high quality coal at market prices. This price could be higher than the maximum price established by the government and fluctuates according to local supply and demand. The Group's approximate average selling price to major steel mills was 748 UAH, 691 UAH and 413 UAH per tonne in 2010, 2009 and 2008 respectively.

Government regulations of industry

The Group is subject to various government management mechanisms and regulation which had or might have direct or indirect effect on the results of the Group's operations. The most important mechanisms are: establishment of maximum purchase price of energy coal sold by the state company Coal of Ukraine, as discussed above in this section, regulations relating to purchase procedures (*i.e.*, tender procedures) and issuing of mining licences and other permits.

In the past the trading with state owned power generating units was conducted through tender procedures which allowed privately owned mines with sufficient capacity to access thermal power plants and thermal plants directly. However, during 2009 tender procedures were prohibited by the Governmental decree, as a result, all output was sold through the state owned wholesaler of coal. In 2010 the decree was annulled which has led to double increase in revenue of the Group comparing the 1st half of years 2009 and 2010.

Infrastructure development

New mines require heavy investment in infrastructure in terms of both time and costs. It establishes the need to finance the development of new mines. This time constrain misbalances supply and therefore affects to some extent coal prices. According to the government statistics, the investment in the government mines was UAH 6.0 billion, UAH 7.1 billion and UAH 5.9 billion in 2009, 2008 and 2007 respectively. The management believes that average time lag between the development of mines and starting of extraction is close to 2 years. The management believes as well that average time lag for the Group is between half year and year which might lead to the Group incurring lower costs than competitors.

Inflation

Operating costs of the Group might be impacted by inflation. The majority of sales are domestic sales denominated in UAH which might be impacted by inflation as well. Consumer price inflation in Ukraine was 16.6% in 2007, 22.3% in 2008 and 12.3% in 2009.

Explanation of Key Income Statement Items

Revenue

The Group generates revenue from the coal mining, the extraction of coal from waste deposits, coal enrichment, and coal trading.

The group has following reporting 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.

Cost of sales

The principal components of the cost of sales are materials, goods for resale, depreciation of fixed assets, wages of production personnel and related costs, change in balances of finished products and work in process and other expenses. Mostly the materials comprise of coal used in the mixing process. Spare parts and low-valued materials used in production are included in this category as well.

Selling and distribution expenses

Selling and distribution expenses consist principally of transportation cost, materials, wages of sales personnel and related expenses, depreciation of fixed assets and other costs.

Administrative expenses

Administrative expenses consist principally of wages of employees not involved in the production process or in selling and distribution and related costs, utility costs, depreciation of fixed assets, travel expenses, professional fees and other expenses.

Other income

Other income consists of foreign exchange gain, income from the sale of foreign currency, profit from the sale of fixed assets, fixed assets write-up and other operating income.

Other expenses

Other expenses consist of costs related with downtime, markdowns and write-off of fixed assets, loss on sale of fixed assets, charity, costs of writing off tax credit for value-added tax, expenditure on research and development, impairment of accounts receivable, wages of non-industrial personnel and related expenses, the result of inventories losses and write-down, recognized fines and penalties**.**

Finance expenses

Finance expenses include expenditure on acquiring of borrowings, interest expenses and provisions discounting effect.

Finance income

Finance income include interest income, gained from deposits and current bank balances and income from accounts receivable acquired by factoring and carried at amortized cost.

Income taxes

The Group's income is subject to taxation in Ukraine. Income tax rate has been remained constant at 25 per cent during 2007 – 2010 in Ukraine.

The Group paid income tax amounting to US$77 thousand, US$251 thousand, US$52 thousand and US$37 thousand for the 2007, 2008, 2009 years and 1st half of 2010 respectively.

Due to the fact that the Group is preparing to enter the capital markets, its income will be a subject to taxation in Cyprus and Luxemburg in the future. This restructuring might influence the structure of transactions and cash flows, and therefore, income attributable to different tax jurisdictions. As a result the Group's effective income tax rate will be changed.

Other comprehensive income (expenses)

Other comprehensive income (expenses) includes revaluation of non-current assets, impact of income tax and foreign exchange differences from translation to presentation currency.

Results of Operations

1st half of year 2010 compared to 1st half of year 2009

Revenue

Revenue increased by 142% to US$19.1 million in the 1st half of 2010 compared to US$7.9 million in the 1st half of 2009. This increase of revenue was due to new contracts with both energy generating companies and steel mills.

The following table sets forth a breakdown of the Group's segments revenue for periods indicated:

	1st half 2010	As a percentage of total revenue	1st half 2009	As a percentage of total revenue	Change from 2010 to 2009
	US$		US$		
Trade activities	1,933,350	10%	2,047,363	26%	-6%
Mining and coal enrichment	17,163,040	90%	5,758,854	73%	198%
Rendering of services	10,825	0%	97,101	1%	-89%
Extraction of coal from waste deposits	38,078	0%	0	0%	100%
Total	**19,145,293**	**100%**	**7,903,318**	**100%**	**142%**

Trade activities

Revenue from coal trading decreases by 6% to US$1.9 million for the 1st half of 2010 from US$2.0 million for the 1st half of 2009. In 2010 share of coal trading as a percentage of total revenue decreased to 10% from 26%. The decrease of share was due to the volume sales which were approximately at the same level as in 2009.

Mining and coal enrichment

Revenue from mining and coal enrichment increased by 198% to US$17.2 million for the 1st half of 2010 from US$5.8 million for the 1st half of 2009. Share of mining and coal enrichment as a percentage of total revenue was 90% in the 1st half of 2010 and 73% in the 1st half of 2009. The increase is mainly due to new contracts with both energy generating companies and steel mills which the Group satisfied with internally extracted coal.

Rendering of services

Revenue from services provided decrease by 89% to US$10.8 thousand for the 1st half of 2010 from US$97.1 thousand for the 1st half of 2009.

Extraction of coal from waste deposits

Revenue from extraction of coal from waste deposits increased by 100% to US$38 thousand in the 1st half of 2010 from US$0 in the 1st half of 2009.

Cost of sales

Cost of sales increased by 51% to US$13.7 million for the 1st half of 2010 from US$9.1 million for the 1st half of 2009. As a percentage of revenue the cost of sales was 72% and 115% in the 1st half of 2010 and 2009 years respectively. The increase in cost of sales was due to higher output in 2010 at Rassvet-1 mine and Sadovaya mine partially offset by high operating leverage associated with mining and coal enrichment.

Gross profit

Gross profit increased by 559% to US$5.4 million for the 1st half of 2010 compared to gross loss of US$1.2 million for the 1st half of 2009. The increase reflects new contracts which have been satisfied with internally extracted coal. The Group's gross profit margin was 28% in 2010 as compared to negative in 2009.

The following table provides the breakdown of the Group's gross profit by principal segments results for the years ended June 30, 2010 and 2009:

	1st half 2010	**As a percentage of total gross profit**	**1st half 2009**	**As a percentage of total gross profit**	**Change from 2009 to 2010**
	US$		**US$**		
Trade activities	281,267	5%	(91,164)	8%	-409%
Mining and coal enrichment	5,321,789	99%	(740,062)	63%	-819%
Rendering of services	(206,070)	-4%	(346,052)	29%	-40%
Extraction of coal from waste deposits	10,716	0%	0	0%	100%
Total	**5,407,702**	**100%**	**(1,177,278)**	**100%**	**-559%**

Trade activities

Gross profit from coal trading changed from negative amount of US$0.1 million for the 1st half of 2009 to positive amount of US$0.3 million for the 1st half of 2010 due to price increase in current period as a result of approximately the same sales volumes.

Mining and coal enrichment

Gross profit from mining and coal enrichment changed from negative amount of US$0.7 million for the 1st half of 2009 to positive amount of US$5.3 million for the 1st half of 2010. It was due to high operative leverage as well as an increase in total output of Rassvet-1 mine which were supported by an increase in sales volumes at higher prices.

Rendering of services

Gross profit from services provided change from negative amount of US$0.3 million for the 1st half of 2009 to negative amount of US$0.2 million for the 1st half of 2010.

Extraction of coal from waste deposits

Gross profit from extraction of coal from waste deposits increased by 100% to US$10 thousand for the 1st half of 2010 from US$0 for the 1st half of 2009.

Selling and distribution costs

Selling and distribution expenses increased by 51% to US$0.1 million for the 1st half of 2010 from US$68 thousand for the 1st half of 2009. The increase was due to an increase in salaries, number of personnel and fuel prices.

Administrative expenses

Administrative expenses increased by 51% to US$0.4 million for the half year ended June 30, 2010 from US$0.3 million for the half year ended June 30, 2009. The increase was primarily due to an increase in salaries.

Other income (expenses)

Other expenses increased by 23% to US$0.7 million for the half year ended June 30, 2010 to US$0.6 million for the half year ended June 30, 2009. The increase was principally due to equipment downtime because of low demand.

EBITDA

EBITDA increased to US$6.2 million for the half year ended June 30, 2010 from US$0.2 million for the half year ended June 30, 2009. The increase was driven by the growth of sales volumes sold at market prices.

Finance income

Finance income increased by 12% to US$0.2 million for the half year ended June 30, 2010 from US$0.2 million for the half year ended June 30, 2009. The increase was principally due to an increase of income from loans reflection and accounts receivable at amortized cost.

Finance expenses

Finance expenses increased by 35% to US$1.5 million for the half year ended June 30, 2010 from US$1.1 million for the half year ended June 30, 2009. The increase was principally due to an increase in loan facilities outstanding.

Profit (losses) before taxation

Profit before taxation increased by 194% to US$2.9 million for the half year ended June 30, 2010 from a loss of US$3.0 million for the half year ended June 30, 2009 because of the reasons stated above.

Income tax expenses (income)

Income tax income increased by 27% to US$0.4 million for the half year ended June 30, 2010 from US$0.3 million for the half year ended June 30, 2009. The increase was principally due to income from deferred income tax that incurred as a result of tax liabilities decrease from fixed assets depreciation and an increase of deferred tax assets from liabilities with fixed payments.

Profit (loss) for the reporting period

Profit increased by 218% to US$3.2 million for the half year ended June 30, 2010 from a loss of US$2.8 million profit for the half year ended June 30, 2009 due to the factors explained above.

Year ended 2009 compared to year ended 2008

Revenue

Revenue decreased by 87% to US$13.3 million in 2009 compared to US$98.9 million in 2008. This decrease of revenue was due to change in purchasing procedures of state power generating companies regulated by decree of the Government of Ukraine (Ref. no.285 dated April 02, 2009). As a result of consumption reduction by major plants as well as failure to pay by both individuals and legal entities, the Government of Ukraine by this decree eliminated tender purchases and adopted the decision to buy coal from the state wholesaler which in turn has purchased produced output from the state mines.

The following table sets forth a breakdown of the Group's segments revenue for periods indicated:

	2009	As a percent-age of total revenue	2008	As a percent-age of total revenue	Change from 2008 to 2009
	US$		US$		
Trade activities	2,467,728	18%	56,347,452	56%	-96%
Mining and coal enrichment	10,760,665	81%	40,491,059	41%	-73%
Rendering of services	90,720	1%	1,528,236	2%	-94%
Extraction of coal from waste deposits	3,109	0%	521,295	1%	-99%
Total	**13,322,222**	**100%**	**98,888,042**	**100%**	**-87%**

Trade activities

Revenue from coal trading decreases by 96% to US$2.5 million for the year ended December 31, 2009 from US$56.3 million for the year ended December 31, 2008. In 2009 share of coal trading as a percentage of total revenue decreased to 18% cent from 56%. This decrease of share was due to low demand for coal in 2009.

Mining and coal enrichment

Revenue from mining and coal enrichment decreased by 73% to US$10.8 million for the year ended December 31, 2009 from US$40.5 million for the year ended December 31, 2008. Share of mining and coal enrichment as a percentage of total revenue was 81% in 2009 and 41% in 2008. The increase in share of total revenue is mainly attributable to the Group being able to satisfy lower demand by internally extracted coal.

Rendering of services

Revenue from services provided decreased by 94 per cent to US$0.1 million for the year ended December 31, 2009 from US$1.5 million for the year ended December 31, 2008, since Shahta Rassvet-1 LLC received the mining licence and ceased to lease its personnel.

Extraction of coal from waste deposits

Revenue from extraction of coal from waste deposits decreased by 99 per cent to US$3.1 thousand for the year ended December 31, 2009 from US$0.5 million for the year ended December 31, 2008 as a result of low demand.

Cost of sales

Cost of sales decreased by 74% to US$17.5 million for the year ended December 31, 2009 from US$67.3 million for the year ended December 31, 2008. The decrease was primarily attributable to a decrease in sales volumes due to reduction of business activity. As a percentage of revenue the cost of sales was 131% and 68% in 2009 and 2008 years respectively. It was primarily due to the limited cost reduction opportunities for mining and coal enrichment processes and as well as higher depreciation. The increase of depreciation of non-current assets was the result of revaluation of fixed assets as of December 31, 2008.

The following table sets forth a breakdown of the Group's cost of sales for the periods indicated:

	2009		2008		
	Amount, USD	Percent-age of total cost of sales	Amount, USD	Percent-age of total cost of sales	Change from 2008 to 2009
Change in finished goods and work-in-progress	(1,119,539)	(6%)	(3,485,376)	(5%)	-68%
Held for resale merchandise	3,557,943	20%	37,598,783	56%	-91%
Raw materials	9,889,012	57%	22,132,102	33%	-55%
Wages and salaries of operating personnel	2,024,379	12%	6,099,217	9%	-67%
Depreciation of non-current assets	2,380,472	13%	1,378,170	2%	73%
Energy supply	395,157	2%	796,755	1%	-50%
Subcontractors services	262,262	2%	2,546,718	4%	-90%
Taxes and obligatory payments	80,732	0%	222,936	0%	-64%
Total	**17,470,418**	**100%**	**67,289,305**	**100%**	**-74%**

Gross profit

Gross profit decreased by 113% which led to gross loss of US$4.1 million for the year ended December 31, 2009 compared to gross profit of US$31.6 million for the year ended December 31, 2008. The decrease reflects lower overall revenue and production volumes partially offset by a decrease in cost of sales on a relative basis. The Group's gross profit margin was negative in 2009 as compared to 32% in 2008.

The following table provides the breakdown of the Group's gross profit by principal segments results for the years ended December 31, 2008 and 2009:

	2009	As a percent-age of total gross profit	2008	As a percent-age of total gross profit	Change from 2008 to 2009
	US$		US$		
Trade activities	(1,090,215)	26%	18,748,669	59%	-106%
Mining and coal enrichment	(2,742,209)	66%	12,133,941	39%	-123%
Rendering of services	(306,892)	8%	360,409	1%	-185%
Extraction of coal from waste deposits	(8,880)	0%	355,718	1%	-102%
Total	**(4,148,196)**	**100%**	**31,598,737**	**100%**	**-113%**

Trade activities

Gross profit from coal trading decreases by 106% to a loss of US$1.1 million for the year ended December 31, 2009 from profit of US$18.7 million for the year ended December 31, 2008. The decrease was due to low ability to market coal as well as sale at lower than purchase prices.

Mining and coal enrichment

Gross profit from mining and coal enrichment decreased by 123% to a loss of US$2.7 million for the year ended December 31, 2009 from US$12.1 million for the year ended December 31, 2008. It was due to lower sale volumes partially offset by cost reduction.

Rendering of services

Gross profit from services provided decreased by 185% to a loss of US$0.3 million for the year ended December 31, 2009 from a profit of US$0.4 million for the year ended December 31, 2008 due to start of coal extraction at Rassvet-1 when new licence was received.

Extraction of coal from waste deposits

Gross profit from extraction of coal from waste deposits decreased by 102% to a loss of US$9 thousand for the year ended December 31, 2009 from profit of US$0.4 million for the year ended December 31, 2008 as a result of processing suspension due to low ability to market coal.

Selling and distribution costs

Selling and distribution expenses decreased by 78% to US$0.5 million for the year ended December 31, 2009 from US$2.3 million for the year ended December 31, 2008. Selling personnel costs decreased due to redundancy and a decrease of working hours.

Administrative expenses

Administrative expenses decreased by 26 per cent to US$0.6 million for the year ended December 31, 2009 from US$0.8 million for the year ended December 31, 2008. The decrease was primarily due to a decrease in administrative personnel costs as the result of redundancy and a decrease of working hours.

Other income (expenses)

Other income (expenses) increased by 421 per cent to US$2.1 million for the year ended December 31, 2009 from US$0.4 million for the year ended December 31, 2008. The increase was principally due to equipment downtime because of demand reduction.

EBITDA

In 2009 EBITDA changed to negative amount of US$3.2 million from positive amount of US$29.8 million in 2008. The decrease of 111% was primarily due to low ability for market coal in 2009.

Finance income

Finance income decreased by 24 per cent to US$0.3 million for the year ended December 31, 2009 from US$0.4 million for the year ended December 31, 2008. The decrease was principally due to a decrease of income from loans reflection and accounts receivable at amortized cost of US$0.1 million. Average weighted exchange rate for translation into presentation currency was 5.4 in 2008 and 7.79 in 2009. Therefore, income decreased after translation into the presentation currency.

Finance expenses

Finance expenses decreased by 13 percent to US$2.3 million for the year ended December 31, 2009 from US$2.6 million for the year ended December 31, 2008. The decrease was principally due to a decrease in credit interests' expenses as the result of average weighted exchange rate differences – 5.4 in 2008 and 7.79 in 2009.

Profit (losses) before taxation

Profit before taxation decreased by 136 per cent which led to loss before taxation in the amount of US$9.3 million for the year ended December 31, 2009 from US$25.9 million profit for the year ended December 31, 2008 because of the reasons stated above.

Income tax expenses (income)

Income tax expenses decreased by 230 per cent that led to income tax income in the amount of US$0.8 million for the year ended December 31, 2009 compared to income tax expenses of US$0.6 million for the year ended

December 31, 2008. The decrease was principally due to declaration of less taxable profit amount as the result of a sales volume decrease and income from deferred income tax that incurred due to a decrease of tax liabilities from fixed assets depreciation and an increase of deferred tax assets from liabilities with fixed payments.

Profit (loss) for the reporting period

Profit decreased by 133 per cent which led to loss in the amount of US$8.4 million for the year ended December 31, 2009 from US$25.3 million profit for the year ended December 31, 2008 due to the factors explained above.

Year ended 2008 compared to year ended 2007

Revenue

Revenue increased by 129% and amounted to US$98.9 million for the year ended on December 31, 2008 compared US$43.2 million for the year ended December 31, 2007. As 2008 year is defined by positive dynamics in coal industry, US$55.7 million increase of total revenue was achieved by an increase of sales volume as well as selling price.

The following table sets forth a breakdown of the Group's segments revenue for periods indicated:

For the year ended December 31

	2008	**As a percent-age of total revenue**	**2007**	**As a percent-age of total revenue**	**Change from 2008 to 2009**
	US$		**US$**		
Trade activities	56,347,452	56%	24,609,122	57%	129%
Mining and coal enrichment	40,491,059	41%	17,704,391	41%	129%
Rendering of services	1,528,236	2%	522,056	1%	193%
Extraction of coal from waste deposits	521,295	1%	315,424	1%	65%
Total	**98,888,042**	**100%**	**43,150,993**	**100%**	**129%**

Trade activities

Revenue from trade activities increase by 129% to US$56.3 million for the year ended December 31, 2008 from US$24.6 million for the year ended December 31, 2007. In 2008 share of coal trading as a percentage of total revenue slightly decreased to 56% from 57% in 2007. The Group was treated as large and reliable supplier of coal products on coal market of Ukraine for industrial companies by 2008 that allowed settling long-term agreements with high prices and solid partners.

Mining and coal enrichment

Revenue from mining and coal enrichment increased by 129% to US$40.5 million for the year ended December 31, 2008 from US$17.7 million for the year ended December 31, 2007. In 2008 share of mining and coal enrichment as a percentage of total revenue remained stable 41% compared to 41% in 2007. This increase was attributed to increase in capacity as well as introduction of new longwalls.

Rendering of services

Revenue from services provided increased by 193% to US$1.5 million for the year ended December 31, 2008 from US$0.5 million for the year ended December 31, 2007 mostly as a result of sublease of personnel and some equipment of Shahta Rassvet-1 LLC to a state mine due to absence of a mining licence in 2008.

Extraction of coal from waste deposits

Revenue from lease increased by 65 % to US$0.5 million for the year ended December 31, 2008 from US$0.3 million for the year ended December 31, 2007.

Cost of sales

Cost of sales increased by 90% to US$67.3 million for the year ended December 31, 2008 from US$35.4 million for the year ended December 31, 2007. The increase in costs of sales was the result of an increase of volume. In 2008 personnel costs increased as a result of wages increased to industry average as well as planned hiring of personnel for Rassvet-1 mine. An increase of depreciation of non-current assets was the result of purchases of equipment for Rassvet-1 mine. Services increased as a result of equipment setup for Rassvet-1 mine.

The following table sets forth a breakdown of the Group's cost of sales for the periods indicated:

For the year ended December 31

	2008		**2007**		
	Amount, USD	**Percent-age of total cost of sales**	**Amount, USD**	**Percent-age of total cost of sales**	**Change from 2007 to 2008**
Change in finished goods and work-in-progress	(3,485 376)	(5%)	(756,230)	(2%)	361%
Held for resale merchandise	37,598,783	56%	20,185,803	57%	86%
Raw materials	22,132,102	33%	10,211,317	29%	117%
Wages and salaries of operating personnel	6,099,217	9%	3,110,966	9%	96%
Depreciation of non-current assets	1,378,170	2%	944,435	3%	46%
Energy supply	796,755	1%	529,128	1%	51%
Subcontractors services	2,546,718	4%	1,003,291	3%	154%
Taxes and obligatory payments	222,936	0%	130,939	0%	70%
Total	**67,289,305**	**100%**	**35,359,649**	**100%**	**90%**

Gross profit

Gross profit increased by 306% to US$31.6 million for the year ended on December 31, 2008 from US$7.8 million for the year ended December 31, 2007. The increase was due to an increase in selling prices and an increase of own production volume. The Group’s gross profit margin increased over the period to 32% in 2008 as compared to 18% in 2007.

The following table provides the breakdown of the Group’s gross profit by principal segments results for the years ended December 31, 2007 and 2008:

	2008	**As a percent-age of total gross profit**	**2007**	**As a percent-age of total gross profit**	**Change from 2007 to 2008**
	US$		**US$**		
Trade activities	18,748,669	59%	4,423,319	57%	324%
Mining and coal enrichment	12,133,941	39%	3,025,760	39%	301%
Rendering of services	360,409	1%	228,815	3%	58%
Extraction of coal from waste deposits	355,718	1%	113,450	1%	214%
Total	**31,598,737**	**100%**	**7,791,344**	**100%**	**306%**

Trade activities

Gross profit from coal trading increased by 324% to US$18.7 million for the year ended December 31, 2008 from US$4.4 million for the year ended December 31, 2008. The increase was due to an increase in selling prices.

Mining and coal enrichment

Gross profit from mining and coal enrichment increased by 301% to US$12.1 million for the year ended December 31, 2008 from US$3.0 million for the year ended December 31, 2007. It was due to an increased volume of own mining and sales volumes.

Rendering of services

Gross profit from services provided increased by 58% to US$0.4 million for the year ended December 31, 2008 from US$0.2 million for the year ended December 31, 2007 due to an increase in volume of services.

Extraction of coal from waste deposits

Gross profit from processing of waste dumps increased by 214% to US$0.4 million for the year ended December 31, 2008 from US$0.1 million for the year ended December 31, 2007 as a result of an increase in quality by means of enrichment, higher selling prices and volume.

Selling and distribution costs

Selling and distribution expenses increased by 104% to US$2.3 million for the year ended December 31, 2008 from US$1.1 million for the year ended December 31, 2007. The increase was due to an increase in sales volumes, personnel costs increased as a result of distribution personnel number.

Administrative expenses

Administrative expenses increased by 31% to US$0.8 million for the year ended December 31, 2008 from US$0.6 million for the year ended December 31, 2007. The increase was due to an increase in administrative personnel costs of US$0.2 million as the result of an increase of salaries to industry average and increase in administrative personnel headcounts.

Other income (expenses)

Other expenses increased by 131% to US$0.4 million for the year ended December 31, 2008 from US$0.2 million for the year ended December 31, 2007. The increase was due to impairment of non-current assets of US$0.2 million as the result of revaluation in 2008 and impairment of receivables US$0.2 million which were partially offset by profit from sales of obsolete fixed assets amounting to US$0.1 million that were purchased in bulk from state mine for Rassvet-1 mine.

EBITDA

In 2008 EBITDA increased to amount of US$29.8 million from positive amount of US$7.0 million in 2007. The increase of 327% was due to growth in sales volumes, higher share of own production and economies of the scale.

Finance income

Finance income decreased by 48% to US$0.4 million for the year ended December 31, 2008 from US$0.8 million for the year ended December 31, 2007. The decrease was principally due to a decrease of income from reflection of loans and accounts receivable at amortized cost of US$0.4 million as the result of income in 2007 from financial instrument initial recognition. The financial instrument was acquired at the value lower than fair value subsequently the income incurred.

Finance expenses

Finance expenses increased by 125% to US$2.6 million for the year ended December 31, 2008 from US$1.2 million for the year ended December 31, 2007. The increase was principally due to an increase of credit interest expenses of US$1.0 million and expenditure on borrowings acquiring amounting to US$0.2 million as the result of borrowings increase in 2008 compared to 2007.

Profit (losses) before taxation

Profit before taxation increased by 365% to US$25.9 million for the year ended December 31, 2008 from US$5.6 million for the year ended December 31, 2007.

Income tax expenses (income)

Income tax expenses increased by 188% to US$0.6 million for the year ended December 31, 2008 from US$0.2 million for the year ended December 31, 2007. The increase was principally due to an increase of current income tax as the Group declared relatively large taxable profit and due to an increase of deferred income tax expenses.

Profit (loss) for the reporting period

Profit increased by 372% to US$25.3 million for the year ended December 31, 2008 from US$5.4 million for the year ended December 31, 2007 due to factors discussed above.

Liquidity and Capital Resources

Overview

The Group's need in liquidity primarily arise from the need to finance working capital, development of mine infrastructure and capital expenditures. During the years under review the Group has met most of its liquidity needs from net cash generated from operating activities and a mix of long-term and short-term bank borrowings.

As at June 30, 2010 the Group has total indebtedness of US$14.2 million with ability to draw additional resources as required.

Cash Flows

The following is a summary of the Group's cash flows in 2009, 2008 and 2007:

	1st half 2010	**2009**	**2008**	**2007**
	US$	**US$**	**US$**	**US$**
Net cash flows from operating activities	4,381,878	863,610	15,549,442	3,767,827
Net cash flows used in investing activities	(858,079)	(2,577,106)	(3,693,544)	(3,877,442)
Net cash flows from/(used in) financing activities	(3,560,728)	371,559	(10,299,673)	1,188,887
Net increase in cash and cash equivalents	(36,929)	(1,341,937)	1,556,224	1,079,272

Net cash flows from operating activities

In the 1st half of 2010 Group's cash flows from operating activities increased by 147% to US$4.4 million from US$1.8 million. The increase is attributable to higher net profit partially offset by an increase in working capital.

In 2009 Group's cash flows from operating activities decreased by 94% to US$0.9 million from US$15.5 million. The decrease is attributable to lower net profit partially offset by a decrease in working capital.

In 2008 Group's cash flows from operating activities increased by 313% to US$15.5 million from US$3.8 million. The increase is attributable to higher net profit partially offset by an increase in working capital.

The Group defines working capital as current assets (excluding cash) minus current liabilities (excluding short-term bank borrowings and current portion of long term borrowings). The main contributors to working capital are the Group's inventories, accounts receivable and accounts payable.

Changes in working capital	1st half 2010 US$	2009 US$	2008 US$	2007 US$
(Increase)/decrease in trade and other receivables and prepayments	(1,141,595)	1,675,038	(7,920,837)	(3,080,521)
Decrease in inventories	(1,547,023)	1,361,744	(6,546,542)	(4,022,263)
Increase in trade and other payables	611,052	320 058	(482,708)	3,572,950
Total	**(2,077,566)**	**3,356,840**	**(14,950,087)**	**(3,529,834)**

In 2010 Group's working capital decreased by US$2.1 million due to the following:

- *Trade and other receivables and prepayments* increased by US$1.1 million due to an increase in selling volumes.
- *Inventories* increased by US$1.5 million due to an increase in safety stock due to higher sale volumes.
- *Trade and other payables* increased by US$0.6 million due to an increase in purchases that correspond to sale volumes.

In 2009 Group's working capital decreased by US$3.4 million due to the following:

- *Trade and other receivables and prepayments* decreased by US$1.7 million due to a decrease in selling volumes.
- *Inventories* decreased by US$1.4 million due to lower demand as the Group being able to satisfy demand from inventories build up during 2008.
- *Trade and other payables* increased by US$0.3 million due to increase in purchases.

In 2008 Group's working capital increased by US$15.0 million. The main contributors to increase in net working capital were:

- *Trade and other receivables and prepayments* increased by US$7.9 million mainly due to an increase in selling volumes.
- *Inventories* increased by US$6.5 million due to an increase in safety stock due to higher sale volumes.
- *Trade and other payables* decreased by US$0.5 million due to the Group being able to pay earlier due to strong cash flows.

Net cash flows used in investing activities

Net cash used in investing activities was US$0.9 million in 2010, US$2.6 million in 2009, as compared to US$3.7 million in 2008 and US$3.9 million in 2007. In 2007 the Group primarily used cash flows to purchase assets from state mine "Zhovtenvugillya" to start operations of Rassvet-1 mine, some of purchased equipment was obsolete and was sold during 2008 and 2009, 2010. In 2008 acquisition of equipment was mainly due to launching of two new longwalls on Sadovaya mine. Acquisition of equipment in 2009 and 2010 was mainly modernization of present equipment. The Group purchased receivables from "ESHAR" SE under factoring agreement during 2007 and 2008 with a view of making profit.

	1st half 2010 US$	2009 US$	2008 US$	2007 US$
Proceeds from sale of property, plant and equipment	48,404	58,944	464,453	7,586
Purchase of property, plant, equipment and intangible asset	(906,483)	(2,636,050)	(3,224,116)	(3,575,721)
Proceeds from sale of financial instruments	-	-	18,732	-
Purchase of financial instruments	-	-	(952,613)	(309,307)
Net cash flows used in investing activities	**(858,079)**	**(2,577,106)**	**(3,693,544)**	**(3,877,442)**

Net cash flows from (used in) financing activities

Net cash outflow was US$3.6 million in 2010, cash inflow from financing activities was US$0.4 million in 2009, as compared to cash outflow of US$10.3 million in 2008 and cash inflow of US$1.2 million in 2007. The increase in share capital during 2007-2009 was attributed to expansion of mining operations discussed earlier in OFR section and the need to finance working capital. Increase in loan facilities during 2007-2010 is primarily attributable to the need to finance increase in working capital. Distributions to the Beneficial Owners are discussed in section "DISTRIBUTIONS TO SHAREHOLDERS" below in this section.

	1st half 2010	2009	2008	2007
	US$	**US$**	**US$**	**US$**
Proceeds from borrowings	3,126,729	2,182,823	33,551,834	14,869,307
Repayment of borrowings	(1,633)	(39,746)	(29,710,037)	(7,974,257)
Interest paid	(1,422,543)	(2,159,489)	(2,396,249)	(1,139,645)
Dividends paid	(5,263,281)	(249,285)	(12,300,587)	(5,083,785)
Increase in share capital and establishment of the Group		637,255	555,366	517,267
Net cash flows from/(used in) financing activities	**(3,560,728)**	**371,559**	**(10,299,673)**	**1,188,887**

Distributions to Shareholders

During the periods presented in the Group's Special Purpose Combined Financial Statements the Group paid dividends to the Beneficial Owners summarized in table below:

	For the half year ended June 30, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
	US$	US$	US$	US$
Dividends paid	5,263,281	249,285	12,300,587	5,083,785

The amounts provided above represent economic benefit received by the Beneficial Owners in the Group through transfer pricing. No cash dividends were paid by the Group in the above period. The practice of transfer pricing has been eliminated as a part of the Group's preparation to enter the capital markets.

The Company has not paid any dividends since June 30, 2010.

In the future the dividend policy may be subject to changes and payment of any dividends will be effectively at the discretion of the General Meeting and the Board of Directors and after taking into account various factors including the Group's business prospects, future earnings, financial position, expansion plans and requirements of applicable laws.

Investments

In 2007 investments of the Group were aimed to acquisition of property complex for established mine "Rassvet-1", cost of acquisition amounted to USD 542,509. Purchase of equipment was also hold to renew basic funds of property, plant and equipment. Besides, the Group spent USD 1 525 074 for modernization of available equipment to improve productive capacity, make it more effective. The Group did not attract purpose loans for acquisition or modernization of property, plant and equipment.

In 2008 the Group purchased lorries which amounted to USD 587,475 and front-end loaders which amounted to USD 345 989. Necessity in such machinery appeared because of production volumes increase. Increase of production volumes also demanded overhaul of equipment in use to support work for the Group with greater productive capacity. Repairs amounted to USD 1 196 594. The Group did not attract purpose loans for acquisition or modernization of property, plant and equipment.

The main item of investment in 2009 was renewal, it was excavation clearing work on mine "Rassvet". Cost of work amounted to USD 961 192. Volumes of excavation of mine "Sadovaya" were also increased, cost of works amounted to USD 566 067. Acquisition of new equipment was carried starting on production needs, it amounted to USD 739 178. The Group did not attract purpose loans for acquisition or modernization of property, plant and equipment.

The main items of investment in 2010 were purchase of Sukhodolskaya tailings pond for US$ 407 thousand (containing 4.7 million tones of measured JORC-compliant resources of coal) and Samsonovskaya tailings pond for US$ 5 696 thousand (containing 1.6 million tones of measured, JORC-compliant resources of coal). This enabled the Group to increase its measured coal resources (as defined in the Technical Report) in waste deposits from 3.1 million tones in the beginning of the year 2010 to 7.9 million tones as at the date of the registration of the document. No other significant investments were made nor are expected in the year 2010. The Group's investment program for 2011 is described in the Use of Proceeds section.

Working capital statement

Having done due analysis, the management is of the opinion that taking account of the Group's current banking facilities, new banking facilities offered to but uncommitted by the Company and the net proceeds to be received from the offering of New Ordinary Shares the working capital available to the Group is sufficient to meet its present requirements for at least the next 12 months following the date of publication of this Prospectus.

BUSINESS DESCRIPTION

Overview

The Issuer, Sadovaya Group S.A., is a holding company of the Group incorporated in Luxembourg whose principal assets are interests in equity of the Group's subsidiaries incorporated and operating in Ukraine in the mining industry. The Issuer does not carry any business operations except for direct and indirect holding of interests in equity in the Group's companies. The Group's business operations are conducted through its Ukrainian subsidiaries.

The Group's principal business is 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 four main segments: coal mining, the extraction of coal from waste deposits, coal enrichment, and coal trading.

Sadovaya Group is Ukraine's fourth largest private producer of anthracitic (energy) coal, according to data available as of first half of 2010. (Source: *Energobiznes Magazine*, No. 31 of Aug. 03, 2010, http://e-b.com.ua/). The Group specializes in the extraction, enrichment and processing of coal, as well as the extraction and processing of coal wastes, and coal trading activities. The Group also consists of companies that provide supplementary production facilities and services (e.g. logistics) and that control integral property complexes that are leased to the operating companies. All of the Group's facilities are located in Ukraine's Donetsk and Luhansk Regions that are commonly known as the Donbas region (the Donets River coal basin region).

The table below provides selected production data for the Group for the periods ended December 31 of 2007, 2008 and 2009, and June 30, 2010.

	December 31, 2007	**December 31, 2008**	**December 31, 2009**	**June 30, 2010**
	'000t	**'000t**	**'000t**	**'000t**
Coal mining	153.3	207.8	102.6	110.5
Coal recovery from waste	58.2	6.1	5.4	12.6
Coal trading	709.8	1,190.4	198.5	287.1

Source: Company data

The Group operates two coal mines that have their own operational infrastructure, with total coal resources of 23.1 million tonnes (measured and indicated, as described in the Technical Report in Annex III) and a further 99.1 million tonnes under legalization. The Group extracts two types of coal, classified as anthracite (grade A) and semi-anthracite (grade T). The combined daily production capacity of all mines is approximately 2,000 tonnes. The annual capacity is 600,000 tonnes (as of 2009). The Group owns a processing facility with a total annual capacity of 1,020,000 tonnes.

The Group reported revenues of USD 43.2 million in 2007, USD 98.9 million in 2008 and USD 13.3 million in 2009, and EBITDA of USD 7.0 million in 2007, USD 29.8 million in 2008 and USD -3.2 million in 2009. In first half of 2010 the Group reported USD 19.1 million in sales and USD 6.2 million in EBITDA.

Geographically, the Group is optimally located, in the Donbas region near its major customers in eastern Ukraine, and with rail and water (via the Black Sea) links to the European market. Exports accounted for 5.6% of the Group's total coal supplies in 2009 (vs 0.9% in 2008) and 8.7% of the Group's total revenue (vs 1.7% in 2008). The Group's principal export markets are Moldova, Russia, Georgia and Cyprus.

History

Shahta Sadovaya LLC was incorporated in 1995 and as a result of a transfer of ownership in 2002, it became the oldest company in the Group. In 2003 it began mining on leased property that was acquired in 2004 by Interinvest LLC, a subsidiary of the Company. In 1997 Interdon PC was established by one of the Beneficial Owners. Interdon's main activity was the recycling of coal from waste dumps created from past mining and enrichment activity in the Donbas region. In 2005, Volat-Trans PC was incorporated to provide transportation services for the Group's subsidiaries. The second mining complex, Rassvet-1 mine in Donetsk Region, was acquired in 2007. Shahta Rassvet-1 LLC was incorporated to mine, enrich and trade coal, while Donvostok STB LLC became the owner of the mine complex. In 2009 shares of the Operating Companies were contributed to a Cypriot holding company Connektico Ventures Limited, and as a result of a group restructuring following which the Ukrainian Operating Companies formerly owned by Connektico Ventures Limited become indirectly owned by the Issuer. In October 2010 Connektico Ventures Limited transferred all the Operating Companies to a newly acquired Cypriot company Sadovaya LLC in the last phase of the Group's restructuring process.

Group strategy

The Group's strategy is to increase its value via the development of its coal production and trading business. The Group is planning to increase coal production in three main directions: (i) increase production capacity and output at its currently owned mines, (ii) recover coal from coal wastes by launching a full-scale waste recycling business, and (iii) expand its coal reserves and mining volumes through the acquisition of two new coal fields. The plan is incorporated into the Group's long-term development program, audited by the mineral experts as described in the Technical Report in Annex III, which yields total NPV from the new projects of USD 348 million.

The key strategic development points include:

Increase of coal mining productivity at existing mines. The Group intends to increase operating capacities and productivity at its current mines by increasing the number of working longwalls and the mechanization of coal extraction activities following the installation of modern mining equipment. In particular, the company plans to increase the number of working longwalls at its existing mines from four in 2010 to seven in 2011. In addition, the Group intends to acquire one UKD200 shearer and two CO75 plows with mechanic supports at its new longwalls in 2011, and increase the use of mechanic shearers at the currently operating longwalls.

Launch full-scale waste enrichment business. The Group intends to maximize its cash flow from the cost-efficient waste recycling business in the short- to mid-term. In 2011, the Group plans to construct a heavy-medium cyclone factory for the recovery of coal from waste dumps, and another one for the recovery of coal from tailings ponds. The Group expects to annually produce 0.7 million tonnes of marketable coal extracted from the wastes starting in 2012. With low production costs (more than three times lower than for coal mining), sales of recovered coal are expected to be the main cash driver for the Group in the coming years. The Technical Report estimates the total NPV of the coal recovery projects at USD 165.4 million. Furthermore, the Group aims to continue purchasing coal wastes to increase the value of its coal recovery business in the future.

Develop the mining business by augmenting coal deposits. The Group expects to complete the acquisition of two new coal deposits in 2011, namely Roskoshniy (an extension of the currently owned Sadovaya Mine) and Krasnoluchskaya Severnaya. Total coal resources at Roskoshniy and Krasnoluchskaya Severnaya are estimated at 99.1 million tonnes (measured and indicated, as described in the Technical Report in Annex III). The Group claims it has prepared all of the required documentation to acquire the new licences (the documentation and approval process usually takes no less than two years), and is in the process of negotiating the final terms of payment for the licences. After the acquisition of the two deposits, the Group's total coal resources will to increase by five times to 122.2 million tonnes (measured and indicated, as described in the Technical Report in Annex III). The Technical Report outlines total NPV of the Group's mining business at USD 136.7 million.

Change in coal trading structure. Currently, 50-70% of the Group's coal trading is based on coal purchased from third parties. With the implementation of internal coal production projects, the Group intends to increase the share of its own coal in total coal trading in-line with the increase in working capacities and the extraction of coal by the Group's subsidiaries. With the increase of own coal mining, the Group is aiming to secure its positions on the local energy coal market, which will afford it greater bargaining power in price negotiations for third-party coal, which should lead to increased profitability of the coal trading business.

Competitive Strengths and Advantages

The Management believes that the Group benefits from the following competitive strengths and advantages:

Long track record and established relationships with key customers. By 2002 the Group's operations were primarily focused on developing coal trading where the majority of coal was purchased from third parties. The Group's subsidiaries have operated in the mining industry since 2003. Its presence in the industry enabled the Group to establish business relationships with key coal consumers in Ukraine. The Group's extensive sales experience allows it to market various types of coal in steadily increasing volumes. Due to its experience and business connections, which will set the groundwork for additional demand for coal in the future, the Group has continuously been increasing its extraction volumes to increase value and profitability inside the Group.

Significant coal reserves. The Group controls two operational mines that hold 23.1 million tonnes of coal resources (measured and indicated, as described in the Technical Report in Annex III) classified as steam coal (anthracite and semi-anthracite), and is expects to complete the acquisition of two new mining fields with an additional 99.1 million tonnes of resources (measured and indicated) in 2011. The Group's proven and probable coal reserves, in accordance with JORC Code, stand at 48.1 million tonnes.

Experience in coal waste processing. The Group considers it has distinct experience in retrieving coal from coal waste dumps and tailings ponds. The Croup controls 16 coal waste dumps and tailings ponds with, and operates waste recovery facilities with annual coal output capacity of about 50,000t. The costs associated with the acquisition of the waste reserves and the recovery and enrichment costs are low, which translates into high profitability. Additional waste reserves are expected to be readily available in the nearest future, and the Group envisages that it will further develop the coal waste processing segment. The Group expects the waste processing business will become its main source of profits in 2011 and 2012. Moreover, the Group intends to increase the depth of coal recovery by installing more efficient equipment which will enable the Group to launch a full-scale waste recycling business.

Full ownership of coal deposits. The Group is one of a small number of privately owned coal mining companies in Ukraine that fully control their coal deposits (as opposed to the practice of leasing mines from the state), which creates incentives for investments into the development of the mines with a limited risk of losing operational control over the assets. Compared to state-owned coal mining companies, the Group is increasing its competitiveness by reducing costs, installing modern equipment, and introducing best practices to corporate management.

Business segments

The Group's business is concentrated on four main segments: coal mining, the extraction of coal from waste deposits, coal enrichment, and coal trading.

Coal mining

The Group has two mining complexes in the Donbas region with its own infrastructure. The Group extracts coal types mostly classified as anthracite and semi-anthracite. The daily capacity of all mines is approximately 2 thousand tonnes per day. The average annual capacity is 600 thousand tonnes (as per 2009). The coal is extracted from seams with thickness of between 0.55m and 2.02m.

The table below sets out the Group's coal reserves and mineral resources as at July 1, 2010. The reserves and resources figures have been extracted without material adjustment from the "Technical Report" in Annex III of the Prospectus and are JORC Compliant.

Reserves	**Sadovaya Mine** (tonnes)	**Rassvet-1 Mine,** (tonnes)
Proven	2,109,000	5,473,000
Probable	10,271,000	0
Total (proven and probable)	**12,380,000**	**5,473,000**

Shahta Sadovaya LLC

The company operates the Sadovaya Mine complex, which is located at 41 Nakhimova Street, Krasniy Kut Village, Antratsitivskiy District, Luhansk Region, Ukraine.

The mine is developing seven coal seams. The industrial reserves of coal seams (by Ukrainian classification) are estimated at 9.93 million tonnes of coal of grade A (anthracite coal as defined by DSTU 3472-96). The average thickness of the coal seams is between 0.56m and 1.04m. There are three operating longwalls in the mine. The mine's coal production was 153.3 thousand tonnes in 2007, 207.8 thousand tonnes in 2008, 102.4 thousand tonnes in 2009 and 53.0 thousand tonnes in the first six months of 2010. The projected coal volume for 2010 is 199 thousand tonnes. The mine employs 573 people engaged in coal extraction.

Shahta Rassvet-1 LLC

The company operates the Rassvet-1 Mine, located in Shevchenko Village of the Shakhtarskiy District, Donetsk Region, Ukraine.

The mine is developing five coal seams. The industrial reserves of coal seams (by Ukrainian classification) are estimated at 13.2 million tonnes of coal of grade T (lean coal, or semi-anthracite, alternatively classified as grade П in Ukrainian version of DSTU 3472-96). The average thickness of the coal seams is between 0.79m and 1.05m. There is one operating longwall in the mine. The coal production of the mine was 37.0 thousand tonnes in 2007, 40.6 thousand tonnes in 2008, 229 tonnes in 2009, and 57.5 thousand tonnes in the first six months of 2010. The projected coal volume for 2010 is 70 thousand tonnes. The mine employs 273 people engaged in coal extraction.

Processing of Coal Waste

Interdon PC

The Company controls 16 coal waste dumps and tailings dams that are located in Luhansk Region. At the moment, coal coal is being recovered from waste dumps at two processing sites. The Group produced 58,200 tonnes of recovered coal in 2007, 6,100 tonnes in 2008, 5,400 tonnes in 2009, and 12,625 tonnes in the first six months of 2010. The company employs 15 persons.

Coal Enrichment

Sadovaya Group’s coal preparation activities are conducted by Shahta Sadovaya LLC and Shahta Rassvet-1 LLC, and consist mainly of in screening, sorting and blending processes. The screening and blending of coal from its own mines and from coal purchased from third parties enables Sadovaya to offer a wide array of coal products to the market. The Group owns two coal screening plants with capacity of 180t/h. The plants are located at site No. 12, near Sadovaya Mine. There are 108 persons employed in coal enrichment activities.

Coal Trading

The Group implemented unified sale policy. Coal trading within the Group is conducted by Shahta Sadovaya LLC and Shahta Rassvet-1 LLC.

The main products sold by the Group are steam coal and coal for technological and household needs to Ukrainian energy generating companies (thermal power plants) and metallurgical and ferroalloy plants. The following table shows the Group’s principal categories of products for the periods ended December 31, 2007, 2008 and 2009, and June 30, 2010.

Grade and size of coal	**December 31, 2007**	**December 31, 2008**	**December 31, 2009**	**June 30, 2010**
	(tonnes)	(tonnes)	(tonnes)	(tonnes)
A (anthracite 0-6 mm)	368,679	758,240	125,394	20,509
T (semi-anthracite 0-6 mm)	164,107	321,216	49,651	223,590
AKO (anthracite 25-100 mm)	76,907	9,940	8,070	23,509
AM (anthracite 13-25 mm)	41,806	65,233	10,254	13,307
AC (anthracite 6-13 mm)	40,268	35,728	5,169	6,225
Total	**709,767**	**1,190,357**	**198,538**	**287,140**

The customer base of the Group is very broad and the Group is not dependant on any particular customer.

The Group’s products are mainly sold in the Ukrainian market. The following table shows the Group’s principal categories of customers with amount of coal sales for the periods ended December 31, 2007, 2008 and 2009, and June 30, 2010.

Customer type	December 31, 2007	December 31, 2008	December 31, 2009	June 30, 2010
	(tonnes)	(tonnes)	(tonnes)	(tonnes)
Power plants	550,786	1,079,455	175,045	244,099
Iron/steel producers	74,907	43,729	11,169	28,978
Ferroalloy producers	78,268	63,500	9,754	13,307
Other	5,806	3,673	2,570	756
Total	**709,767**	**1,190,357**	**198,538**	**287,140**

In 9M10 the Group sold 581,851 tonnes of coal, which is a 4.54 times increase y/y. The Group expects to sell 816 thousand tonnes of coal in 2010, or a 4.1 times increase y/y.

Employees and employee relations

As of June 30, 2010, the Group had 1,060 full time employees. Additional information concerning the average number of the Group's employees by category (based on management information) for the years 2009, 2008 and 2007 is set forth in the table below.

Specialization of employees	2007	2008	2009	6 months 2010
Mining	679	882	581	680
Processing	123	112	79	122
Support production	171	108	142	177
Sales, marketing, distribution	8	10	6	9
Research and exploration	7	10	12	14
Administrative and other personnel	49	57	55	58
Total	**1037**	**1179**	**875**	**1060**

All the Group's Ukrainian employees work under employment contracts as required under Ukrainian law and their labor relations with the Group are regulated by such contract and by law.

All but one of the Group's operating subsidiaries are required under Ukrainian law to enter into collective bargaining agreements with their employees. Collective bargaining agreements provide for certain benefits (including, among other things, additional vacation rights, performance bonuses and transportation services to and from place of work). Management considers that it has good relations with its employees. There has been no significant industrial action or labour dispute at the Group's operating companies since their establishment.

As at the date of this Prospectus, the Group's employees do not have any shareholdings in the Company, do not hold any stock options or other rights to Shares and do not participate in any other way, in the capital of the Company. There are no arrangements relating to such participation.

The Operating Companies make mandatory contributions, equal approximately up to 40% of total payroll in 2009, to the Ukrainian state retirement fund and other mandatory state funds as part of their statutory employer's contribution to social security taxes on behalf of their employees. The particular amount of contributions to the pension fund depends on the terms of employment of a particular employee. The Group does not finance any voluntary (non-State) retirement schemes for its employees. There is no automatic retirement age for workers, although the statutory retirement age is 60 for men and 55 for women. Employees working in hazardous conditions may retire earlier, at age 45, 50 or 55 their depending on their type of employment and provided that they have the required length of work experience. The average age of employees at the mine is 38 years.

The Group believes that, taking into account production levels, its headcount is consistent with or better than most of its Ukrainian or CIS competitors. The Group's labour rates are comparable to the rates in the industry overall with the majority of its employees receiving the equivalent of US$500 per month in 6 months of 2010. The Group's goal is to increase the productivity of its current workforce in line with international industry standard by more extensive use of machinery in mining. Management believes that the plan will ameliorate inflationary pressure on the Group's labour costs, as well as increasing its workers' standard of living. However, the Group faces certain technological and funding constraints in seeking to introduce more machinery in the mining process. As a result, there can be no assurance that the Group will succeed in managing its overall employment costs, which may impair the Group's competitiveness compared with coal producers with lower employment costs per ton of coal produced.

1. Ratio of support staff to main production staff (in the Group as a whole) - 22%

2. Ratio of support staff to the overall staff (in the Group as a whole) -16.7%.

Average age of employees

Company	**2007**	**2008**	**2009**	**6 months 2010**
Volat-Trans PC	39	38	37	38
Interinvest LLC	36	37	37	38
Donvostok STB LLC	32	33	34	33
Interdon PC	40	39	42	43
Shahta Sadovaya LLC	40	39	39	39
Shahta Rassvet-1 LLC	40	39	38	38

Average salary

Specialization of employees	**2009**	**6 months 2010**
Mining, UAH / USD	2,396 / 299	4136 / 523
Processing, UAH / USD	2,751 / 344	3269 / 413
Other, UAH / USD	1710 / 214	2680 / 339

Health and safety standards

The Group is required to comply with a range of health and safety laws and regulations, and considers the health and safety of its employees to be a priority. In accordance with Ukrainian law, the Group has developed a health and safety policy applicable to the Group's operations and categories of activity. Compliance with this policy is monitored through a three-tiered system. Daily control is conducted by operating personnel, engineers and technicians. The Group's production managers carry weekly inspections, and senior management conducts periodic inspections with governmental personnel. All personnel are given annual medical tests and provided with special clothing, footwear and other protective equipment as required by applicable regulations. The Group's mines are subject to a quarterly inspection by the State Committee of Industrial Safety, Labour Protection and Mining Supervision, which is responsible for inspecting working conditions, safety standards and equipment. Specially assigned inspector form the State Committee of Industrial Safety, Labour Protection and Mining Supervision, assigned to the particular Operating Company may conduct the inspections any time. Monthly the Group is allocating costs for health and safety programs, the exact amount of which are defined based on the current needs of the companies. The Group believes that it is in compliance in all material respects with applicable health and safety legislation in Ukraine.

Environmental Matters

In common with other natural resources and mineral processing companies, the Group's operations generate hazardous and non-hazardous waste, effluent and emissions into the atmosphere, water and soil. One of the Group's key challenges is the disposal of large amounts of crushed and ground rock material that must be moved aside in the mining process and coal processing in order to reach the coal. A further challenge is the management of dust created by the mining and crushing process. The Group's mines also use hazardous materials, such as explosives which are used in mining operations, and its processing plants produce harmful emissions into the atmosphere and waste water.

There are environmental laws in Ukraine, applicable to the Group's operations, which address such matters as protection of the natural environment, the use of natural resources, emissions into the atmosphere and water and waste disposal. The Group holds a number of environmental licences and permits, including permits for atmospheric emission control, solid waste disposal, mine waste disposal and special use of fresh water. The permits are subject to 5-year renewal. The relevant Ukrainian authorities determine the amount of environmental discharge into the atmosphere or water was well as wastes. The Group is required to pay quarterly environmental charges to the State based on these quotas (calculated separately for each pollutant) and, to the extent that the Group exceeds the quotas, it will have to pay a penalty amounting to five times the amount of the relevant charge. In connection with the Group's plans to acquire and develop two additional coal deposits and to maximize coal waste processing, it will need to apply to the regional authorities for additional quotas. The Group's planned increase in production is expected to result in a greater impact on the environment and it is considering various measures for implementation during the period from 2010 to 2012.

The Group's mining and production facilities are also subject to environmental monitoring and regulation with respect to, amongst other things, monitoring air, dust and gas emissions, waste disposal and storage and water usage and water quality monitoring by environmental regulators.

Management considers that the Group has an effective internal environmental management and monitoring system. The Group considers engaging additional qualified personnel due to expected increase of standards. In 2009, the Group spent approximately UAH 0.7 million on environmental permits and protection measures.

Ukrainian environmental laws also require the reclamation and restoration of mining areas. The Group had closure and rehabilitation plans in place for the Sadovaya mine and for coal waste dumps and tailings ponds (plans for Rassvet-1 mine are being currently considered and expected to be reusable). The anticipated total land restoration costs are approximately UAH 1-2 million per annum. The mining expert estimates that the Group's total closure and rehabilitation liability under Ukrainian law will be a minimum of UAH 58 million.

Insurance

The Group maintains civil liability insurance of owners of motor vehicles, social insurance of the employees, as well as insurance coverage for majority of our assets, which are pledged as security for loans received by the Operating Companies against loss or damage. The insurance strategy is determined by a number of factors, including legal regulations, contractual obligations, and internal risk management and requirements. The Group's businesses and assets are subject to varying degrees of risk and uncertainty. Therefore, the Group plans to implement an insurance programme and hold insurance policies covering its most significant assets, located in Ukraine. As a part of its contractual obligations under the loan agreements, the Group's key assets and significant inventories are insured against standard risks such as risks of accidental destruction or damage as a result of natural disasters, illegal actions of third parties and other business interruptions. The above mentioned insurances are for amounts which the Group believes are sufficient and customary in Ukraine.

Legal and Administrative Proceedings

There are no pending or threatened material legal proceedings, disputes, winding up and investigations involving any of the companies within our Group, which could have an adverse effect on operations of the Group. There were no governmental, legal or arbitration proceedings during a period covering the previous 12 months which may have or have had in the recent past significant effects on our Group's financial position or profitability.

Intellectual Property

Other than licenced software, the Group does not use any intellectual property in its activities.

Regulatory Matters

The Group is in the possession of all licences and permits, which are material for the operation of its business. No special or significant concessions, permits or other administrative authorisations for conducting the Group's businesses are required in Ukraine.

The Group holds the following coal licences:

Licence holder and No. of licence	Licence area (sq.km)	Coal reserves (thousand) tonnes)	Date issued	Expiration date	Mining method
Shahta Rassvet-1 LLC, No. 4982	13.43	13302	June 11, 2009	June 11, 2029	Underground
Shahta Sadovaya LLC, No. 4488	7.04	10364	November 8, 2007	November 8, 2026	Underground

Volat Trans PC holds a licence for rendering domestic cargo transportation services by automobile transport. The licence has been renewed in August 2010 and shall be valid for indefinite period.

Real Property

The companies of the Group own all of their production facilities and administrative buildings and underground complexes comprising mines. The companies of the Group exercise the right of ownership and lease rights on real estate objects on the basis of (i) contracts of purchase and sale, (ii) resolutions of competent authorities, with certification of the ownership on real estate, (iii) certificates of ownership, and (iv) court decisions.

The production real property was acquired by the Group from the third parties, during privatization or from the public tenders. As a rule, the Group Companies did not purchase discrete pieces of real property but acquired them as part of acquiring organized mining property complexes.

The Group has lease rights to the land plots on which its buildings and production facilities are located. The Group leases the land plots underlying almost all of its production facilities, administrative buildings and staff facilities from municipalities and local state administrations under lease agreements, the terms of which range from 5 to 50 years. The Group has a right to extend each of its current leases. Under existing Ukrainian legislation, the Group also has pre-emptive rights to purchase the land plots it leases.

Donvostok STB LLC leases from the Zuyevskaya Village Council one (1) hectare land plot located outside the borders of the settlement till July 8, 2059. However, under Ukrainian law, all land plots located outside the borders of the settlement should be leased by a regional state administration. The lease of the land plot from the improper landlord may be the basis for invalidation of the land lease agreement. However, in case of invalidation of the lease agreement, due to the Groups ownership to the buildings, located on such land, the Group should be able to enter into the new land lease agreement with the proper landlord without the land auction.

Encumbrances over real property

In order to secure repayment of loans, as specified in section "*Business Description*" – *Material Contracts, Financing Agreements*" below, the Group entered into several mortgage agreements under which the loans were secured for the benefit of CJSC Commercial Bank "Credit Dnipro" (“***Bank Dnipro***”) by mortgages on certain Group assets, in particular:

- Mortgage for the benefit of Bank Dnipro over warehouses and ground shops of total value of UAH 862,000 to secure the repayment of UAH 12 million loan, UAH 9 million loan and UAH 5 million loan under the Loan Facility Agreement No. 121009-KATM. The loans under the Fancility must ber repaid on December 25, 2010;
- Mortgage for the benefit of Bank Dnipro over integral property complex of Shahta Rassvet-1 of total value of UAH 2.45 million to secure the repayment of the loan under the Loan Facility Agreement No. 050906-A. The Facility was made available on September 5, 2006 and matures on April 1, 2011; and
- Mortgage for the benefit of Bank Dnipro over ground buildings of Shahta Sadovaya of total value of UAH 3.5 million to secure the repayment of UAH 15 million loan under the Loan Facility Agreement No. 050906-1. The Facility was made available on September 5, 2006 and matures on April 1, 2011.

Material contracts

The following contracts are the only contracts (not being contracts entered into in the ordinary course of business) that (i) have been entered into by the Company or any of its Group Subsidiaries within the two years immediately preceding the date of this Prospectus which are or may be material to the Group's business or (ii) have been entered into by the Company or any of its Group Subsidiaries at any other time but which contain provisions under which the Company or any of its Group Subsidiaries has an obligation or entitlement that is material to the Group as at the date of this Prospectus:

Financing agreements

The companies of the Group have received loan financing from Ukrainian banks, in particularBank Dnipro, which remain outstanding as of the date of this Prospectus:

- Loan Facility Agreement No. 050906-A dated September 5, 2006 between Shahta Sadovaya LLC and Bank Dnipro. Under the Loan Facility Agreement Bank Dnipro provided UAH 18.3 million loan to finance the purchase of production equipment and UAH 49.8 million loan for working capital purposes. The loans carry interest at 19% per annum and are due on April 1, 2011. The loans are secured by a combination of security instruments provided by the Group Companies and the Beneficial Owners: (i) mortgages over the industrial buildings and structures by Interinvest LLC and Donvostok STB LLC, (ii) pledges over production equipment, vehicles, underground constructions and technological networks by Donvostok STB LLC, Interinvest LLC, Shahta Sadovaya LLC and Shahta Rassvet-1 LLC, (iii) pledge over inventories by Shahta Sadovaya LLC, (iv) pledges over all participatory interest in Shahta Sadovaya LLC and Donvostok STB LLC by Sadovaya LLC; and (v) suretyships given by Interinvest LLC, Donvostok STB LLC, Shahta Rassvet-1 LLC, the Beneficial Owners and by Connektico Ventures Limited;
- Loan Agreement No. 115 dated March 31, 2008 between Private Enterprise Volat-Trans and Joint Stock Commercial Industrial Investment Bank. Under the Loan Agreement Joint Stock Commercial Industrial Investment Bank provided UAH 1.2 million to finance purchase of commercial vehicles. The loan must be repaid in arrears on the monthly basis and carries interest at 18% per annum which also is payable monthly. In addition to the interest rate, the annual loan management fee is payable at 1% per annum. The loan is due on March 30, 2011. The loan is secured by the pledge over commercial vehicles purchased with the loan proceeds;
- Overdraft Loan Agreement No. 290509-O dated May 29, 2009 between Shahta Sadovaya LLC and Bank Dnipro. Under the Overdraft Loan Agreement Bank Dnipro provided for the credit line with the limit of UAH 3 million, allowing to draw the funds to cover working capital needs for the term of 30 days at 30% per annum. The overdraft balance is finally due on April 1, 2011. The loan is secured by the suretyship granted by a Beneficial Owner, Mr. Tolstoukhov;
- Loan Facility Agreement No. 121009-KATM dated October 12, 2009 between Shahta Rassvet-1 LLC and Bank Dnipro. Under the Loan Facility Agreement Bank Dnipro committed to disburse a facility in the maximum amount not to exceed UAH 52 million or its equivalent in USD at 25% per annum for the loans in UAH and at 16% per annum for the loans in USD. The loans under the Loan Facility Agreement are subject to individual maturity dates and are finally due on December 25, 2010. The loans are secured by a combination of security instruments provided on Group companies and the Beneficial Owners: (i) mortgages over production buildings and structures of LLC Interinvest and immovable properties of Mr. Tolstoukhov, (ii) pledges over production equipment, vehicles and other movable properties by LLC Interinvest, Shahta Sadovaya LLC, Private Enterprise Volat-Trans and LLC Shahta Rassvet-1 LLC, (iii) pledge over inventories and receivables by LLC Shahta Sadovaya, (iv) pledge over 100 per cent. of participatory interests in LLC Shahta Rassvet-1 LLC by Sadovaya LLC; and (v) suretyships issued by the Beneficial Owners, Connektico Ventures Limited and Shahta Sadovaya LLC.

Coal supply agreements

The core activity of the Issuer is coal mining. According to that fact, most of the material agreements concluded by the Issuer of its subsidiaries are coal supply agreements. Tables below contain a list of substantial agreements concluded by Shahta Rassvet-1 LLC and Shahta Sadovaya LLC.

Coal supply agreements made by Shahta Rassvet-1 LLC

No.	Contracting party	Valid from (dd.mm.year)	Valid till (dd.mm.year)	Delivery	Remarks
1.	Vostok Ugol LLC	15.09.2009	31.12.2010	DDP, destination railway station	Supply of coal to Luhansk TPP
2.	Said Market	21.07.2010	Until full delivery	DDP, destination railway station	Supply of coal to Starobesheve TPP
3.	Said Market	01.06.2010	Until full delivery	DDP, destination railway station	Supply of coal to Slavyanskaya TPP (Donbasenergo)
4.	Gornoe Oborudovanie LLC	28.05.2010	31.12.2010	FCA, dispatch railway station	Supply of coal to Trypillia TPP (Centrenergo)
5.	Gornoe Oborudovanie LLC	15.07.2010	31.12.2010	FCA, dispatch railway station	Supply of coal to Donbasenergo

TPP stands for Thermal Power Plant

Coal supply agreements made by Shahta Sadovaya LLC

No.	Contracting party	Valid from (dd.mm.year)	Valid till (dd.mm.year)	Delivery	Remarks
1.	Fobas LLC	03.09.2010	31.12.2010	FCA, dispatch railway station	Supply of coal to Centrenergo (power sector)
2.	Donbasenergo	12.07.2010	31.12.2010	FCA, dispatch railway station	(Power sector)
3.	Antracitugleservis LLC	18.06.2010	31.12.2010	FCA, dispatch railway station	Supply of coal to Centrenergo (power sector)
4.	Centrenergo	01.03.2010	31.12.2010	FCA, dispatch railway station	Power sector
5.	Centrenergo	05.08.2008	31.12.2008	FCA, dispatch railway station	Power sector
6.	ArcelorMittal Krivoy Rog	05.05.2010	31.03.2011	CPT, destination railway station	Metallurgy
7.	ArcelorMittal Krivoy Rog	03.12.2009	31.12.2010	FCA, dispatch railway station	Metallurgy
8.	ArcelorMittal Krivoy Rog	29.12.2007	31.12.2008	CPT, destination railway station	Metallurgy
9.	Zaporozhskiy zavod ferrosplavov	27.10.2009	31.12.2010	FCA, dispatch railway station	Metallurgy
10.	Zaporozhskiy zavod ferrosplavov	23.01.2008	31.12.2010	FCA, dispatch railway station	Metallurgy
11.	Nikopolskiy zavod ferrosplavov	02.11.2009	31.12.2010	FCA, dispatch railway station	Metallurgy
12.	Nikopolskiy zavod ferrosplavov	16.01.2008	31.12.2008	FCA, dispatch railway station	Metallurgy

Related Party Transactions

Group Reorganization

In 2010, in preparation for the IPO and for various other corporate purposes, the Group has completed the reorganisation to restructure the Group’s corporate structure. The Group’s shareholding structure following the reorganisation is described in detail under "*Group structure*".

Loans and Guarantees

The companies of the Group and the Beneficial Owners have issued personal and corporate suretyships as a security for the repayment of the bank loans by Shahta Sadovaya LLC, Shahta Rassvet-1 LLC and Volat-Trans PC. For more information on such suretyship agreements see: "*Business Description — Material Contracts — Financing agreements*".

Lease of vehicles

Volat-Trans PC has entered into a number of lease agreements with Mr. Tolstoukhov, in its capacity as a private entrepreneur, for the lease of vehicles used in its ordinary business. The agreements are concluded on market terms. The company has obtained experts opinions to confirm market value of consideration in order to avoid challenges by tax authorities.

Trend Information

Significant recent trends

Since the end of the last financial year the Group significantly increased its production and trading business, on the restoration of domestic demand for energy coal. The key driver of demand in 2010 was recovery of electricity production by thermal power plants which caused 23% y/y increase of anthracite consumption by energy sector for January-September 2010 (according to the data provided by the Ministry of Fuel and Energy). Regulated coal prices also advanced to UAH 621.2/t (US$ 78.6/t) since August 2010, compared to UAH 527.8/t (US$ 67.7/t) year ago.

On the back of recovered demand and higher coal pricing, the Group increased its net revenue by 4.3 times y/y to US$ 40.8 million for 9 month of 2010, and 14.5 times y/y to US$ 21.6 million for the third quarter of 2010 alone. The Group’s operating profit for the nine months of 2010 turned to be positive US$ 4.2 million, compared to operating losses of US$ 2.1 million reported a year ago.

Trends and events likely to have material effect on the Issuer’s prospects

The Issuer expects that demand for coal will continue to grow. According to the data of Ukrainian Ministry of Fuel and Energy, as of end-October 2010 Ukrainian thermal power plants which are designed to burn anthracitic coal accumulated 1.6mmt of coal stockpiles, or 1.58 times less compared to end of October 2009. This allows the Group to expect higher demand for anthracitic coal by the end of 2010 and in the first quarter of 2011, during the winter season when electricity consumption and corresponding coal consumption are seasonally high.

In addition to the expected increase of domestic demand for anthracitic coal, the Group highlights on a risk of decrease of coal supplies from domestic producers. In January-September 2010, Ukraine exported 4.1 million tones of anthracite, which is 100% more than a year ago, according to the data of Ministry of Coal Industry. The Ministry also outlines a production of anthracite and semi-anthracite of 18.4 million tones in January-September 2010, or only a 7% increase y/y.

The Group’s preparation for the anticipated demand increase is reflected in higher amounts of accumulated and contracted coal, which is reflected in its interim balance sheet in increased inventories (US$ 10.4 million as at September 30, 2010 compared to US$ 8.8 million as at June 30, 2010 and US$ 7.4 million as at September 30, 2009) and prepayments for the purchased coal (to US$ 14.0 million as at September 30, 2010 compared to US$ 5.1 million as at June 30, 2010 and US$ 2.0 million as at September 30, 2009).

Significant change in the Issuer's position since the date of the last interim financial information

The key financial indicators provided below present the change in the financial and trading position of the Group since end of June 2010 which is the end of the last financial period for which interim financial information have been included in the Prospectus. The summary financial data presented below refer to the financial period ended on September 30, 2010 with comparable data for 2009.

The financial data is sourced from unaudited management combined IFRS accounts as of 30 September 2010.

Income statement summary, USD

	9 months ended 30 Sept 2010	**9 months ended 30 Sept 2009**
Revenue	40,756,674	9,385,048
EBITDA (1)	12,463,816	(1,526,663)
Operating profit / (loss)	9,453,051	4,686,511
Profit / (loss) for the period	7,884,322	(5,390,471)

Source: management combined IFRS accounts as at 30 September, 2010

(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.

Balance sheet summary, USD

	As at 30 Sept 2010	**As at 30 Sept 2009**
Total assets	64,923,088	48,871,817
Equity, total	29,117,830	28,544,974
Non-current assets, total	31,514,750	34,768,340
Loans and borrowings, non-current	-	14,355
Loans and borrowings, current	15,915,802	9,252,924
Cash and cash equivalents	90,297	58,677

Source: management combined IFRS accounts as at 30 September, 2010

The management combined accounts as of 30 September 2010, from which the above data is sourced, have been prepared in accordance with IFRS and have not yet been audited. The accounts are currently being audited and will be published as soon as the audit report relating to the accounts is available. If the audited accounts are available between the date of this Prospectus and the time when trading on the WSE begins, the audited accounts will be included in a supplement to this Prospectus and published in the same manner as this Prospectus.

Group reorganization

In November 2010 Sadovaya LLC (Cyprus entity) purchased corporate rights in six Ukrainian companies (Shahta Sadovaya LLC, Shahta Rassvet-1 LLC, Volat Trans PC, Interinvest LLC, "Interdon" PC and Donvostok STB" LLC). Changes to memorandums of Ukrainian companies were registered on 5 November 2010. Earlier Sadovaya Group S.A. (Luxembourg) received payment-free shares of a newly established company Sadovaya LLC (Cyprus), with authorised, but unpaid share capital in amount of USD 215 000. As a result of above mentioned operations, the business reorganization of the Group was completed and Sadovaya Group S.A. (Luxembourg) became parent company of the Group.

Extension of loan facilities

During October 2010 the group renegotiated maturity dates for three of its existing loan facilities with PJSC “BankCreditDnepr” extending them to 1 April 2011 namely overdraft # 290509-O, loan contract # 050906-L of “Shahta”Sadovaya” LLC and loan contract # 121009-KLTM of “Shahta”Rassvet-1” LLC. The authorised limit for the latter loan facility is increased to UAH 61 million which were secured by extending the existing sureties and pledges of companies of the group.

In October 2010 Shahta Rassvet-1 LLC entered into a surety agreement relating to loan agreement between PJSC “BankCreditDnepr” and “Energomarket” LTD with total authorised limit of UAH 11 million.

KEY FORECASTS OF OPERATING AND FINANCIAL DATA

Sadovaya has prepared its operating and financial outlook for the year 2010, 2011 and 2012 in July 2010. Operating data has been examined by IMC-Montan Consulting GmbH, and financial data has been examined by Baker Tilly Ukraine. According to the plan, the Group is going to increase coal production at the two existing mines to 952 thousand tonnes by the year 2012, due to increase of mechanization of works at the operational longwalls and the commissioning of three new longwalls at Rassvet-1 mine in 2011. Another important development of the business will be commissioning of two enrichment facilities with dense-medium cyclones for recovery of coal from waste dumps and tailings ponds in the second half of 2011, which are projected to yield 738 thousand tones of marketable coal recovered from wastes in the year 2012.

Key operating historical and projections are summarized in the table below, reviewed by IMC-Montan Consulting GmbH in the process of preparation of Technical Report. Operating data forecasts are provided by Sadovaya Group:

All the principal assumptions regarding the company's operations are provided in the table below and in the Technical Report (Page A-42), and were audited by IMC-Montan Consulting GmbH.

Assumptions about factors which the Company's Directors can influence are the following: (i) coal mining and purchase forecasts for 2010, 2011 and 2012, as well as coal processing from waste forecasts in the years 2010 and 2012; production plan worked out by the Group and its feasibility was audited by IMC-Montan, and (ii) operating costs estimates for 2010, 2011 and 2012, provided in the Technical Report; most of the cost items are within control of the Group.

Assumptions about factors which are exclusively outside the influence of the Company's Directors are: (i) changes in coal prices for 2010, 2011 and 2012, as current pricing system in Ukraine is set in the way that the Group, as private producer, is a price-taker, and in its pricing policy refers to the price for energy coal set by Ukrainian central coal trading company (See: "*Coal Industry and Regulations*"), (ii) coal production from wastes in 2011, which depends on the proper timing of installation of waste enrichment equipment, which the Group plans to operate in second half of 2011, and (iii) capital expenditures, because prices for purchased equipment cannot be controlled by the company.

	December 31, 2008	**December 31, 2009**	**December 31, 2010**	**December 31, 2011**	**December 31, 2012**
	'000t	**'000t**	**'000t**	**'000t**	**'000t**
Coal mining	208	103	269	843	952
Waste recovery at cyclone facilities	-	-	-	234	738
Coal sales	1,192	199	817	1,475	2,122

Source: Company data

Key financial projections, examined by the auditors, are summarized in the table below, as well as a summary of historical financials, which have been audited, except of EBITDA. Note that EBITDA measure should not be considered in isolation or as an alternative to net profit for the period or other data presented as indicators of financial performance. Presented EBITDA measure may not be comparable to other similarly titled measures of performance of other companies.

	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012
	audited	**audited**	**projected**	**projected**	**projected**
	USD '000	**USD '000**	**USD '000**	**USD '000**	**USD '000**
Revenue	98,888	13,322	50,985	98,001	155,804
EBITDA[(1)]	29,849	(3,204)	14,744	31,122	63,332
EBITDA margin	30%	(24%)	29%	32%	41%
Operating profit/(loss)	28,111	(7,297)	10,728	27,134	54,437
Operating margin	*28%*	*(55%)*	*21%*	*28%*	*35%*
Profit/(loss) for the year	25,286	(8,412)	7,138	22,544	47,034
Profit margin	*26%*	*(63%)*	*14%*	*23%*	*30%*
Total assets	56,692	49,248	89,984	124,810	171,452
Total equity	35,355	26,265	58,140	80,684	127,719
Cash and equivalents	1,405	40	17,743	2,524	6,763
Loans and borrowings (non-current)	42	2	2	24,002	24,002
Loans and borrowings (current)	9,129	10,933	15,600	4,500	4,000

Source: Company data, Combined Financial Statements, management projections

(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 effects of the Company's operations which are difficult to recognize directly from the Combined Financial Statements. EBITDA calculations have not been subject to separate auditor's review although items used for calculation of EBITDA have been derived from the audited or reviewed Combined Financial Statements.

BakerTilly Ukraine LLC, with its seat at 28 Fizkultury Street, Kyiv 03680, Ukraine, an independent auditor of the Group, has issued a report on the forecast and gave its consent to include the report in the Prospectus.

Reg # 490
26 October 2010

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To:
Sadovaya Group S.A.
412F, route d'Esch
L-2086 Luxembourg

Dear Sirs,

Sadovaya Group S.A. (the "Company") and its subsidiaries (together, the "Group")

We refer to the financial forecast that has been prepared by the directors of the Company ("Directors") for inclusion in a prospectus to be approved by the Luxembourg capital markets authority in connection with the proposed public offering and admission of Company's shares to trading on the Warsaw Stock Exchange. This statement is required by Item 13.2 of Annex I of the Commission Regulation 8009/2004. Copy of the forecast, for which the Directors are solely responsible, is attached hereto and initialled for the purpose of identification.

We have reviewed the financial forecasts of the Group for the period from 1 July 2010 to 31 December 2012. We have discussed the forecasts with the Directors and management of the Group.

On the basis of our review we report that in our opinion the Directors have prepared the financial forecasts, in the form and context in which it is made, after due and careful enquiry and that the forecasts are properly prepared on the basis of the underlying assumptions made by the Directors and that the basis of accounting used for the forecast is consistent with the accounting policies of the Company.

In as much as the projections and the assumptions on which they are based relate to the future, we express no opinion on how closely the financial position and trading results eventually achieved will correspond with the projections and the differences may be material.

This letter is prepared for use in connection with the proposed public offering admission of Company's shares to trading on the Warsaw Stock Exchange and in accordance with Ukraine generally accepted practice, and will not necessarily comply with the professional standards and practices of any other territories. This letter is not intended for use in connection with any obligations or responsibilities that you may have under any legislation, regulation and/or rule of law in any territory apart from Luxembourg, Ukraine and Poland. In the event of any such use in the United States of America by any person we will accept no duty or responsibility and deny any liability arising out of or in connection with such use of this letter in the United States of America.

This letter is for your benefit and information only and is not to be copied, referred to (except for in the statements you are required to include in the Prospectus or other statements that you are required to make to the capital market authorities or the Warsaw Stock Exchanges) or disclosed, in whole or in part, in any other context without our prior written consent, such consent not to be unreasonably withheld or delayed but which may be conditional.

Yours faithfully,

Managing Partner
Alexander Pochkun

«БЕЙКЕР ТІЛЛІ УКРАЇНА»

an independent member of
BAKER TILLY
INTERNATIONAL

COAL INDUSTRY AND REGULATIONS OVERVIEW

Global Coal Market

The global coal market has no direct influence on the Group's business, as the latter sells the majority of its extracted coal domestically. However, changes in global supply and demand can impact the Group's ability to sell coal domestically through the creation of a deficit or surplus of energy coal on the Ukrainian market. Global trends suggest that coal's importance as a primary energy source is growing. Coal accounts for 29% of global primary energy consumption, which makes it the second most important source of energy after oil.

The table below shows the share of global primary energy sources.

	2008	**2009**
Oil	35.0%	34.8%
Coal	29.0%	29.4%
Natural Gas	24.0%	23.8%
Nuclear Energy	5.5%	5.5%
Hydro electric	6.5%	6.6%

Source: International Energy Agency

Coal production and consumption has increased by 40% over the last decade.

The table below shows the global coal market, expressed in millions of tonnes.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Consumption	2,337.6	2,348.7	2,403.1	2,595.0	2,764.0	2,904.0	3,039.1	3,184.1	3,286.4	3,278.3
y/y		0.5%	2.3%	8.0%	6.5%	5.1%	4.7%	4.8%	3.2%	-0.2%
Production	2,246.7	2,346.5	2,357.7	2,521.1	2,731.0	2,882.0	3,035.9	3,144.0	3,336.9	3,408.6
y/y		4.4%	0.5%	6.9%	8.3%	5.5%	5.3%	3.6%	6.1%	2.1%

Source: BP Statistical Review of World Energy

Ukrainian Coal Market

The Ukrainian coal market is marked by a deficit of coking coal and a slight surplus of anthracitic energy coal. With about 33.8 billion tonnes of proven coal reserves, the Ukrainian coal industry accounts for 4.1% of global reserves. Over the last decade, Ukraine has produced 70-80 million tonnes of coal annually, making it the 11th or 12th largest producing country globally. Coal accounts for 31% of primary energy consumption in Ukraine, in-line with the global average.

Coal classification and reserves

The Ukrainian coal classification system (State Standard DSTU-3472-96) outlines nine classes of coal produced in Ukraine. Based on its class, coal can either be used as a fuel for power production, or as a raw material for the production of metallurgical coke, or it can be used for both. Roughly 54% of Ukrainian coal reserves are classified as steam coal, with the rest being coking coal.

The table below outlines the classification of Ukrainian coal.

Class	Industrial reserves, mln. t	Use
Б - brown coal	63	Power generation (currently not mined)
Д - long-flame coal	456	Power generation
ДГ – gas long-flame coal	1,152	Power generation and coke production
Г - gas coal	1,670	Coke production and power generation
Ж - fat coal	780	Coke production
К - coking coal	478	Coke production
ПС - lean-caking (forge) coal	196	Coke production
П (or T) - lean coal, semi-anthracite	499	Power generation
A – anthracite	1,208	Power generation
Total	6,501	
- Incl. steam coal	3,483	
- Incl. coking coal	3,018	

Source: Ministry of Coal Industry

Coal Mining Overview

The Ukrainian mining sector is marked by a large share of cost-inefficient state-operated producers, which account for 2/3 of the country's steam coal production and 1/3 of coking coal output. Out of 72.3 million tonnes of coal produced in Ukraine in 2009, 38.4 million tonnes, or 53% of the total, were mined at state-run companies.

The table below provides statistics on the Ukrainian coal sector.

	2005	2006	2007	2008	2009	Jan-Aug 2010
Coal production, million tones	78.0	80.3	75.5	77.8	72.3	49.2
y/y	-3%	3%	-6%	3%	-7%	3%
Incl. coking coal	32.8	30.1	28.5	26.8	25.8	15.9
Incl. steam coal	45.2	50.1	47.1	51.0	46.5	33.3
Mine tunneling, km	541	522	539	534	484	335
Average number of longwalls	334	311	295	283	263	259

Source: Ministry of Coal Industry

Most state-run mines are loss-making and depend heavily on budget financing to cover production losses. In 2005, the average state-run mine's production costs were 148 UAH/t with a selling price of 126 UAH/t, yielding an average loss of 22 UAH/t for the sector. In 2009, the average sector loss, according to data from the Ministry of Coal, reached 149 UAH/t on production costs of 562 UAH/t. In the first half of 2010, the average loss reached 156 UAH/t on average production costs of 531 UAH/t.

State budget expenditures for the support of the coal mining industry increased from UAH 5.9 billion in 2007 to UAH 7.7 billion in 2008 and decreased to UAH 6 billion in 2009. Due to the significant budgetary funding for operations, the state is limited in its ability to invest into the development of the coal industry. The consequence of that is a gradual decrease in tunneling works at existing coal mines from 684km in 2000 to 541km in 2005 and 484km in 2009, according to data from the Ministry of Coal. The direct consequence of the underinvestment in the industry's development is the reduced number of operational longwalls from 527 in 2000 to 334 in 2005 and 262 as of the end of July 2010. Total coal production in Ukraine declined from 80.3 million tonnes in 2000 to 72.3 million tonnes in 2009, or just 41% of Ukraine's coal production in 1989 (180 million tonnes).

In addition to the state-run mines, private coal producers that lease their coal fields from the state also have no incentive to invest in the development of the mines due to the high risk of the state revoking lease agreements. The complication of the privatization of coal mines and inefficiencies related to the state's control over mines are the key impediments for the development of Ukraine's coal industry.

The situation on the domestic coal market, especially on the back of the increasing internal demand and limited supply, is beneficial for private miners that fully own their coal assets. Largely profitable and thus able to invest into their own development, private producers are well-positioned as there is a good chance that any increase in coal production will see demand on the domestic market. Private mines have increased energy coal production by 24% over the last four years.

Market segmentation and balance

The Ukrainian coal market can be broken down into two large sub-segments: steam coal, which is used mainly for electricity production, and coking coal, which is used for the production of metallurgical coke. Certain coal types can be used for both purposes. Ukraine is not self-sufficient in coking coal and imports 6-8 million tonnes annually, mainly from the Russian Federation, Kazakhstan, and the USA.

The steam coal sub-segment can be further divided into two groups according to their use for electricity generation:

1) Anthracitic coal (includes anthracite and semi-anthracite), which is used primarily for power generation purposes and is supplied to seven Ukrainian power generation plants that are designed to burn anthracitic coal. This is the main type of coal produced by Sadovaya Group. In 2009, Ukrainian power plants consumed 14.1 million tonnes of anthracitic coal. Ukraine's current production of anthracitic coal allows it to export 3-4 million tonnes annually. In 2009, Ukraine exported 3.3 million tonnes of coal and 4.1 million tonnes over the first nine months of 2010;

2) Gas coal group (all types of steam coal except anthracite and semi-anthracite) which can be used as both steam and coking coal due to its specific chemical profile. Seven power plants in Ukraine are designed to burn gas coal types, and in 2009 they consumed 15.4 million tonnes. With this group of coal also used to produce coke, there is an undersupply of gas coal on the Ukrainian coal market. In 2009, Ukraine imported 0.8 million tonnes of gas coal for electricity generation, mainly from Russia.

Demand for steam coal

Ukrainian thermal power plants are the main consumers of steam coal in Ukraine. Coal accounted for 97% of thermal power plants' fuel structures in 2009. Due to the relatively high price for gas for industrial consumers in Ukraine, all of the country's thermal power plants switched to coal burning units and shut down gas-fired units.

In 2009, Ukrainian thermal power plants consumed 29.9 million tonnes of steam coal, and in January-August of 2010, they burned 20.4 million tonnes of coal (+10.6% y/y). Out of that amount, 10.5 million tonnes were consumed by power plants designed to use anthracitic coal (+27.2% y/y) and 9.9 million tonnes at units designed to burn gas-coal (-2.8% y/y).

According to Ukraine's Energy Strategy until 2030, electricity production by thermal power plants is expected to grow to 125.1 TWh by 2015 (98% growth rate from 2009). If the strategy is successfully implemented, coal consumption by power plants will double by 2015, which will create an additional 29 million tonnes of demand for coal compared to 2009. In order to be self-sufficient in steam coal, Ukraine will need to double the production of gas-coal and increase the production of anthracitic coal by 2/3 by 2015 from 2009 levels. Taking into account the fact that coal supplies from domestic producers have decreased from 78 million tonnes in 2005 to 72.3 million tonnes in 2009, the coal output growth assumptions that are needed to satisfy internal demand by 2015 do not look feasible. It is therefore reasonable to expect a larger deficit of gas-coal and the emergence of a deficit of anthracitic coal over the mid-term.

Ukrainian steel mills are another important group of anthracitic (steam) coal consumers in Ukraine. Anthracite is used in the production of sinter, ferroalloys, and pig iron, with annual demand of 1.0-1.8 million tonnes. The introduction of Pulverized Coal Injection (PCI) technology in the pig iron production process is a factor that could bring increased demand for anthracite coal from the steel sector. This technology allows mills to decrease coke use by increasing the consumption of anthracite (which is nearly two times cheaper). As of 2009, only 3 of 41 blast furnaces in Ukraine (accounting for 8% of pig iron production) used PCI technology, and consumed 0.3 million tonnes of anthracite. The conversion of all of Ukraine's blast furnaces to PCI technology could increase demand for anthracitic coal by more than 3.5 million tonnes in the mid-term perspective.

Export markets. Ukraine's excess supply of anthracitic coal domestically is shipped to international markets. Over 2005-2009, Ukraine exported 2.5-3.5 million tonnes of anthracitic coal annually. The key export markets for Ukrainian coal are Turkey, Bulgaria, Poland, Belgium, Spain, and Italy, which account for 1.9-2.4 million tonnes annually, or 60-75% of Ukraine's total annual coal exports. Over the first nine months of 2010, Ukraine exported 4.1 million tonnes of anthracitic coal (including 3.1 million tonnes to the six main countries), which already exceeds the annual export volumes of any of the last five years.

Trend: Stockpiles of anthracitic coal have declined in 2010. Over January-August of 2010, Ukrainian coal mines increased the production of anthracitic coal by 1.01 million tonnes (+6.6% y/y), thermal power plants increased the consumption of anthracitic coal by 2.25 million tonnes (+27.2% y/y), and Ukraine increased exports of anthracitic coal by 1.99 million tonnes y/y. The factors have combined to deplete domestic power plants' stockpiles of anthracitic coal by 1.15 million tonnes y/y as of the end of August 2010. The decline in internal coal supplies and the recovery of internal coal demand has introduced the risk of a deficit of anthracitic coal during the 2010-2011 heating season. The situation would be beneficial for private coal suppliers, which would be able to capitalize on higher coal prices.

Regulation of the Ukrainian Mining Industry

The principal legislative acts governing mining activities in Ukraine are the Code of Ukraine "On Subsurface", dated 27 July 1994 (the "Subsurface Code"), and the Mining Law of Ukraine, dated 6 October 1999.

The Subsurface Code defines the subsurface as "the part of the earth's crust underlying the land surface and reservoirs' bottom and stretching to the depths accessible for geological survey and development". The subsurface of Ukraine is the exclusive property of the people of Ukraine and may only be granted for use to Ukrainian and foreign legal entities and individuals.

Ukrainian legislation provides that national and foreign legal entities aiming to explore and/or extract mineral resources of Ukraine have to obtain special permit(s) for subsurface use (commonly referred to as mining licences), mining allotment(s), and documents evidencing the allocation of a land plot for subsurface use, as provided by the land legislation of Ukraine. Moreover, subsurface users are subject to other requirements of Ukrainian law, in particular, relating to payments for subsurface use, insurance, environmental, investment issues and others.

A company that intends to develop an unexplored deposit (a deposit whose resources have not been estimated and approved by the Ukrainian State Commission on Mineral Reserves) must first obtain an exploration (geological survey) licence and carry out prospecting works at its own expense.

The Ministry of Environmental Protection of Ukraine currently grants exploration licences for deposits to applicants for an initial period of five years (except for oil and gas deposits, granted for ten years), which may be extended for a further period of up to five years. The exploration licence is subject to various conditions and may be suspended or revoked in specified circumstances. Prospecting work must begin within two years of the date of issue of the exploration licence.

Upon the completion of the geological survey of the deposit, all discovered mineral reserves are subject to the state expertise which certifies the sufficiency and completeness of their geological survey. Such expertise is carried out by the Ukrainian State Commission on Mineral Reserves pursuant to the estimation procedure, established by the applicable legislation.

If, according to the report, the mineral reserves are estimated and approved as geologically surveyed, such reserves are further registered in the State Balance of Mineral Deposits, and only then may be transferred for their industrial development, i.e., production (extraction).

In certain cases, if agreed, the pre-estimated mineral reserves may also be transferred for further extraction. The above pre-estimation is performed in the course of geological survey of mineral reserves under the exploration licence.

Upon estimation and approval of the mineral reserves, the applicant may apply for a production licence and mining allotment. The State Committee for Industrial Safety, Labor Protection and Mining Supervision grants mining allotments to applicants on submission of the production licence, estimated reserves' report and field development program.

A mining company may also apply for a production licence for a deposit which had been previously explored by the State and whose reserves are registered in the State Balance of Mineral Deposits, subject to payment for the geological data.

The Ministry of Environmental Protection of Ukraine grants production licences for the extraction of mineral resources for an initial period of up to twenty years. A mining company may also apply to extend a production licence, provided that certain conditions are met. The production licence may be subject to special conditions relating, amongst other things, to the mining technology used, environmental protection, scope of work and termination of mining activities. In general, mining activities must begin within two years of the date of issue of the production licence.

In addition, every year beginning with 2004, the Cabinet of Ministers of Ukraine adopts a separate resolution to govern the issuance of mining licences (applicable to both exploration and production licences), according to which mining licences, with certain exceptions, are to be sold pursuant to an auction procedure. For 2010, Resolution No. 596 of the Cabinet of Ministers of Ukraine "On Approval of Procedure for Granting of Subsurface Use Permits in 2010" is effective from July 26, 2010.

Generally, mining licences are not transferable, although they may be re-issued in the name of a legal successor (with certain limitations) of the original licence holder. Changes in the ownership structure of the licence holder do not affect the licence.

Both exploration and production licences may be suspended or revoked, or an extension may be refused, in specified circumstances, including, inter alia, non-payment of fees, breach of licence conditions or breach of environmental or subsurface legislation.

Mining companies are also subject to regular audits conducted by the competent state authorities. Failure to comply with the orders of the supervising authority may result in suspension and/or annulment of a mining licence. Mining companies also pay fees for subsoil use (i.e., conduction of extraction works) which are calculated based on the type of mineral deposit, size and geological features of the deposit, duration of mining works and other factors. Excess profits of mining companies may be subject to excise tax for certain types of minerals.

Government programs to further the Ukrainian coal industry

Since 2001, the Coal Ministry has developed a number of programs to develop the coal mining industry. In the year 2001, the program "Ukrainian Coal" was adopted by the Cabinet of Ministers of Ukraine, which calls for increased levels of government subsidization of the coal industry.

In 2006, the Cabinet of Ministers adopted the Energy Strategy of Ukraine for the Period till 2030, which, among other, sets targets for a steady increase in coal production in Ukraine by 2030.

In 2008, the Coal Ministry adopted General Concept of Reform of the Coal Industry. The document provides for a complex and profound reform of the coal industry by seeking to eliminate major industrial weaknesses, including, among others, the underdeveloped legal framework regulating the coal industry, the lack of private ownership, the outdated mining resources, the absence of sufficient investments required for the industry’s development. The program calls for economic incentives for the establishment of competitive coal mining companies.

Pricing

Ruling of the Cabinet of Ministers No.599 of April 4, 2000 stipulates that coal sales on the local market should go through auctions organized jointly by the Coal Ministry and the Ministry of Economy. Coal should be purchased through a tender process. The decree sets the procedures for coal trading in the Ukrainian market, including the organization of the auctions and the selection of the members of the auction and exchange committees. The auction committees are set up specifically for coal sales and are subject to joint approval of the Coal Ministry and the Ministry of Economy. The sellers in these auctions are enterprises that are either wholly owned by the state or in which state holds more than a 50% interest. All auction participants are treated equally. Privately owned coal mining companies sell their coal to non-state owned enterprises at market prices, and to the state-owned enterprises at regulated prices.

The price for energy coal is set by Coal of Ukraine, the state-controlled wholesale energy coal market operator, which sells all coal produced by state-controlled miners (60% of the market) to state-owned power generation companies. The regulated benchmark price used by Coal of Ukraine is agreed upon by the Ministry of Coal and the Ministry of Fuel and Energy, as well as state bodies responsible for energy sector regulation, namely the National Electricity Regulation Commission and the National Joint-Stock Energy Company of Ukraine. The resulting price for energy coal and the expected prices for gas and electricity are then approved by the Cabinet of Ministers as a special resolution called the *Forecasted Balance of Electricity, Fuel and Thermal Generating Companies’ Costs* (the Balance), which is then approved by the deputy prime minister of Ukraine. Although it is not an official regulatory act, the document acts as the benchmark for coal pricing by Coal of Ukraine. The Balance for 2010 and the first quarter of 2011, approved in May 2010, set the average regulated price for the period at UAH 560/t (USD 70.9/t; 9% increase y/y), net of VAT and transportation costs. Referring to the Balance, The Ministry of Coal issued Resolution No286 in 2010, setting the regulated energy price at UAH 621.18/t (USD 78.6/t) starting in August 2010, a 20.6% increase compared to the average 2009 price.

Ukraine's accession to the WTO

The Government has taken a number of measures to adapt the Ukrainian economy to the WTO requirements. In its Regulation 1381p of 2008, the Cabinet of Ministers of Ukraine adopted the Measures Regarding the Adaptation of the Ukrainian Economy to the WTO Requirements. The Government has instructed the Ministry of Coal Industry, the Ministry of Economics, the Ministry of Finance and the National Academy of Sciences of Ukraine to develop a draft of the law On the State Support of the Coal Industry, to develop a system of coal price monitoring on the local and global markets and by the end of the year 2011.

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THE ISSUER

Sadovaya Group S.A. is a public limited company (société anonyme) of unlimited duration that was incorporated, exists and operates under the laws of Luxembourg, in compliance with the Companies' Act 1915, other applicable Luxembourg regulations, and in accordance with its Articles of Association.

History and development

The Company was incorporated as a public limited company by a notarial deed enacted by Carlo Wersandt, a notary residing in Luxembourg, Grand Duchy of Luxembourg, on May 31, 2010, under the name Erceval Finance S.A. which was subsequently changed into Sadovaya Group S.A. on October 13, 2010. On June 10, 2010 the Company was registered with the Registre de Commerce et des Sociétés in Luxembourg under registration number B 153489. The Articles of Association of the Company were published on July 7, 2010 in the Mémorial C, Recueil des Sociétés et Associations (the "Mémorial C"), number 1395. The Company's registered office is at 412F, route d'Esch, L-2086 Luxembourg, Grand Duchy of Luxembourg.

The Company's founder is SGG S.A., a public limited liability company organized under Luxembourg law, having its registered office at 412F rue d'Esch, L-2086 Luxembourg, registered in the Luxembourg Trade and Companies Register under the number B 65.906. SGG S.A. is a leading Luxembourg corporate services provider. Two directors B of the Company are employees or officers of SGG S.A. (See: "*Management and Corporate Governance*")

The Group's headquarter in Ukraine is located at 6, Moskovskaya street, Alchevsk, Luhansk Region, 94204. Its telephone/fax number is +38 06442 525 52(53)(54); fax number +38 06442 555 58, e-mail: info@sadovayagroup.com.

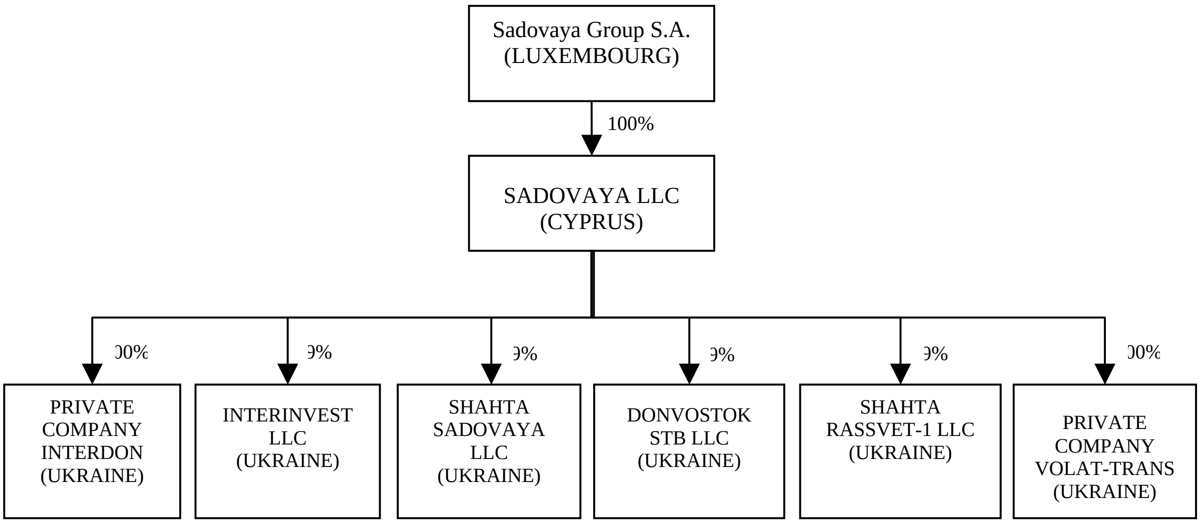
According to Article 3 of the Issuer's Articles of Association the purpose of the Company is the creation, holding, development and realisation of a portfolio, consisting of interests and rights of any kind and of any other form of investment in entities in the Grand Duchy of Luxembourg and in foreign entities, whether such entities exist or are to be created, especially by way of subscription, acquisition by purchase, sale or exchange of securities or rights of any kind whatsoever, such as equity instruments, debt instruments, patents and licences, as well as the administration and control of such portfolio. The Company may further grant any form of security for the performance of any obligations of the Company or of any entity in which it holds a direct or indirect interest or right of any kind or in which the Company has invested in any other manner or which forms part of the same group of entities as the Company and lend funds or otherwise assist any entity in which it holds a direct or indirect interest or right of any kind or in which the Company has invested in any other manner or which forms part of the same group of companies as the Company. The Company may borrow in any form and may issue any kind of notes, bonds and debentures and generally issue any debt, equity and/or hybrid securities in accordance with Luxembourg law. The Company may carry out any commercial, industrial, financial, real estate or intellectual property activities which it may deem useful in accomplishment of these purposes.

The Issuer's financial year begins on first July of each year and terminates on thirty June of the next following year. The first financial year of the Company ended on 30 June 2010.

The Issuer is a parent company of the Group. It is a holding company who does not carry out any operations except for indirect holding of interests in the Ukrainian Operating Companies.

Description of the Group

The following chart shows the Group structure and interests in particular subsidiaries as of date hereof. For a more detailed description of the assets, see: *"Business Description"*.



The Principal Shareholder holds 1% of shares in Interinvest LLC, Shahta Sadovaya LLC, Donvostok STB LLC and Shahta Rassvet-1 LLC due to requirements of Ukrainian law under which a single shareholder companies cannot be a sole participant in a limited liability company, and a company may be a single participant only in one limited liability company.

The proportion of ownership interest is equal to the proportion of voting power held in the subsidiaries.

Subsidiaries

Sadovaya LLC is a Cypriot holding company that is a direct sole or major shareholder of Ukrainian operating companies. The Issuer holds 100% of share capital and voting power in Sadovaya LLC.

Company name	**Sadovaya Limited**
Registered office	1 Lampousas, P.C. 1095, Nicosia, Cyprus
Date of incorporation	October 15, 2010
Registration number	275384
Profile of business	Holding company
Subscribed charter capital	USD 215,000
Director	Inter Jura Cy (Directors) Limited

The Group’s business is carried out by operating companies incorporated under the laws of Ukraine. The tables below indicate the most important corporate information on the Group’s operating companies:

Company name	**Shahta Sadovaya LLC**
Registered office	6 Moskovskaya Street, Alchevsk, Luhansk Region, 94204, Ukraine
Date of incorporation	June 07, 1995
Registration number	21822479
Profile of business	Mining, coal trading and coal enrichment
Subscribed charter capital	UAH4,010,000
General Director	Mr. Vitaliy Dovhal

Company name	**Shahta Rassvet-1 LLC**
Registered office	6 Moskovskaya Street, Alchevsk, Luhansk Region, 94204, Ukraine
Date of incorporation	May 18, 2005
Registration number	35038195
Profile of business	Mining and coal trading
Subscribed charter capital	UAH2,200,000.
General Director	Mr. Oleksandr Verhunov

Company name	**Donvostok STB LLC**
Registered office	6 Moskovskaya Street, Alchevsk, Luhansk Region, 94204, Ukraine
Date of incorporation	March 5, 2007
Registration number	34903346
Profile of business	Owner of the real property complex for Shahta Rassvet-1 LLC
Subscribed charter capital	UAH2,000,000
General Director	Mr. Oleksandr Miroshnyk

Company name	**Interinvest LLC**
Registered office	6 Moskovskaya Street, Alchevsk, Luhansk Region, 94204, Ukraine
Date of incorporation	October 24, 2002
Registration number	32149396
Profile of business	Owner of the real property complex for Shahta Sadovaya LLC
Subscribed charter capital	UAH3,270,000
General Director	Mr. Oleksandr Miroshnyk

Company name	**Interdon Private Company**
Registered office	6 Moskovskaya Street, Alchevsk, Luhansk Region, 94204, Ukraine
Date of incorporation	May 12, 1997
Registration number	23477437
Profile of business	Coal extraction and sorting from waste dumps
Subscribed charter capital	UAH3,300,000
General Director	Mr. Oleksandr Tolstoukhov

Company name	**Volat-Trans Private Company**
Registered office	6 Moskovskaya Street, Alchevsk, Luhansk Region, 94204, Ukraine
Date of incorporation	June 17, 2005
Registration number	33587983
Profile of business	Transport and technical support services
Subscribed charter capital	UAH1,000,000
General Director	Mr. Vadym Sheliuk

Corporate Resolutions and the Share Capital

Current issued share capital of the Issuer is USD 323,142.70 and consists of 32,314,270 registered ordinary shares of nominal value USD 0.01 each. All issued Shares are fully paid.

The Company's share capital upon its incorporation was 31,000 EUR divided into 310 shares with a nominal value of 100 EUR each, and was fully paid up with cash. On November 9, 2010 currency of the share capital was changed to USD and par value of shares was reduced to one cent (USD 0.01). As a result of these changes the share capital was USD 43,142.70 represented by 4,314,260 shares having a par value of one cent (USD 0.01) each. On the same day the share capital was increased by USD 280,000, to USD 323,142.70 through the issue of 28,000,000 new registered shares with a nominal value of USD 0.01 each.

By virtue of resolution dated 9 November 2010 the sole shareholder resolved to create an authorized capital. During a period of time of five (5) years from the date of publication of the resolution to create the authorised capital or, as the case may be, a resolution renewing such authorisation in the Official Gazette of the Grand Duchy of Luxembourg, the *Memorial C, Recueil des Societes et Associations*, the board of directors is authorised to issue shares, to grant options to subscribe for shares and to issue any other instruments convertible into shares within the limit of the authorized shares capital, to such persons and on such terms as it shall see fit, and specifically to proceed to such issue without reserving a preferential subscription right for the existing shareholders. The authorised capital, including the share capital, amounts to USD 450,000.

The authorisation may be renewed once or several times by a resolution of the general meeting of shareholders, adopted in the manner required for an amendment of the articles of incorporation, each time for a period not exceed five years.

The Board of Directors intends to use the authorisation to issue the Offer Shares in the Offering. As a result of the Offering, the issued share capital of the Company may be increased up to USD 430,976.03 through the issuance of additional 10,771,423 Shares.

Form and Transfer of the Company's Shares

All the Company's Shares, including the Offer Shares, are or will be created pursuant to the Luxembourg Companies Act 1915.

Currently, all the Company's Shares are in registered form and they will remain in registered form following the Offering. The Issuer does not intend to apply for listing of such Shares on any stock exchange.

All of the Offer Shares offered in the Offering and to be admitted to trading on the main market of the Warsaw Stock Exchange will be in bearer form.

All of the Shares are ordinary shares and carry equal rights.

All the Offer Shares are ordinary bearer shares and will exist in book entry form once they have been registered with the NDS. Investors may hold the Offer Shares them through the NDS participants, including investment firms and custodian banks. The Issuer will apply for registration of all of the Offer Shares with the National Depository for Securities. It is expected that on or soon after the Settlement Date, all of the Offer Shares, will exist in book-entry form.

Bearer Shares

Under Luxembourg law, the ownership of bearer shares is established by possession of the bearer certificate. To be valid, a bearer share shall be signed by at least one class A director and one class B director and must contain the following information:

– date of the deed of incorporation of the Company and the date of its publication;
– capital of the Company, number and type of each class of Shares as well as the nominal value of the securities or the interest that they represent;
– brief description of the contributions made to the Company and the conditions on which they are made;
– any special advantages conferred upon the founders;
– duration of the Company; and

– the day and time of the annual general meeting of shareholders of the Company (the "**General Meeting**") and the municipality in which it is to be held.

One or more bearer shares can be represented by a single certificate, which shall contain the identification number of each share represented by such certificate.

All Offer Shares will be registered with the NDS and will be held by shareholders in book entry form through the NDS and its participants. Ownership in Offer Shares will be evidenced in accordance with NDS procedures. Transfer of Shares will take place in book entry form through the facilities of the NDS.

Registered shares

A register of registered shares will be kept at the registered office of the Company, where it will be available for inspection by any shareholder. Ownership of registered shares will be established by an entry in this register of registered shares.

Where shares are recorded in the register of registered shares on behalf of one or more persons in the name of a professional depository of securities or any other depository (such systems, professionals or depositories being referred to hereinafter as "Depositories") or of a sub-depository designated by one or more Depositories, the Company – subject to it having received from the Depository with whom those shares are kept in account an attestation in proper form – will permit those persons to exercise the rights attaching to those shares, including admission to and voting at general meetings, and shall consider those persons to be shareholders. The Board of Directors may determine the formal requirements with which such attestations must comply. Notwithstanding the foregoing, the Company will make payments, by way of dividends or otherwise, in cash, shares or other assets only into the hands of the Depository or sub-depository recorded in the register of registered shares or in accordance with their instructions, and that payment shall release the Company.

Certificates confirming that an entry has been made in the register of registered shares will be provided to the shareholders at their request. Certificates representing the shares in registered form may be issued but they do not constitute conclusive evidence. Title to the shares in registered form passes upon the registration of the transfer into the register of registered shares and in accordance with article 40 of the Companies' Act 1915.

Without prejudice to the modalities for the transfer of fungible shares in the case provided for above, according to article 40 of the Companies' Act 1915, transfers of shares in registered form shall be carried out by means of a declaration of transfer entered into the register of registered shares, dated and signed by the transferor and the transferee or by their duly authorized representatives, as well as in accordance with the rules on the assignment of claims laid down in article 1690 of the Luxembourg Civil code. The Company may accept and enter in the register of registered shares a transfer on the basis of correspondence or other documents recording the agreement between the transferor and the transferee.

Articles 39 and 40 of the Companies' Act 1915 provide that ownership of registered shares shall be established by an entry in the register of the registered shares. The register shall specify (i) the precise designation of each shareholder and the number of shares or fractional shares held by him; (ii) the payments made on the shares; and (iii) transfers and the dates thereof or conversion of the registered shares into shares in bearer form, if such conversion is permitted by the relevant articles of association.

Conversion of shares

According to article 43 of the Companies' Act 1915, an owner of shares in bearer form may at any time request the conversion of shares into shares in registered form. However, an owner of shares in registered form may at any time request the conversion of shares into shares in bearer form, only if the articles of association do not prohibit such conversion. In the case of the Company's Shares, the Articles of Association do not prohibit conversion of shares.

Book-entry form in Poland

Pursuant to the Trading in Financial Instruments Act, securities which are offered in a public offering or admitted to trading on a regulated market in Poland exist in uncertificated form as of the date of their registration under the relevant depository agreement (dematerialization). In particular, before the commencement of a public offering or trading on a regulated market, an issuer of securities is obliged to conclude with the NDS (*Krajowy Depozyt Papierów Wartościowych S.A.*, with its registered seat in Warsaw, Książęca Str. 4), an agreement to register in the depository of securities the securities offered in a public offering or trading on a regulated market. Therefore, no shares of the Company's common stock in physical form will be issued to holders of the Company's common stock in Poland. However, share deposit certificates evidencing the Shares may be issued at the request of the account holder. Pursuant to the Article 9 of Trading in Financial Instruments Act, a share deposit certificate confirms the title to exercise all rights arising from the securities which are not or cannot be exercised purely on the basis of entries in a securities account.

Rights attached to Shares

Set forth below is the information concerning the Company's Shares and related summary information concerning the material provisions of the Articles of Association of the Company and applicable Luxembourg law. Because it is a summary, it does not contain all of the information in the Articles of Association. Full text of the Company's Articles of Association is available at the Company's website www.sadovayagroup.com.

Voting Rights

At all the General Meetings, each Share confers the right to cast one vote. Each shareholder is entitled to attend the General Meeting either in person or through a proxy attending the meeting in person, and to address such meeting and exercise voting rights, in accordance with the Company's Articles of Association.

The annual General Meeting should be held each year on 18 October or if such day is a legal or a bank holiday in Luxembourg, on the following business day in Luxembourg at the registered office of the Company or at such other place as specified in the notice of the meeting. General Meetings may be convened by the board of directors of the Company (the "Board of Directors"). Shareholders representing 10% of the Company's issued share capital may, pursuant to article 70 of the Companies' Act 1915, request the Board of Directors to convene a General Meeting, the request being made in writing with an indication of the agenda. The Board of Directors must then convene the General Meeting within a period of one month starting on the date of receipt of the written request from the shareholders. An extraordinary General Meeting can be held whenever the Board of Directors deems it necessary. The Board of Directors should determine the items on the agenda of such meeting.

If all outstanding shares are in registered form, the General Meetings should be convened pursuant to a notice setting forth the agenda and the time and place at which the meeting will be held, sent by registered letter at least eight days prior to the meeting, the day of the convening notice and the day of the meeting not included, to each shareholder at the shareholder's address in the shareholder registry, or as otherwise instructed by such Shareholder. If any of the outstanding shares are in bearer form, the General Meetings should be convened pursuant to a notice announced in accordance with applicable laws.

The following issues fall in particular within the competence of the General Meeting: approval of the annual financial statement, discharge of duties by directors, issues of new shares (except for issues resolved upon by the Board of Directors of the Company on the basis of authorized share capital), redemption of shares, payments of dividends (except for payments of interim dividends resolved upon by the Board of Directors), amendments to the Articles of Association, mergers or divisions (subject to certain exceptions), transfer of the registered office to another municipality or abroad, dissolution of the Company.

Unless otherwise required by the Articles of Association or Luxembourg law, all resolutions of the General Meeting are in principle adopted by a simple majority of votes cast, no quorum being required.

The Company may allow shareholders to participate in the General Meetings by way of videoconference or similar means of telecommunication allowing their identification, subject to technical and legal conditions allowing for proper identification of the shareholders and exercise of the voting rights. Detailed instructions on participating in the General Meetings by means of telecommunication will be provided to the shareholders at the time of convening the relevant General Meeting.

Luxembourg is in the process of implementing the Directive 2007/36/EC of the European Parliament and of the Council of July 11, 2007 on the exercise of certain rights of shareholders in listed companies. Therefore, the above described regulations may be amended in a near future as a result of the implementation.

Dividends and Other Distributions

Dividends, when payable, will be distributed at the time and place fixed by the Board of Directors within the limits of the decision of the General Meeting. Furthermore, subject to the conditions provided for by the Companies' Act 1915, the Board of Directors may pay out interim dividends.

Distributions are made to shareholders *pro rata* to the aggregate amount of Shares held by each shareholder.

There are no preferred dividend rights, fixed rate of dividend or cumulative dividend rights.

Distributions that have not been claimed within three years as from the date that they have become available should lapse in favour of the Company.

Dividend payments and other payments made by the Company and relating to the Shares held with the NDS shall be made through the NDS which is a Polish central clearinghouse and depository for securities with its seat at Książęca Str. 4, 00-498 Warsaw, Poland. The payment of the dividends to such depository operating principally a settlement system in relation to transactions on securities, dividends, interest, matured capital or other matured monies of securities or of other financial instruments being handled through the system of such depository shall discharge the Company.

All payments shall be in the amount transferred by the Company to the NDS that will transfer the respective amounts to accounts of its respective participants, for the purpose of their further payment to the owners of accounts with the NDS participants on which the Company's Shares will be held, in accordance with the rules and practices of the NDS.

Other than the right to dividends, the Shares do not carry any other right to share in the Issuer's profits. There Issuer has not issued any other securities which would carry the right to shares in the Issuer's profits.

Issue of Shares and Pre-emptive Rights

The subscribed share capital of the Company may at any time be increased or reduced by a resolution of the General Meeting adopted in the manner required for amendment of the Articles of Association, subject to the mandatory provisions of the Companies' Act 1915.

Each holder of the Shares should have pre-emptive rights to subscribe for any issue of the Shares *pro rata* to the aggregate amount of such holder's existing holding of the Shares. Each holder should, however, have no pre-emptive right on the Shares issued for a non-cash contribution. In addition, each shareholder should have no pre-emptive right with respect to a person who exercises a previously acquired right to subscribe for the Shares if pre-emptive rights of existing shareholders in connection with such subscription were duly suppressed.

Pre-emptive rights may be restricted or excluded by the Board of Directors within the scope of the authorized capital and / or in case of a contribution in kind. Pre-emptive rights may be restricted or excluded by a resolution of the General Meeting. This should apply *mutatis mutandis* to the granting of rights to subscribe for Shares (such as warrants) or the issue of securities convertible into shares.

If the Company decides to issue new shares in the future and if the pre-emptive rights of existing shareholders are not waived then the Company will publish the decision by placing an announcement in the Luxembourg official gazette and in two newspapers published in Luxembourg. The announcement will specify the period in which the pre-emptive right may be exercised. Such period may not be shorter than 30 days from the date of publication in the Luxembourg official gazette. Luxembourg law does not provide for any procedure for determining the pre-emptive right exercise date and such date is usually defined in the relevant resolution on the issue of shares. The announcement will also specify the details regarding procedure for exercise of the pre-emptive rights. The announcement will be published also in Poland in the manner used for communicating with investors on the WSE. The pre-emptive right is exercised by placing an order with the Company and paying for the newly issued shares. Under Luxembourg law the right to subscribe shall be transferable throughout the subscription period, and no restrictions may be imposed on such transferability other than those applicable to the shares in respect of which the right arises.

At present, the Company does not have any plans regarding future issues of shares after the Offering.

The Company has not issued any securities convertible into shares of the Company.

Repurchase of the Company's Own Shares

The Company may acquire fully paid-up Shares for a consideration, subject to certain provisions of the Companies' Act 1915 and the Company's Articles of Association, provided that the acquisition must not have the effect of reducing the net assets of the Company below the aggregate of the subscribed capital and the reserves which may not be distributed under law or the Articles of Association.

To the extent permitted by Luxembourg law the Board of Directors is irrevocably authorised and empowered to take any and all steps to execute any and all documents and to do and perform any and all acts for and in the name and on behalf of the Company which may be necessary or advisable in order to effectuate the acquisition of the Shares and the accomplishment and completion of all related action.

An acquisition of the Shares by the Board of Directors for a consideration should be authorized by the General Meeting, which shall determine the terms and conditions of the proposed acquisition and in particular the maximum number of Shares to be acquired, the duration of the period for which the authorisation is given and which may not exceed five years and, in the case of acquisition for value, the maximum and minimum consideration. Voting rights attached to Shares acquired by the Company in accordance with the above shall be suspended as long as such Shares are held in the Company's own capital.

In principle, the Company has no obligation to sell or cancel the Shares held by the Company in treasury. However, according to the Companies' Act 1915, the Company should either sell or cancel the Shares that the Company keeps in treasury after three years as from the date of their acquisition if the Shares were acquired under certain circumstances.

Capital Reduction

The General Meeting may, subject to Luxembourg law and the Articles of Association, resolve to reduce the issued share capital.

Annual Accounts

Annually the Board of Directors is required to prepare and approve the statutory financial statements, which must be accompanied by an annual report and an independent auditor's report.

The financial statements, the annual report and the auditor's report must be made available to the shareholders for review at the Company's registered office at least 15 days before the annual General Meeting. The financial statements should be approved by the annual General Meeting.

Liquidation Rights

In the event of dissolution of the Company, the Company must be liquidated according to applicable Luxembourg law. The balance of the Company's equity remaining after the payment of debts (and the cost of liquidation) should be distributed to the Company's shareholders *pro rata* to the aggregate amount of the Shares held by each shareholder.

Amendments to the Rights of Shareholders

Any amendments to the rights of shareholders require an amendment to the Articles of Association and are subject to the same quorum as for an extraordinary General Meeting. Any resolution to amend the Articles of Association must be taken before a Luxembourg notary and such amendments must be published in accordance with Luxembourg regulations. Articles of Association do not provide for any specific conditions that are more stringent than is required by law.

Challenging resolutions of General Meetings

Under Luxembourg law and the conflict of law rules, a resolution of the general meeting of shareholders of a Luxembourg company may only be appealed to a Luxembourg court in accordance with the Luxembourg commercial and civil proceedings law.

Pursuant to Luxembourg law, a resolution of the general meeting of shareholders may be appealed by each shareholder regardless of the number of shares held by him if the resolution is, amongst others, (i) in conflict with the statutory law, provisions of the Articles of Association or the proceedings for taking resolutions or (ii) made to the sole benefit of the majority shareholder and not in the Company's best interest (abus de majorité).

The appeal should be filed with a district court having jurisdiction over the relevant company's registered office. The statute of limitation to file an appeal is ten years or thirty years as of the day of passing of the resolution, the duration of such period depending on, amongst other things, the nature of the rule that has been breached.

As regards the Company, the competent courts are the Courts of Luxembourg-City, Grand Duchy of Luxembourg. The plaintiff should show a legal interest in appealing against the resolution. Under Luxembourg commercial proceedings rules, the appeal may be made in the French, Luxembourg or German language and can be made by an attorney qualified to practice in Grand Duchy of Luxembourg. Generally, the appeal will be subject to court fees. If the court finds in favor of the appealing shareholder, then the resolution will be nullified.

Similarly, under Luxembourg law each shareholder also has a right to appeal any action of the Board of Directors on the same grounds as specified above. The same appeal procedure will apply.

MANAGEMENT AND CORPORATE GOVERNANCE

Set out below is a summary of relevant information concerning the Board of Directors, senior management as well as a brief summary of certain significant provisions of Luxembourg corporate law, the Issuer's Articles of Association and particular issues from the corporate governance codes in respect of the Board of Directors.

Management Structure

The Issuer has a one-tier management structure consisting of the Board of Directors.

The Board of Directors is responsible for the management of the Issuer's operations. It is vested with the broadest powers to take any actions necessary or useful to fulfill the Company's corporate purpose, with the exception of actions reserved by Luxembourg law or the Articles of Association to the General Meeting of shareholders.

The Board of Directors must consist of at least one director A and at least one director B. All members of the Board of Directors may be appointed and/or dismissed by the General Meeting of Shareholders.

The Issuer is bound towards third parties in all circumstances by the joint signature of any A director and any B director, or by the signature of any duly authorised signatory within the limits of such authorisation.

The Issuer intends to promote that Director B must be independent from the Issuer, i.e. it may not be an employee, board member (other than a member of the Issuer's Board of Directors), contractor or relative of the Company or of the Principal Shareholder.

Members of the Board of Directors

As at the date of this Prospectus, the Board of Directors is composed of 7 members.

The table below sets forth the names, positions, election date, and terms of office of the current members of the Board of Directors.

Name	Position	Date of appointment	Expiration of term of office
Ms. Olena Abrosimova	A Director	October 13, 2010	2016
Ms. Iryna Daryina	A Director	October 13, 2010	2016
Mr. Vitaliy Dovhal	A Director	October 13, 2010	2016
Mr. Olexandr Miroshnyk	A Director	October 13, 2010	2016
Ms. Nadezhda Tanushkina	A Director	October 13, 2010	2016
Mr. Pierre Mestdagh	B Director	October 13, 2010	2016
Mr. Pierre-Siffrein Guillet	B Director	May 31, 2009	2016

The director's term of mandates expires at the annual general meeting in the year indicated above. Any director may be removed at any time, without notice and without cause, the general meeting of shareholders.

The business address of the members of the Board of Directors is the Issuer's principal place of business at 412F, route d'Esch, L-2086 Luxembourg, the Grand Duchy of Luxembourg.

A brief description of qualifications and professional experience of the members of the Board of Directors is presented below.

Olena Abrosimova

Ms. Olena Abrosimova has been a member of the Board of Directors since October 2010 and is responsible for legal matters. Simultaneously she heads the Legal Department of Shahta Sadovaya LLC (from 2003). Ms. Abrosimova launched her career in the legal department at Alchevsk Steelworks in 1988 and has worked in the legal field for over 20 years as a legal advisor in a number of commercial and state organisations, specializing in the manufacturing sector (especially metallurgical, chemicals, coal mining). In 1999 Ms. Abrosimova became an advocate. Ms. Abrosimova joined the Company in 2003 as a legal advisor at Shahta Sadovaya LLC.

Ms. Abrosimova holds a degree in Law from National Yaroslav Mudryi Law Academy of Ukraine (1997). Additionally, Ms. Abrosimova holds an engineering degree (1988) from Kommunarsk Mining-Metallurgical Institute (now Donbass State Technical University).

Iryna Daryina

Ms. Iryna Daryina has been a member of the Board of Directors and the Chief Financial Officer of the Issuer since October 2010. Simultaneously Ms. Daryina is a Deputy Director for economics at Interdon PC. Ms. Daryina joined the Group in December 1999 as Chief Accountant at Interdon PC. Before joining the Group, Ms. Daryina worked as Deputy Chief Accountant and Chief Financial Officer at Kommunarsk Electromechanical Plant (defence sector) in 1984-1992. Ms. Daryina also worked as Chief Accountant at Spurt LLC (1992-1995), Chief Accountant at Alyans-2 LLC (1995-1998) and Deputy Financial Officer at Industriya-96 PC (1998-1999).

Ms. Daryina holds a joint Engineering-Economics Degree (1991) from Kommunarsk Mining-Metallurgical Institute (now Donbass State Technical University).

Vitaliy Dovhal

Mr. Vitaliy Dovhal has been a member of the Board of Directors and the Director of Mining of the Issuer since October 2010. Simultaneously he is of General Director of Shahta Sadovaya LLC and a consultant at Interdon PC. He began his career in mining in 1997 at Shahta Perevalskaya, a Luhanskugol group company, where he worked as Technical Mining Specialist, Mining Engineer, Deputy Station Head, and Station Head. In 2002, Mr. Dovhal joined Shahta Sadovaya LLC as Chief Engineer, within one year was appointed Director of Shahta Sadovaya LLC, and in June 2007 was named General Director of that company.

Mr. Vitaliy Dovhal received a Specialist Degree in Engineering (Mining and Underground Construction) in 2000 from Donbass Mining-Metallurgical Institute (now Donbass State Technical University).

Olexandr Miroshnyk

Mr. Olexandr Miroshnyk has been a member of the Board of Directors and Chief Commercial Officer of the Issuer since October 2010. Moreover Mr. Miroshnyk holds the position of Production Director of Shahta Sadovaya LLC, Director of Interinvest LLC and Director of Donvostok STB LLC. Between 2002 and 2003 he worked as Director at Interinvest LLC and in 2003-2007 he held the position of Deputy Production Director at Shahta Sadovaya LLC. Before joining the Group, Mr. Miroshnyk woked as a manager at a number of commercial and state organisations, including: Industriya-96 PC (1997-1999), Torgovyi Centr LLC (1999-2001), State Tax Administration in Luhansk district (2001) and Energomarket PC (2001-2002).

Mr. Olexandr Miroshnyk completed his higher education, graduating from Donbass Mining-Metallurgical Institute (now Donbass State Technical University) with both technical (1998) and economics degrees (2000).

Nadezhda Tanushkina

Ms. Nadezhda Tanushkina has been a member of the Board of Directors and Director of Coal Enrichment of the Issuer since October 2010. Ms. Tanushkina is also Quality Control Director at Shahta Sadovaya LLC (from 2007). Ms. Tanushkina has over 20 years of experience in coal production enrichment and quality improvement technologies. In 1987-1996 Ms. Nadezhda Tanushkina worked as Controller and later as Head of Technical Control at Donbassantracit a state enterprise, and in 1996-2006 she served as Head of Technical Control at various companies operating in the mining industry. Ms. Tanushkina joined the Group in 2006 as Deputy Quality Control Director at Shahta Sadovaya LLC.

Ms. Tanushkina graduated from the Ordzhonikidze Polytechnic Institute (now the South-Russian State Technical University) in 1984 with a Degree in Chemical Engineering.

Pierre-Siffrein Guillet

Pierre-Siffren Guillet has been a member of the Board of Directors since May 2010. Simultaneously, Mr.Guillet works at SGG S.A. and is responsible for corporate and wealth structuring. Before joining SGG, between 2001 and 2008 was Head Teachers Assistant at University Paul Cézanne Aix-Marseille III (France) where he taught courses in Tax Law, Business Taxation, Public Finances and Political History.

Mr. Guillet holds a doctorate degree in tax law from the University Paul Cézanne Aix-Marseille III. He also holds master's degrees in Public Finances and Tax Law, Tax Law and Family Law from the University Paul Cézanne Aix-Marseille III.

Mr. Guillet is an independent member of the Board of Directors.

Pierre Mestdagh

Pierre Mestdagh has been a member of the Board of Directors since October 2010. Since 1998 Mr.Mestdagh has worked for SGG S.A. (formerly Services Généraux de Gestion S.A), currently as Senior Manager at the Corporate Services Department. Before joining SGG, he was an account manager at the corporate department of Kredietrust S.A. (1991-1998) and back office officer at Kredietbank Luxembourg (1989 - 1991).

Mr. Mestdagh holds degree from Ecole des Hautes Etudes Commerciales B in Liège.

Mr. Mestdagh is an independent member of the Board of Directors.

The following table sets out past and current directorships held by the Issuer's Board of Directors members in the past five years:

Name	**Positions held**	
Olena Abrosimova	*Former directorships:*	None
	Current directorships:	None
Iryna Daryina	*Former directorships:*	None
	Current directorships:	Interdon PC – Deputy Director (from 2002)
Vitaliy Dovhal	*Former directorships:*	Shahta Sadovaya LLC Director (2003-2007)
	Current directorships:	Shahta Sadovaya LLC General Director (from 2007)
Olexandr Miroshnyk	*Former directorships:*	Shahta Sadovaya LLC Deputy production director (2003-2007)
	Current directorships:	Shahta Sadovaya LLC Production director (from 2007) Interinvest PC – director (from 2003) Donvostok STB LLC– director (from 2007)
Nadezhda Tanushkina	*Former directorships*:	Shahta Sadovaya LLC Deputy Quality Control Director (2006-2007)
	Current directorships:	Shahta Sadovaya LLC Quality Control Director (from 2007)
Pierre Mestdagh	*Former directorships*:	Pierre-Siffren Guillet and Pierre Mestdagh are currently and have been in the last five years directors in various companies administered by SGG S.A., their current employer. These positions did not have any relation to their membership in the Board of Directors and do not create any conflict of interest.
	Current directorships:	
Pierre-Siffrein Guillet	*Former directorships*:	
	Current directorships:	

Senior Management

The following persons are key executives responsible for management and operations of the Ukrainian Operating Companies, other than the Directors listed above ("Senior Management"):

Name	Position
Sergey Stetsurin	Consultant, Beneficial Owner
Alexander Tolstoukhov	Consultant, Beneficial Owner

The business address of all members of Senior Management is 6 Moskovskaya Street, Alchevsk, Luhansk Region, 94204, Ukraine.

A brief description of qualifications and professional experience of the Senior Management is presented below.

Sergey Stetsurin

Mr. Stetsurin joined the Group and became a co-owner of the Group in 2004. Between 1992 and 2007, he was a head of several private machine-building and coal sector companies, managing development and trading activities.

Mr. Stetsurin began his career as a mechanical engineer in 1978, received his engineering degree in 1979. Since 1985 to 1992 he held top management positions in the department of the Ministry of Coal of Ukraine.

Alexander Tolstoukhov

Mr. Tolstoukhov, a Group founder and co-owner, has significant business experience in Ukraine’s Donbas region, having owned a number of businesses in Donetsk and Luhansk Regions. He held top management positions at all of the companies, which worked in a wide range of industries, including mining (coal mines, rock and sand quarries), construction materials, industrial and technological equipment trading, transportation and equipment lease services.

Between 1992 and 1997, he held management positions at Alchevsk Steelworks and Agrostroy LLC, and in 1997 founded Interdon PC.

Mr. Tolstoukhov graduated from the Kirov Leningrad Higher Military School in 1988, and in 1988-1990 served as Platoon Commander in Hungary. He was subsequently transferred to Alchevsk, Ukraine where he completed his military service in 1992.

The following table sets out past and current directorships held by the Senior Management in the past five years:

Name	Positions held
Sergey Stetsurin	*Former directorships:*
	Director of UkrUglemash LLC (2003-2007)
	Current directorships:
	-Director of Olimp PE (since 2002)
Alexander Tolstoukhov	*Former directorships:*
	-
	Current directorships:
	Interdon PC – Director

Committees

As at the date of this Prospectus, the Board of Directors has established from among its members the Audit Committee. The Board of Directors has not yet established the remuneration committee although it intends to establish the remuneration commitee after the Admission.

Audit Committee

The Audit Committee is composed of three Directors: Iryna Daryina (Director A), Pierre-Siffren Guillet (Director B) and Pierre Mestdagh (Director B).

The Audit Committee will assist in supervising the activities of the Board of Directors with respect to:

- operation of internal risk management and control systems, including supervision of the enforcement of relevant legislation and regulations, and supervising the operation of codes of conduct;
- provision of financial information by the Issuer (choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the financial accounts, forecasts, work of internal and external auditors, etc.);
- compliance with recommendations and observations of internal and external auditors;
- the role and functioning of the Issuer's internal audit department;
- the Issuer's tax planning policy;
- the Issuer's relations with the external auditor, including, in particular, its independence, remuneration and non-audit services for the Issuer.

The role and responsibilities of the Audit Committee, as well as its composition and the manner in which it operates and discharges its duties are set out in regulations for the Audit Committee, as drawn up by the Board of Directors. The Audit Committee regulations and its composition will be placed on the Issuer's website.

Contracts and Remuneration

Remuneration and terms of service agreements of members of the Board of Directors

The remuneration of the members of the Board of Directors will be determined by the Board of Directors, in accordance with remuneration policy to be adopted by the General Meeting of Shareholders not later than at the first meeting after the Admission.

As the Issuer has only recently been established and most members of the Board of Directors have been appointed in October 2010, the Issuer has not paid historically any remuneration to members of the Board of Directors. Current members of the Board of Directors are employed by, and have received remuneration from, the Group's operating companies. The total remuneration, paid by the Group to the members of the Board of Directors in the latest ended financial year was approximately USD 17.2 thousand.

The members of the Board of Directors are not granted any pensions, retirement or similar benefits by the Issuer or the Group Companies. No amounts have been set aside or accrued by the Issuer or its subsidiaries to provide pension, retirement or similar benefits to members of the Board of Directors.

Remuneration of Senior Management

Members of the Senior Management have advisory contracts with the Issuer under which they will receive remuneration from the Issuer. Each member of the Senior Management will receive annual remuneration of EUR 12,000.

As the Issuer has only recently been established, the Issuer has not paid historically any remuneration to members of the Board of Directors. Alexander Tolstoukhov has been employed by, and has received remuneration from Interdon PC. The total remuneration, paid by Interdon PC to Alexander Tolstoukhov in the latest ended financial year was approximately UAH 26 thousand. Sergey Stetsurin has not been employed and has not received any remuneration from any Group company in the last ended financial year.

The members of Senior Management are not granted any pensions, retirement or similar benefits by the Issuer or the Group Companies. No amounts have been set aside or accrued by the Issuer or its subsidiaries to provide pension, retirement or similar benefits to members of the Senior Management.

Indemnity agreements

Members of the Board of Directors do not have any indemnity arrangements with the Issuer except for Directors B who shall be reimbursed for litigation expenses and any damages they are ordered to pay in relation to acts or omissions in the performance of their duties, unless such acts or omissions amount to willful misconduct or recklessness, unless this would not be reasonable and fair. The Group has not purchased any directors & officers liability insurance policy.

Non-compete compensation and employment termination compensation

In line with Ukrainian practice, members of the Board of Directors and members of the Senior Management do not have any agreements with the Group under which, after termination of the employment relationship with the Group, such persons would be is obligated to maintain non-competition duty for a certain period following termination of his employment relationship. However, the Company may enter into such agreements with members of the Board of Directors or members of the Senior Management in the future.

The service contracts, employment agreements or other similar agreements entered into between the Issuer or the Group companies and the members of the Board of Directors and the Senior Management do not provide for special benefits in the case of dismissal or termination of such persons service, employment contract or other similar agreement.

Shareholdings and stock options

No member of the Board of Directors holds any shares in the Issuer or in any Operating Company. Members of the Senior Management are Beneficial Owners of the Principal Shareholder and therefore indirectly hold entire issued share capital of the Issuer before as of the Offering. Members of the Senior Management do not hold directly any shares in the Operating Companies.

As far as the Issuer is aware, no member of the Board of Director or member of Senior Management intends to purchase any Offer Shares in the Offering.

No employees of the Group hold any shares in the Group companies.

There is currently no stock option plan or other arrangement under which members of the Board of Directors, members of Senior Management or any employees would be entitles to purchase any shares in any Group company. The Company may implement such arrangements in the future.

Other information on the Management

Members of the Senior Management are Beneficial Owners of the Principal Shareholder. Therefore, due to the fact that interests of the Group are not always in line with interests of the Principal Shareholder, the conflict of interest may occur from time to time.

Members of the Board of Directors have no conflicts of interests with respect to their duties to the Issuer and their private interests and/or other duties.

There are no family relationships among members of the Board of Directors and Senior Management.

Except as stated above, there are no arrangements or understandings with the Principal Shareholder of the Issuer, customers, suppliers or others pursuant to which any member of the Board of Directors or Senior Management was selected as a member of the Board of Directors or Senior Management.

At the date of this Prospectus, except as stated above, none of the members of the Board of Directors or Senior Management have in the previous five years (i) been convicted of any offences relating to fraud, (ii) held an executive function at any company at the time of or immediately preceding any bankruptcy, receivership or liquidation (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body) or (iv) been the subject of any public prosecution or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Corporate governance

Luxembourg

In April 2006, the Luxembourg Stock Exchange (the "LxSE") issued the "Ten principles of corporate governance of the Luxembourg stock exchange" (second edited-revised version dated October 2009) (the "Luxembourg

Corporate Governance Code"). The Luxembourg Corporate Governance Code sets forth ten principles regarding in particular the fiduciary duties of the directors, the creation of committees, publication of information in the annual management report and the rights of the shareholders. Each principle is specified by recommendations. The LxSE is responsible for monitoring the application of the principles set out in the Luxembourg Corporate Governance Code.

The Luxembourg Corporate Governance Code is only applicable to companies whose shares are admitted to trading and listed (i) on the LxSE or (ii) on the LxSE and on one (or more) foreign regulated markets. The Luxembourg Corporate Governance Code is not applicable to Luxembourg companies that are not listed on the LxSE. Therefore, the Company is not required to comply with the rules set out in the Luxembourg Corporate Governance Code. However, according to the Luxembourg Corporate Governance Code, the principles set forth in such code could also serve as a reference framework for Luxembourg companies listed on a foreign regulated market.

The Company does not intend to comply with the provisions of the Luxembourg Corporate Governance Code, since it is not required to do so. Instead, the Company has decided to observe the majority of the WSE Corporate Governance Rules.

Poland

The Company has decided to observe the majority of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent allowed by Luxembourg corporate law and corporate structure of our Group, especially the single board structure as opposed to the two-tier system that the WSE Corporate Governance Rules assume. The Company does not have two separate governing bodies (supervisory board and management board) which are obligatory in Polish joint stock companies. Instead, its Board of Directors performs both the management and supervisory functions. As a result, the Company will apply those principles of the WSE Corporate Governance Rules which refer to relations between supervisory board and management board not directly, but accordingly.

PRINCIPAL SHAREHOLDER

Principal Shareholder

As at the date of this Prospectus, 100% of the outstanding share capital of the Company is held by Connektico Ventures Limited. Connektico Ventures Limited is a Cypriot entity, with its registered office at 1 Lampousas, P.C. 1095, Nicosia, Cyprus. The company owned by two natural persons, Ukrainian citizens: Mr. Alexander Tolstoukhov holding 51% of shares and Mr. Sergiy Stetsurin holding 49% of shares. Connektico Ventures Limited is a holding company which does not carry out any operating activity except for holding shares in the Issuer.

Change of control

As at the date of this Prospectus, so far as the Company is aware, there is no arrangement that might result in the change of control over the Company.

Dilution

The tables below indicate the Company's shareholding structure as at the date of this Prospectus and after the Offering:

	Shares owned prior to the Offering		**Shares owned after the Offering(1)**	
Shareholder	**Number of shares**	**%**	**Number of shares**	**%**
Connektico Ventures Limited...	32,314,270	100	32,314,270	75
Public	-	-	10,771,423	25
Total..	32,314,270	100	43,097,603	100

(1) Assuming that all the Offer Shares are subscribed in the Offering;

The voting rights of the Principal Shareholder with respect to its shares do not differ in any respect from the rights attaching to the Shares. The Principal Shareholder will not have other voting rights from other shareholders, other than the greater or lesser voting power inherent in its percentage ownership in the Company's share capital.

Lock-up agreements

Except for the issue of the Offer Shares in the Offering and the issue of securities linked to the Company's share capital under any share / management incentive plan to be implemented by the Company, the Company has agreed that for the period of 12 months from the Settlement Date, the Company will not, without the prior written consent of the Managers, which consent shall not be unreasonably withheld, propose or otherwise support an offering of any of the Company's shares, announce any intention to offer new shares and/or to issue any securities convertible into Company's shares or securities that in any other manner represent the right to acquire the Company's shares, or conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling the Company's shares.

Furthermore, the Principal Shareholder has agreed that for a period of 12 months from the Settlement Date shall not: (i) sell or announce an intention to sell any of the Company's shares, (ii) issue any securities exchangeable into the Company's shares, (iii) issue any securities that in any other manner represent the right to acquire the Company's shares, and also (iv) conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling Company's shares, except the issue of securities linked to the Issuer's share capital under any share / management incentive plan to be implemented by the Issuer, without the prior consent of the Managers, which consent shall not be unreasonably withheld. In addition, the Principal Shareholder has undertaken not to propose, vote in favour of or otherwise support: (i) any increase of the Company's share capital, (ii) any issuance of securities convertible into the Company's shares or (iii) any issuance of any other securities that in any other manner represent the right to acquire the Company's Shares, and also (iv) to conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of causing the Company to issue such instruments except the issue of securities linked to the Company's share capital under any share / management incentive plan to be implemented by the Company.

THE OFFERING AND PLAN OF DISTRIBUTION

General Information

The Issuer is offering for subscription up to 10,771,423 Offer Shares. The Offer Shares are being offered at the Offer Price, which shall be determined through a book-building process and after taking into account other conditions.

The Offering consists of: (i) public offering to retail investors in Poland (the "Retail Investors"), (ii) public offering to institutional investors in Poland (the "Polish Institutional Investors"), and (iii) private placement to institutional investors in certain jurisdictions outside the United States and Poland in reliance on Regulation S under the U.S. Securities Act (the "International Investors", and together with the Polish Institutional Investors, the "Institutional Investors"). The Retail Investors and Institutional Investors are jointly referred to as Investors.

No public offering in Luxembourg will take place, although for the purpose of the public offering in Poland the Issuer has taken and will take certain actions in Luxembourg as its home Member State.

All of the Offer Shares have been assigned ISIN code LU0564351582.

Publication of the Prospectus

The Prospectus, and any supplements to the Prospectus, will be published on the website of the Issuer www.sadovayagroup.com, on the website of the Co-Lead Manager www.dmbzwbk.pl and on the website of the Luxembourg Stock Exchange www.bourse.lu.

Notices

Any notices relating to the Offering and in particular the final Offer Price, and final results of the Offering will be filed with the CSSF and the PFSA, and will be published on the website of the Issuer www.sadovayagroup.com and of the Co-Lead Manager www.dmbzwbk.pl. In addition, any notices relating to the Offering which should be published in Luxembourg in accordance with Luxembourg law, shall be published on the website of the Luxembourg Stock Exchange www.bourse.lu or otherwise as required by Luxembourg law.

Corporate resolutions

By virtue of resolution dated 9 November 2010 the sole shareholder resolved to create an authorized capital. During a period of time of five (5) years from the date of publication of the resolution to create the authorised capital or, as the case may be, a resolution renewing such authorisation in the Official Gazette of the Grand Duchy of Luxembourg, the *Memorial C, Recueil des Societes et Associations*, the board of directors is authorised to issue shares, to grant options to subscribe for shares and to issue any other instruments convertible into shares within the limit of the authorized shares capital, to such persons and on such terms as it shall see fit, and specifically to proceed to such issue without reserving a preferential subscription right for the existing shareholders. The authorised capital, including the share capital, amounts to USD 450,000.

The sole shareholder authorized the Board of Directors to take any and all actions in connection with the Offering.

The issuance of the Offer Shares is scheduled to occur upon the Board of Director’s execution of a resolution to that effect shortly prior to delivery and listing of the Offer Shares, as outlined below.

The Issuer, upon agreement with the Lead Managers, will determine the final terms on which the Offer Shares will be offered, including: (i) the final number of Offer Shares offered and, (ii) the final Offer Price. Upon the decision hereon, the Board of Directors will issue the Offer Shares.

For information on applicable selling restrictions in respect of the Offer Shares, please refer to "Selling Restrictions" and for information regarding the rights pertaining to the Shares, please refer to "The Issuer - Rights Attached to Shares".

Expected timetable of the Offering

The expected timetable below lists key dates relating to the Offering.

Publication of Prospectus	on or about November 30, 2010
Institutional Book-building	December 8, 2010 – December 10, 2010 until 4 pm CET
Subscriptions by Retail Investors	December 8, 2010 – December 10, 2010
Pricing and Initial Allotment Date	on or about December 10, 2010
Subscriptions by Institutional Investors	December 13, 2010 – December 16, 2010 until 6 pm CET
Allotment Date	on or about December 17, 2010
Settlement Date	on or about December 20, 2010
Delivery Date	on or about December 21, 2010
Listing Date (listing of and start of trading in the Shares on the WSE)	on or around December 30, 2010

The subscription period ends with the end of the subscription period for the Institutional Investors.

The Issuer in consultation with the Lead Managers may decide to change the above dates if it deems so necessary for the successful completion of the Offering and Admission. Information on any changes in the above dates shall be announced on the websites of the Issuer (www.sadovayagroup.com) and the Co-Lead Manager (www.dmbzwbk.pl). Where required by law, any changes in the Offering dates shall be published in the form of an update report or, if applicable, a supplement to the Prospectus. Information on any change of the dates shall be published no later than on the originally set date, provided that if the period of acceptance of subscription orders or the book-building period is shortened, relevant information shall be published no later than on the date preceding the last day (according to the new schedule) of acceptance of subscription orders or of the book-building process.

Place of Subscription

Subscriptions will be accepted at the offices of the Co-Lead Manager and offices of Bank Zachodni WBK S.A., who acts as agent of the Co-Lead Manager. A detailed list of places where subscriptions are accepted is attached as Annex IV to this Prospectus. The list, as well as any amendements to the list, will be published at the website of the Co-Lead Manager (www.dmbzwbk.pl).

Investors should verify with the entity offering the Offer Shares whether or not the entity is acting in association with the Issuer.

The Managers may establish a selling syndicate and authorize other investment firms and other licenced entities to accept subscriptions for Offer Shares. If such syndicate is created, the Issuer will publish an update report with names of entities accepting subscription orders and will provide all information on such entities as required by applicable regulations. Addresses of customer service points accepting subscriptions for Offer Shares will be published on the website of the Issuer (www.sadovayagroup.com) and on the website of the Co-Lead Manager (www.dmbzwbk.pl).

Subscriptions via Internet and by phone will be accepted by the Co-Lead Manager from investors who have a brokerage account agreement with the Co-Lead Manager and the agreement provides for placing subscriptions via Internet or by phone. Such subscriptions will be accepted in accordance with such agreement, internal regulations of the Co-Lead Manager accepted by the investor when entering into such agreement and technical requirements of using the Internet application made available by the Co-Lead Manager for placing subscriptions. If the Managers establish a selling syndicate and subscription orders are accepted by other investment firms or other licensed entities, such entities may agree with particular investors to accept subscriptions via Internet or by phone.

Book-building

Before the start of subscriptions by Institutional Investors, the book-building process will be conducted, during which selected Institutional Investors who have been invited to the process by the Managers, will declare their intention to subscribe for Offer Shares. In their declarations, the Institutional Investors will specify (i) the total number of Offer Shares they intend to subscribe for, (ii) the price at which they are willing to subscribe for the Offer Shares, and (iii) the currency (PLN or USD) in which they are willing to pay for the Offer Shares.

Invitations can be made in any form. Polish Institutional Investors who would like to take part in the book-building process and subscribe for Offer Shares in the Offering should contact the Co-Lead Manager for further details regarding subscription process

The book-building process which will end on or about December 10, 2010. However, the deadline for receipt of indications of interest from the Institutional Investors may be extended or shortened at the discretion of the Managers.

On the basis of declarations as to the acquisition of the Offer Shares, the Issuer, upon recommendation from the Managers, will determine the Offer Price and will initially allocate the Offer Shares among particular Institutional Investors as well as to Retail Investors as a group.

The details of the book-building process will not be made public.

Eligible Investors

The Offer Shares may be acquired by retail investors in Poland (the "Retail Investors"), and by selected institutional investors invited by the Managers to participate in the book-building resident in the territory of Poland (the "Polish Institutional Investors").

In addition, the Issuer is offering the Offer Shares through private placement to selected investors in certain jurisdictions outside Poland and United States, where such an offering may be lawfully conducted. Such investors, together with Polish Institutional Investors are referred to as "Institutional Investors".

Retails investors include natural persons and legal entities resident in Poland, as well as unincorporated entities resident in Poland, except for US Persons.

Institutional Investors include legal entities resident in Poland or outside of Poland, except for US Persons, who have been invited by the Managers to participate in the book-building. Asset management companies managing portfolios of securities on behalf of their clients will be regarded as Institutional Investors.

Investors participating in the Offering must hold securities accounts with investment firms or custodian banks who are participants of the NDS.

The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act.

No separate tranches have been created in the Offering for various categories of investors (such as Institutional Investors or Polish Investors). Consequently, the Issuer reserves the right to allocate the Offer Shares between such groups of investors and within such groups to investors at its absolute discretion, following agreement with the Lead Managers. Total number of Offer Shares allocated to Institutional Investors and total number of Offer Shares allocated to Retail Investors will be decided by the Issuer on the Pricing and Initial Allotment Date, and announced on or around the Pricing and Initial Allotment Date at the same time and in the same manner as announcement of the final Offer Price and final number of Offer Shares. All of the Offer Shares may be subscribed solely by Institutional Investors or by Retail Investors, or by a combination thereof, as the case may be.

All investors that intend to acquire any of the Offer Shares should acquaint themselves with the relevant laws of their countries of residence prior to making a decision to subscribe for the Offer Shares.

Currency of the Offering

All monetary amounts used in the Offering will be expressed in PLN. In particular, the Maximum Price and the Offer Price are set, and the book-building process will be carried out in PLN. However, Institutional Investors may pay for the Offer Shares in USD. See: "Subscription and Allotment" below.

Issuance of Offer Shares

The Offer Shares will be issued on the Delivery Date, which is expected to be December 21, 2010.

Purchase by management

According to the statements made, no Director or other member of the Company's management intends to subscribe for any Offer Shares.

Offer Price

The Offer Shares are being offered at the Offer Price, which shall be determined through a book-building process and after taking into account other conditions as specified below.

The Offer Price will not exceed PLN 17.50 (the "Maximum Price"). The Maximum does not necessarily reflect, or is close to, the final Offer Price.

During a book-building process amongst Institutional Investors invited by the Managers, such Institutional Investors interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, which they will be willing to pay. The book-building, is expected to cease on or about December 10, 2010, but the deadline for receipt of indications of interest from the Institutional Investors may be extended or shortened at the discretion of the Managers.

The final Offer Price will be determined by the Issuer upon agreement with the Lead Managers, based on the following criteria and rules: (i) size and price sensitivity of demand from the Institutional Investors as indicated during the book-building process, (ii) the current and anticipated situation on the Polish and international capital markets and (iii) assessment of the growth prospects, risk factors and other information relating to the Issuer's activities.

The final Offer Price will not be higher than the Maximum Price but may be lower than the Maximum Price.

The Issuer will announce the final Offer Price on the Pricing and Initial Allotment Date, through a press release in Poland and in a manner compliant with applicable regulations as well as market practice in Luxembourg and Poland. In particular, the Offer Price will be filed with the CSSF and the PFSA and published in the same manner as the Prospectus on or around December 10, 2010. The Offer Price will be published on the website of the Issuer www.sadovayagroup.com.

Due to the fact that the Maximum Price is included in the Prospectus, investors do not have the right to withdraw subscriptions after the final Offer Price has been determined and announced, pursuant to Article 10.1 of the Prospectus Act 2005 and Article 54.1 of the Public Offering Act.

The final Offer Price will be set in PLN and will be identical both for Retail Investors and Institutional Investors.

No expenses or taxes will be charged to the subscribers. Investment firms accepting subscriptions for Offer Shares may charge fees for accepting the subscriptions, in accordance with individual agreements made by the investment firms with particular subscribers and fee schedules of such investment firms.

Final number of Offer Shares

The final number of the Offer Shares in the Offering will not be higher than 10,771,423. The Issuer reserves the right to allocate in total a smaller number of Offer Shares than the total maximum number. This may happen, for instance, as a result of insufficient demand at a price level satisfactory to the Issuer.

On the Allotment Date the Issuer will announce the final number of the Offer Shares through a press release in Poland and in accordance with applicable regulations as well as market practice in Luxembourg and Poland. In particular, the final number of Offer Shares offered in the Offering will be filed with the CSSF and the PFSA and published in the same manner as the Prospectus, including publication on the website of the Issuer www.sadovayagroup.com, on the website of the Co-Lead Manager www.dmbzwbk.pl and on the website of the Luxembourg Stock Exchange www.bourse.lu.

Subscription and Allotment

Subscriptions for Offer Shares may be placed by eligible Retail Investors and Institutional Investors.

Subscriptions are irrevocable except as may be required under article 16 of the Prospectus Directive, as implemented in each relevant Member States' jurisdictions of the EU applicable to the Offering. In particular, investors who have subscribed for the Offer Shares have the right to withdraw their subscription if a supplement to the Prospectus is published. The right may be exercisable within two working days after publication of the supplement.

By placing subscription orders, each prospective Investor confirms that it (i) has read the Prospectus, (i) accepts the terms of the Offering, (iii) consents to being allocated a lower number of the Offer Shares than the number specified in such Investor's order, (iv) consents that it may not be allocated any Offer Shares at all.

The Investor placing the subscription order is responsible for any errors or missing information in the subscription form.

Subscription and Allotment by Institutional Investors

On the Pricing and Initial Allotment Date the Issuer will initially allocate the Offer Shares to selected investors who during the book-building process have offered a price for Offer Shares not less than the final Offer Price. The initial Allotment will be made by the Issuer in an entirely discretionally manner, upon agreement with the Lead Managers. The Institutional Investor may be initially allocated less Offer Shares than the number of Offer Shares indicated by it in the book-building process or may not be allocated any Offer Shares at all. The fact that an Institutional Investor offered a price for Offer Shares not less than the final Offer Price does not guarantee that such Investor will be initially allocated any Offer Shares. The number of Offer Shares initially allocated to an Institutional Investor will not be higher than the number of Offer Shares indicated by such Institutional Investor during book-building.

The Manager will advise investors of the number of the preliminarily allocated Offer Shares and will invite them to place a subscription order and make a payment.

Institutional Investors who were initially allocated the Offer Shares will be required to subscribe for all the Offer Shares initially allocated to them, during the subscription period for Institutional Investors, and to pay for such Offer Shares not later than on the last day of the Subscriptions for Institutional Investors until 6 pm CET, in a manner agreed with the Managers. Each Institutional Investor shall subscribe for a number of Offer Shares initially allocated to such Investor. Subscriptions for number of Offer Shares different than the number of Offer Shares initially allocated to such Investor may be rejected.

If any Institutional Investor fails to subscribe for or pay for any Offer Shares initially allocated to such Investor, the Issuer in agreement with the Managers may, at its discretion, invite one or more other Institutional Investors to subscribe for the Offer Shares not subscribed for or paid for.

On the Allotment Date, Institutional Investors will be finally allocated such number of Offer Shares (i) which was initially allocated to such Investors on the Pricing and Initial Allotment Date, (ii) as to which the Institutional Investor placed a valid subscription order, and (iii) with respect to which the total Offer Price was fully paid.

Institutional Investors will be notified of their Allotments by the Managers.

Subscription and Allotment by Retail Investors

Subscription orders from Retail Investors will be accepted at the Customer Service Points of the Co-Lead Manager listed on the Company's website www.sadovayagroup.com or at any other place that may be publicly communicated by the Managers prior to the end of the subscription period for Retail Investors. For information on the detailed rules governing the placing of subscription orders, in particular: (i) the documents required if a subscription order is placed by a statutory representative, proxy or any other person acting on behalf of an investor, and (ii) the possibility of placing subscription orders and deposit requests in a form other than the written form i.e. by telephone or internet, the Retail Investors should contact the Customer Service Point of the Co-Lead Manager or other entities accepting orders for Shares from Retail Investors at which they intend to place their subscription order.

Retail Investors who would like to purchase the Offer Shares in Poland are required to follow the instructions provided by the Co-Lead Manager who acts as intermediary in the Offering.

Retail Investors may subscribe for a minimum of 10 Offer Shares and not more than 100,000 Offer Shares. The Retail Investor may make any number of subscriptions provided that the total number of Offer Shares subscribed by it does not exceed 100,000 Offer Shares. If a Retail Investor subscribes in total for more than 100,000 Offer Shares he will be deemed to subscribe for 100,000 Offer Shares.

Purchase orders from the Retail Investors should be submitted at the Maximum Price only.

Orders not fully paid for or with improperly completed subscription forms will be invalid.

Retail Investors subscribing for the Offer Shares must at the same time submit instructions to deliver the Offer Shares allocated to them to their securities accounts. Prospective investors who do not have a securities account will be required to open such account prior to subscribing for the Offer Shares.

The Issuer will not give preferential treatment or discriminate between Retail Investors in Allotment of Offer Shares. If the total number of Offer Shares allocated to Retail Investors is equal to or less than the number of the Offer Shares subscribed by Retail Investors, each Retail Investor will allocated the number of Offer Shares for which the Investor subscribed. If the total number of Offer Shares allocated to Retail Investors as a group will be less than the total number of Offer Shares subscribed for by Retail Investors, the number of Offer Shares allocated to each Retail Investor will be equally reduced pro rata to the number of Offer Shares subscribed by such Investor. All fractional allotments will be rounded down and remaining individual shares shall be allocated to the Retail Investors who subscribed for the largest number of Shares.

Retail Investors may receive relevant notifications on allotment of Offer Shares in accordance with the regulations of their brokerage accounts.

Payment for the Offer Shares

Payment for the Offer Shares by Institutional Investors

Institutional Investors who were initially allocated Offer Shares are obliged to pay the Offer Price with respect of such Offer Shares not later than on the last day of Subscriptions for Institutional Investors until 6 pm CET.

Payments for the Offer Shares by the Institutional Investors may be made in PLN or in USD, at the selection of the Institutional Investor, as specified by such Institutional Investor during the book-building process. If the Institutional Investor does not specify the currency of payment during the book-building process, such Institutional Investor will be deemed to select payment in PLN. Notwithstanding the selection of payment currency, the book-building process will be carried out, and declarations of interest from Institutional Investors will be accepted, in PLN.

Institutional Investors who selected payment in PLN will be required to pay an amount in PLN corresponding to the number of Offer Shares initially allocated to such Investor multiplied by the Offer Price.

Institutional Investors who selected payment in USD will be required to pay an amount in USD corresponding to the number of Offer Shares initially allocated to such Investor multiplied by the Offer Price and converted into USD using the average exchange rate of the National Bank of Poland published on the Pricing and Initial Allotment Date.

A subscription placed without any payment will be invalid. A subscription placed with partial payment will be valid with respect to such number of Offer Shares for which payment has been made.

Institutional Investors, in particular, entities managing securities portfolios on behalf of their clients should liaise with the Managers in order to discuss actions required to place subscription orders and to pay for initially allocated Offer Shares.

Payment for the Offer Shares by Retail Investors

Full payment for the Offer Shares by Retail Investors must be made in PLN, not later than until the end of day of placing the subscription, in accordance with the regulations of the investment firm accepting the subscription. The payment is equal to the number of Offer Shares for which the subscription is made multiplied by the Maximum Price.

A subscription placed without full payment for the Offer Shares will be invalid with respect to all the Offer Shares included in the subscription.

Any overpayments (either as a result of the Offer Price being lower than the Maximum Price, lack of Allotment of Shares or as a result of any proportional reduction) will start to be returned not later than seven business days after the Settlement Date without any interest or any other compensation.

Withdrawal of Subscription

A subscription for the Offer Shares is irrevocable except when after the start of the Offering, a supplement is made public concerning an event or circumstances occurring before the allotment of the securities, of which the Issuer became aware before the allotment. In such case, pursuant to article 13.2 of the Prospectus Act 2005 and article 51a of the Public Offering Act, the investor who has made a subscription before the publication of the supplement may withdraw such subscription by submitting a written statement to the institution where the subscription was made, within two business days from the date of the publication of the supplement. Under article 51a of the Public Offering Act, the right to withdraw the subscription will not apply to those cases when a supplement is made available in connection with errors in the prospectus of which the Issuer became aware after the allotment, and in connection with factors which occurred or of which the Issuer became aware after the allotment. In such case, if necessary, the Settlement Date will be adjusted in order to enable the Investors to withdraw their subscriptions.

Refund of payment for Offer Shares included in the withdrawn subscription will be made in accordance with instructions included in the subscription form within three business days after withdrawal of the subscription. The refund will be without interest or compensation.

Results and Closing of the Offering

The Issuer will announce the results of the Offering within 14 days from the Settlement Date, by means of a press release in Poland and in a manner compliant with applicable regulations, as well as market practices in Luxembourg and Poland. Results of the Offering will be published on the website of the Issuer www.sadovayagroup.com and on the website of the Co-Lead Manager www.dmbzwbk.pl.

The Offering will close on the Delivery Date, upon subscription, Allotment and payment for the Offer Shares and issuance by the Issuer of the Offer Shares. The Placement Agreement will include conditions to the closing of the Offering (see "Placing").

Supplements to the Prospectus

In accordance with Article 13.1 of the Prospectus Act 2005 and Article 51.1 of the Public Offering Act, any significant change to the Prospectus, as defined in the aforementioned regulations will be communicated through a supplement to the Prospectus, if required. The supplement to the Prospectus will need to be approved by the CSSF, notified the PFSA and published in the same matter as the Prospectus. If the supplement is published after approval of the Prospectus by the CSSF and relates to events or circumstances which occurred prior to the Allotment Date and about which the Issuer or the Managers have learnt prior to the allotment, investors who have placed their subscription orders before publication of the supplement will have a right to withdraw their subscriptions. See: “*Withdrawal of Subscription*” above.

Change of terms of the Offering

In Poland, in accordance with Article 52 of the Public Offering Act, information resulting in changes to the content of the Prospectus or supplements already made available to the public in respect of the organization or conduct of subscription of Offer Shares or their admission to trading on the WSE, which do not require publication of the supplement, will be published in the form of an update report, in the same manner as the Prospectus. Such report will be simultaneously submitted to the PFSA. In such case, the Investors do not have a right to withdraw their subscriptions.

Cancellation or postponement of the Offering

The Issuer may cancel the Offering, upon recommendation of the Managers or at its own initiative, at any time prior to the Settlement Date. The Issuer may also change the dates of opening and closing of the book-building and subscription periods for the Retail Investors, or decide that the Offering will be postponed and that new dates of the Offering will be provided by the Issuer later.

The Issuer may cancel the Offering, upon recommendation of the Managers if the Issuer considers it impracticable or inadvisable to proceed with the Offering. Such reasons include, but are not limited to: (i) suspension or material limitation in trading in securities generally on the WSE, as well as any other official stock exchange in the EU and the United States; (ii) sudden and material adverse change in the economic or political situation in Ukraine, Poland, Luxembourg or worldwide; (iii) a material loss or interference with the Issuer’s business; (iv) any material change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of the Issuer's operations or the operations of the Group, or (v) an insufficient, in the Issuer's opinion or that of the Managers, expected free float of the Issuer's shares on the WSE talking into account preliminary results of the book-building or of the subscriptions. In such event, subscriptions for the Offer Shares that have been made will be disregarded, and any subscription payments made will be returned without interest or any other compensation.

Any decision on cancellation, suspension, postponement or changes of dates of the Offering will be published by way of an update report and a press release in Poland and in a manner compliant with applicable regulations, as well as market practices in Luxembourg and Poland. The Offering may not be cancelled or suspended after the official trading in the Offer Shares on the WSE has begun.

If the Offering is suspended, the Issuer may decide that subscriptions made, book-building declarations submitted and payments made will be deemed to remain valid, however for not longer than 60 days. In such case, Investors may withdraw subscriptions and declarations made by submitting a relevant statement to that effect within two business days after report on the suspension if announced.

All dealings in the Offer Shares prior to the commencement of the official trading on the WSE will be at the sole risk of the investor concerned, irrespective of whether or not the investor concerned has been notified of the number of Shares allocated to him.

Overallotment

The Issuer has not granted and will not grant any overallotment option.

Registration and Delivery of the Offer Shares

The National Deposit of Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*), with its seat at Książęca 4, 00-498 Warsaw, Poland, the Polish central clearinghouse and securities depository, will act as depositary of the Offer Shares.

An application will be made for the Offer Shares to be accepted for delivery through the book-entry facilities of the NDS, either directly as a participant of that system or indirectly through participants of the NDS. Investors should note that in order to trade the Shares on the WSE the Shares must be in book entry form.

All of the Offer Shares are bearer shares. All Offer Shares will be registered with the NDS and will be held by shareholders in a book entry form with a custodian bank or an investment firm as a participant of the NDS.

Delivery of the Offer Shares will be made in accordance with settlement instructions placed by investors upon subscription, through the facilities of the NDS, by registration of the Offer Shares on the Investors' securities accounts indicated by such Investors. Delivery of the Offer Shares is expected to take place on or about December 14, 2010, barring unforeseen circumstances, by appropriate entry on the Investor's securities accounts held through members of the NDS. The exact delivery dates will depend on timing of registration of Offer Shares in the facilities of the NDS.

No share certificates or other documents confirming subscription of Offer Shares will be issued by the Issuer to Investors. Investors shall be notified of registration of the Offer Shares on their securities accounts in accordance with the rules applicable at their respective investment firms or banks holding securities accounts. However, the date of delivery of such notifications shall not affect the date of the first listing of the Offer Shares and such notices may be delivered following the first day of listing of Offer Shares on the Warsaw Stock Exchange.

Listing and Trading

The Issuer intends to apply for admission of all the Offer Shares to listing and trading on the main market of the WSE, immediately after the Settlement Date. The main market of the WSE is a regulated market pursuant to MiFID. The Issuer expects that the trading in the Shares on the WSE will commence on December 30, 2010 or as soon as possible thereafter.

In connection with the listing of the Shares on the WSE, all the Offer Shares will be registered with and cleared through the NDS which is the central clearinghouse and depository of securities in Poland, including those listed on the WSE. The NDS will act as paying agent for any distributions payable to holders of the Offer Shares.

Investors trading on the WSE should consider that since under the laws of Luxembourg no court registration process is needed in order to validly issue new shares, the Offer Shares will be eligible for the listing application upon payment by investors, together with the Issuer’s existing Shares. Consequently, the Issuer will not be seeking to apply for listing on the WSE of any temporary share receipts, such as "rights to shares" (*prawa do akcji*) within the meaning of the Act on Trading in Financial Instruments.

At present the Issuer does not intend to seek a listing of the Shares at any stock exchange other than the WSE but may consider such listing in the future.

Offering Agent

The Issuer has appointed Dom Maklerski BZ WBK S.A. with its seat at Plac Wolności 15, Poznań, Poland, to act as offering agent with respect to the Shares for the purposes of the public offering in Poland and admission to trading on the main market of the WSE.

Dilution

Upon completion of the Offering the amount and percentage of the immediate dilution of the Issuer’s Shares will be as follows, assuming all Offer Shares are sold:

Shareholders	**Number of Shares**	**Percentage**
Shares held by the Principal Shareholder	32,314,270	75%
Offer Shares	10,771,423	25%
Total	43,097,603	100%

PLACING

The Issuer intends to enter, prior to the Pricing and Allotment Date, into a placement agreement (the "Placement Agreement") in respect of the Offering with the Lead Managers and the Co-Lead Manager, in which the Lead Managers and the Co-Lead Manager will commit, on a best efforts basis, to procure subscribers for the Offer Price.

BG Capital JSC, a company incorporated under the laws of Georgia, company code 211359206, whose registered office is at 74a Chavchavadze Avenue, Tbilisi 0179, Georgia, and BG Trading Limited, a company incorporated under the laws of Cyprus, registered under No. HE 195267, whose registered office is at Arch.Makariou III, 58 Iris Tower, Office 602, P.C.1075, Nicosia, Cyprus, act as Lead Managers of the Offering. Dom Maklerski BZ WBK S.A. whose registered office is at Plac Wolności 15, 60-967 Poznań, Poland, acts as the Co-Lead Manager and offering agent in Poland for the purposes of the Offering in Poland and admission to trading on the WSE.

Bank Zachodni WBK S.A., whose registered office is at Rynek 9/11, 50-950 Wroclaw, Poland, acts as Advisor in the Offering, providing financial, organizational and management advice to the Issuer in connection with preparation of the Offering..

In connection with the Offering, the Issuer has agreed to pay a fee of up to 5% of the gross proceeds from the placement and sale of the Offer Shares. In addition, the Issuer has agreed to indemnify the Managers against certain liabilities and to reimburse the Managers for certain of their expenses in connection with the management of the Offering. The Managers are entitled in certain circumstances to be released and discharged from their respective obligations under the Placement Agreement prior to the Listing Date. Such circumstances include the non-satisfaction of certain conditions precedent and the occurrence of certain force majeure events.

The Issuer does not intend to enter into any underwriting agreements in connection with the Offering.

Other Relationships

The Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company and the Principal Shareholder and any of its affiliates. The Lead Managers and their affiliates have received and may receive in the future customary fees and commissions for these transactions and service.

Stabilization

The Managers did not undertake to enter into any transactions aiming at stabilization of the price of Offer Shares.

Expenses of the Offering

As of the date of this Prospectus, the Issuer estimates the amount of fixed expenses for preparation of the Offering at approximately USD 2.5 million. These expenses consist of costs of preparation of the Prospectus, advisory services, marketing of the Offering and costs of analyses prepared with respect to the Offering.

The final amount of expenses will be calculated after the Offering and will be published within two weeks from the Settlement Date in the same manner as the Prospectus.

Lock-up Agreement

The Issuer has agreed that in the period of 12 months from the Settlement Date, the Issuer will not, without a prior written consent of the Lead Managers, which shall not be unreasonably withheld, propose or otherwise support an offering of any of the Issuer's shares, announce any intention to offer new shares and/or to issue any securities convertible into the Issuer's stock or securities that in any other manner represent the right to acquire the Issuer's shares, or conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of selling the Issuer's stock.

In addition, the Principal Shareholder has agreed that in the period of 12 months from the Settlement Date, the Principal Shareholder will not, without a prior written consent of the Lead Managers, which shall not be unreasonably withheld, sell or otherwise transfer any Issuer's shares, or propose or otherwise support an offering of any of the Issuer's shares, announce any intention to sell any shares and/or to issue any securities convertible or exchangeable into the Issuer's stock or securities that in any other manner represent the right to acquire the

Issuer’s shares, or conclude any transaction (including any transaction involving derivatives) whose economic effect would be similar to the effect of selling the Issuer’s stock.

Interests of Natural and Legal Persons Participating in the Offering

The Lead Managers have a contractual relationship with the Issuer and the Principal Shareholder in connection with the Offering and the Admission. The Co-Lead Manager acts as subcontractor of the Lead Managers and has been mandated to act as the Offering Agent for the Offering in Poland and listing of the Issuer’s Shares on the WSE.

The Managers advise the Issuer and the Principal Shareholder in connection with the Offering and Admission and coordinate the structuring and execution of the transaction. Furthermore, the Managers are involved in the Prospectus preparation process. If the transaction is successfully executed, the Managers will receive a combined commission which depends on the actual value of sold Offer Shares.

Dom Maklerski BZ WBK S.A. has a contractual responsibility in connection with the Offering and the admission of the Sale Shares to listing and trading on the WSE, and has been mandated to act as the Co-Lead Manager and the Offering and Listing Agent for the Sale Shares.

The Co-Lead Manager advises in connection with the Offering and admission to the offering and listing and is involved into the structuring and execution of the transaction. If the transaction is successfully executed, the Co-Lead Manager will receive a combined commission which depends on the actual value of the Sale Shares sold in the offering.

The Co-Lead Manager or its affiliates may acquire in connection with the Offering the Offer Shares as Investors and hold or sell those Shares for their own account, also outside of the offering period, which shall not constitute a preferential allotment. The Co-Lead Manager does not intend to disclose the extent of such investments or transactions unless required by law.

The Co-Lead Manager and its affiliates have engaged in and may in the future engage in investment banking, advisory services and other commercial dealings in the ordinary course of business with the Company and the Principal Shareholder and any of its affiliates. The Co-Lead Manager and its affiliates may receive in the future receive customary fees and commissions for these transactions and services.

Bank Zachodni WBK S.A., which is an affiliate of the Co-Lead Manager acts as subcontractor of the Lead Managers as advisor in the Offering. The advisor will receive a fee for its services which depends on the actual value of Offer Shares sold in the Offering.

The Managers or their affiliates may acquire in connection with the Offering the Offer Shares as investors and hold or sell those Shares for their own account, also outside of the offering period, which shall not constitute a preferential allotment. The Managers do not intend to disclose the extent of such investments or transactions unless required by law.

The Managers and its respective affiliates have in the past engaged and may in the future engage in investment and commercial banking and other commercial dealings in the ordinary course of business with the Principal Shareholder or with the Issuer, for which they have received customary fees and commissions.

SELLING RESTRICTIONS

Prospectus

This Prospectus constitutes a prospectus within the meaning of the Prospectus Directive and the Prospectus Act 2005 (which implemented the Prospectus Directive into Luxembourg law), for the purpose of giving the information with regard to the Company and the Offer Shares it intends to offer pursuant to this Prospectus which is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company.

This Prospectus constitutes a prospectus in the form of a single document within the meaning of article 5.3 of Prospectus Directive and article 8.3 of the Prospectus Act 2005. This Prospectus has been filed with, and was approved on 29 November 2010 by the CSSF, which is the competent authority in Luxembourg to approve this document as a prospectus. Under the Prospectus Directive and the Prospectus Act 2005, this Prospectus, once approved by the competent authority of one member state of the EU ("Home Member State") may be used for making a public offering and admission of securities to listing on a regulated market in another Member State of the EU ("Host Member State"), provided that the competent authority of the Home Member State provides the competent authority of the Host Member State with a certificate of approval of the Prospectus (in accordance with article 18 of the Prospectus Directive and article 19 of the Prospectus Act 2005).

The Company intends to undertake a public offering of the Offer Shares in Poland. Consequently, the Company will be authorized to carry out the Offering to the public in Poland, once the CSSF has provided the PFSA with (1) a certificate of approval of this Prospectus (in accordance with Art. 19 of the Prospectus Act 2005, Art. 18 of the Prospectus Directive and Art. 37 of the Public Offerings Act) and (2) a copy of the Prospectus together with a summary of the Prospectus in the Polish language and after the Prospectus in the English language and its summary in the Polish language have been made available to the public, which is equivalent to authorizing the Offering to the public in Poland.

No Public Offering outside Poland

This Prospectus has been prepared on the basis that there will be no public offers of the Offer Shares, other than the Offering to the public in the territory of Poland in accordance with the Prospectus Directive, as implemented in Luxembourg and Poland, respectively. Accordingly, any person making or intending to make any offering, resale or other transfer within the European Economic Area (the "EEA"), other than in Poland, of the Offer Shares may only do so in circumstances under which no obligation arises for the Company, the Principal Shareholder or the Managers to produce an approved prospectus or other offering circular for such offering. Neither the Company, the Principal Shareholder, nor the Managers have authorized, nor will any of them authorize, the making of any offer of the Offer Shares through any financial intermediary, other than offers made the Managers under this Prospectus.

No action has been or will be taken by the Company, the Principal Shareholder or the Managers in any jurisdiction other than Poland that would permit a public offering of the Offer Shares, or the possession or distribution of this Prospectus or any other offering material relating to the Company or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of this Prospectus and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions on the distribution of this Prospectus and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. This Prospectus does not constitute an offer to subscribe for or buy any of the Offer Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

European Economic Area

This Prospectus has been approved by the CSSF, being the competent authority in Luxembourg. However, in relation to each member state of the EEA (other than Luxembourg) which has implemented the Prospectus Directive (each, a "Relevant Member State"), the Managers has represented and agreed that it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to that Relevant Member State's competent authority receiving a certificate of approval of the CSSF attesting that the Prospectus has been drawn up in accordance with the Prospectus Act 2005 together with a copy of the Prospectus accompanied, if applicable, by a translation of the summary produced under the responsibility of the Company and the due publication of the Prospectus in accordance with that Relevant Member State's applicable rules, except that it may make an offer of Shares to the public in that Relevant Member State under the following exemptions set out in the Prospectus Directive, provided that such exemptions have been implemented in that Relevant Member State:

– to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

– to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than 43 million EUR and (iii) an annual net turnover of more than 50 million EUR, as shown in its last annual or consolidated accounts;

– to fewer than 100 natural or legal persons in such Relevant Member State or to fewer than 100 natural or legal persons in all Member States, depending on the method of calculation provided for under applicable regulations of such relevant member state; and

– in any other circumstances falling within Art. 3(2) of the Prospectus Directive,

provided that (i) no such offer of Shares shall result in the requirement for the publication by the Company, the Principal Shareholder or any Managers of a Prospectus pursuant to Art. 3 of the Prospectus Directive, and (ii) any such legal or natural person (a "Permitted Investor") is acquiring such Shares either for its own account and not with a view to the Shares being resold or placed within any Relevant Member State other than to other permitted investors or for the account of other Permitted Investors, or (iii) for the account of other persons or entities for whom it makes investment decisions on a wholly discretionary basis.

Each investor who in a Relevant Member State acquires any Offer Shares in the offering shall be taken by so doing to have represented and warranted to the Company, the Principal Shareholder and the Managers that it is a Permitted Investor and that it has complied with any other restrictions applicable to that Relevant Member State.

For the purposes of this provision, the expression an "offer of Shares to the public" in relation to any Shares in any Relevant Member State means the communication, in any form and by any means, of sufficient information on the terms of the Offering and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In addition, in the United Kingdom, this Prospectus may be distributed only to and may be directed only at (a) persons who have professional experience in matters relating to investments who fall within Art. 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (b) high net worth entities falling within Art. 49(2) (a) to (d) of the Order. Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Offer Shares have not been offered or sold and, prior to the expiry of a period of six months from the sale of the Offer Shares, will not be offered or sold to persons in the United Kingdom except to ‘’qualified investors" as defined in section 86(7) of the Financial Services and Markets Act 2000, as amended (the "FSMA"). Each of the Managers has represented, warranted and agreed that:

– it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any the Offer Shares in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

– it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

In relation to member states of the EEA other than the United Kingdom, there may be further rules and regulations of such country or jurisdiction within the EEA relating to the offering of the Offer Shares or distribution or publication of this Prospectus or any other offering material or advertisement; persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the offer of Offer Shares applicable in such EEA member state.

United States

The Offer Shares have not been, and will not be, registered under the US Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions in reliance on Regulation S under the US Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the US Securities Act.

Each of the Managers has agreed that, except as permitted by the Placement Agreement, it will not offer, sell or deliver the Offer Shares within the United States or to, or for the account or benefit of, US persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the closing date, and that it will have sent to each dealer to which it sells Offer Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Offer Shares within the United States or to, or for the account or benefit of, US persons.

This Prospectus has been prepared by the Company for use in connection with the offer and sale of the Offer Shares outside the United States and for the listing of the Offer Shares on the main market of the Warsaw Stock Exchange. The Company and the Managers reserve the right to reject any offer to purchase the Offer Shares, in whole or in part, for any reason.

Canada

This Prospectus is not, and under no circumstances is to be construed as, a Prospectus, an advertisement or a public offering of the securities described herein in any province or territory of Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Japan

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organized under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

CERTAIN LUXEMBOURG AND POLISH REGULATIONS AND PROCEDURES

The information set out below describes certain aspects of Luxembourg and Polish securities market regulation regarding mandatory takeover bids, squeeze-out and sell-out rules that will apply to the Shares once the Shares are admitted to trading on the WSE and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg and Polish securities market regulatory considerations that may be relevant to a decision to acquire, hold or dispose of the Shares. Each prospective investor should consult a professional legal adviser regarding legal consequences of acquiring, holding and disposing of the Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation, in force as at the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

European Union Tender Offer Regulations

In the absence of regulatory guidance, a clear resolution to conflicts of laws issues relating to various tender offer regulatory regimes cannot be provided. The relevant conflict of laws provisions of the Takeover Directive explicitly state that if the offeree company’s shares are not admitted to trading on a regulated market in the Member State in which the company has its registered office, and if the offeree company’s shares are admitted to trading on regulated markets in another Member State, the authority competent to supervise the bid shall be that of the Member State on the market of which the shares are admitted to trading.

In respect of governing law, matters relating to the consideration offered in the case of a bid, in particular the price, and matters relating to the bid procedure, in particular the information on the Managers’ decision to make a bid, the contents of the offer document and the disclosure of the bid, shall be dealt with in accordance with the rules of the Member State of the competent authority. In matters relating to the information to be provided to the employees of the offeree company and in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the applicable rules and the competent authority shall be those of the Member State in which the offeree company has its registered office.

Luxembourg regulations

Luxembourg Mandatory Takeover Bids

The Luxembourg law on public takeovers dated May 19, 2006 (the "Public Takeover Law") applies to takeover bids in relation to the securities of companies governed by the law of a Member State of the European Union or the European Economic Area, when all or some of those securities are admitted to trading on a regulated market in one or more Member States of the European Union or the European Economic Area. The term "securities" refers to shares and global depository receipts.

As far as the competent authority is concerned, the Public Takeover Law states that if the offeree company’s securities are not admitted to trading on a regulated market in the Member State in which such offeree company has its registered office, the competent authority to supervise the bid shall be the authority of the Member State of the regulated market on which the offeree company’s securities are admitted to trading, i.e. in the present case the competent financial authority in Poland.

In relation to matters concerning the information to be provided to the employees of the offeree company and in relation to matters concerning the applicable company law, in particular the percentage of voting rights which confers control (in Luxembourg the threshold is fixed at 33 1/3% of the voting rights) and any derogation from the obligation to launch a bid, as well as the conditions under which the board of the offeree company may undertake any action which might result in the frustration of the bid, the applicable rules and the competent authority shall be those of the Member State where the offeree company has its registered office, i.e. the CSSF which is the competent financial authority in Luxembourg.

Squeeze-out Rules

Under the Public Takeover Law if any natural or legal person holds a total of at least 95% of a company’s share capital carrying voting rights and 95% of such company’s voting rights as a result of a public takeover bid within the meaning of Article 2 (1) a) of the Public Takeover Law regarding the shares of a target company, such person may acquire the remaining shares in the target company by exercising a squeeze-out against the holders of the remaining shares pursuant to Article 15 of the Public Takeover Law.

Sell-out Rules

According to Article 16(1) of the Public Takeover Law, if any natural or legal person, alone or together with persons acting in concert with it, hold(s) a total of at least 90% of a company's share capital carrying voting rights and 90% of such company's voting rights as a result of a public takeover bid regarding the shares of a target company, any shareholder may exercise a sell-out with respect to his/her shares.

Polish regulations

The Takeover Directive allows the Member States to introduce, next to the mandatory takeover bids, additional protection of the interests of the minority shareholders, such as the obligation to make a partial bid where the offeror does not acquire control of the company. Poland introduced such additional instruments.

Pursuant to Article 72 of the Polish Public Offerings Act, any acquisition of shares in a public company in secondary trading and within a period of less than 60 days by a shareholder who holds shares entitling it to less than 33% of votes at a general shareholders' meeting, leading to the increase of its share in the total number of voting rights by more than 10%, shall be effected exclusively through a public tender offer.

Furthermore, any acquisition of shares in a public company by a shareholder who holds shares entitling it to at least 33% of votes at a general shareholders' meeting, in secondary trading and within a period of less than twelve months, leading to the increase of its share in the total number of voting rights by more than 5%, shall be effected exclusively through a public tender offer.

Additionally a shareholder that wishes to cross the 33% voting rights threshold is obliged to launch a public tender for shares that will entitle it to hold 66% of votes. However, if the indicated thresholds are exceeded due to the acquisition of shares in a public offering, in-kind contribution, merger or division of a company, amendments to the articles of incorporation of the company or occurrence of certain other events, the shareholder must either launch a public tender as described above within three months, or sell the appropriate amount of shares so that the number of votes to which the shareholder is entitled is no more than 33% of votes.

It should be noted that Polish law explicitly excludes application of Polish regulations concerning thresholds only with respect to 66% threshold as the mandatory threshold under the Takeover Directive. In such case, Luxembourg threshold of 33 1/3% should apply. On the other hand, the additional threshold of 33% stipulated in Polish law is a separate obligation imposed by Poland irrespective of the Takeover Directive. Therefore, the announcement of a take-over bid when exceeding 33 1/3% of votes to satisfy the obligations imposed by the Takeover Directive should be deemed a different obligation from the obligation to announce a bid for 66% of votes when exceeding 33% of votes to satisfy additional Polish requirements.

The regulations set a number of detailed conditions to be followed in connection with a public tender offer, including without limitation the rules of determining the tender price, required security and settlement.

The Warsaw Stock Exchange

The WSE operates one of the two regulated markets in Poland within the meaning of the MiFID. The other regulated market (BondSpot, the subsidiary of the WSE) concentrates mainly on bond trading and OTC transactions. The WSE is a private joint-stock company and is controlled by the Polish State. Members of the WSE include banks and Polish and international brokers.

Shares listed on the WSE may be traded in a continuous price-setting system or in the single-price auction system, depending on capitalisation and intensity of trading. In addition, there are two markets for shares: Basic and parallel, the latter being for smaller, less liquid issuers. Listed companies are classified into four segments according to their capitalisation: MINUS 5, 5 PLUS, 50 PLUS or 250 PLUS. To be traded in a specific market and segment, certain non-statutory criteria must be met by the securities in addition to the statutory listing criteria. Shares of companies which have high price volatility, or which are under bankruptcy proceedings may be classified into the Alert List segment and then moved to listing under the single-price auction system.

Settlement of all transactions executed on the WSE is handled by the NDS, a joint-stock company in which the WSE has a 33.3% stake (with the remaining shares held by the National Bank of Poland and the State Treasury of the Republic of Poland).

The electronic trading system used by the WSE is WARSET, a trading system similar to the system used in Paris, Brussels, Amsterdam, Chicago, and Singapore.

As of September 1, 2010, shares of 385 companies were listed on the WSE.

TAXATION

The information set out below describes the principal Luxembourg and Polish tax consequences of the acquisition, holding and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg and Polish tax considerations that may be relevant to a decision to acquire, hold or dispose of the Company's Shares. Each prospective investor should consult a professional tax adviser regarding tax consequences of acquiring, holding and disposing of the Company's Shares under the laws of their country and/or state of citizenship, domicile or residence. Should any withholding taxes be payable on amounts payable by the Company, the Company assumes responsibility for withholding of such taxes at the source.

This summary is based on tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as at the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

Taxation in Luxembourg

Please be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate shareholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge, invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Taxation of the Company

Withholding Tax

Dividends paid by the Company to the shareholders are as a rule subject to a 15% withholding tax in Luxembourg. However, subject to the provisions of an applicable double tax treaty, the rate of withholding tax may be reduced. Furthermore, a withholding exemption may apply if at the time the income is made available, (i) the receiving entity is an eligible parent and (ii) has held or commits itself to hold for an uninterrupted period of at least 12 months a participation of at least 10% of the share capital of the Company or a participation of an acquisition price of at least EUR 1.2 million. Eligible parents include either (a) another company covered by Article 2 of the amended EU Parent-Subsidiary Directive, or a Luxembourg permanent establishment thereof, or (b) a company resident in a State having a double tax treaty with Luxembourg and subject to a tax corresponding to Luxembourg corporate income tax or a Luxembourg permanent establishment thereof, or (c) a company limited by share capital (*société de capitaux*) or a cooperative society (*société coopérative*) resident in the European Economic Area other than an EU Member State and liable to a tax corresponding to Luxembourg corporate income tax, or a Luxembourg permanent establishment thereof, or (d) a Swiss company limited by share capital (*société de capitaux*) which is effectively subject to corporate income tax in Switzerland without benefiting from an exemption.

No withholding tax is levied on capital gains and liquidation proceeds.

Income tax

The Company is a fully-taxable Luxembourg company. The net taxable profit of the Company is subject to Luxembourg corporate income tax and municipal business tax.

The taxable profit as determined for corporate income tax purposes is applicable, with minor adjustments, for municipal business tax purposes. Corporate income tax is levied at an effective maximum rate of 21.84% in 2010 (inclusive of the 4% surcharge for the employment fund). Municipal business tax is levied at a variable rate according to the municipality in which the company is located (6.75% in Luxembourg-city). The maximum aggregate corporate income tax and municipal business tax rate consequently amounts to 28.59% for companies located in Luxembourg-city in 2010.

Under the participation exemption regime, dividends derived from shares may be exempt from income tax if (i) the distributing company is a qualified subsidiary ("Qualified Subsidiary") and (ii) at the time the dividend is put at the Company's disposal, the Company has held or commits itself to hold for an uninterrupted period of at least 12 months a qualified shareholding ("Qualified Shareholding"). A Qualified Subsidiary means (a) a company covered by Article 2 of the amended EU Parent-Subsidiary Directive or (b) a non-resident company limited by share capital (*société de capitaux*) liable to a tax corresponding to Luxembourg corporate income tax. A Qualified Shareholding means shares representing a direct participation of at least 10% in the share capital of the Qualified Subsidiary or a direct participation in the Qualified Subsidiary of an acquisition price of at least EUR 1.2 million. Liquidation proceeds are assimilated to a received dividend and may be exempt under the same conditions. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by the Company on shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Under the participation exemption regime, capital gains realized on shares may be exempt from income tax at the level of the Company if at the time the capital gain is realized, the Company has held or commits itself to hold for an uninterrupted period of at least 12 months shares representing a direct participation in the share capital of the Qualified Subsidiary (i) of at least 10% or of (ii) an acquisition price of at least EUR 6 million. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity. Taxable gains are determined as being the difference between the price for which shares have been disposed of and the lower of their cost or book value.

Net Worth Tax

The Company is as a rule subject to Luxembourg net worth tax at the rate of 0.5% applied on net assets as determined for net worth tax purposes. Net worth is referred to as the unitary value (*valeur unitaire*), as determined at 1 January of each year. The unitary value is in principle calculated as the difference between (i) assets estimated at their fair market value (*valeur estimée de réalisation*), and (ii) liabilities vis-à-vis third parties.

Under the participation exemption, a Qualified Shareholding held in a Qualified Subsidiary by the Company is exempt.

Other taxes

The issuance of the Shares against contributions in cash as well as other amendments to its articles of incorporation are currently subject to a EUR 75 fixed duty. The disposal of the Shares is not subject to a Luxembourg registration tax or stamp duty, unless recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

Taxation of the shareholders

Taxation of Luxembourg resident shareholders

Individual shareholders

Dividends and other payments derived from the Shares by resident individuals shareholders, who act in the course of the management of either their private wealth or their professional / business activity, are subject to income tax at the progressive ordinary rate (with a top effective marginal rate of currently 38.95% including solidarity surcharge). Under current Luxembourg tax laws, 50% of the gross amount of dividends received by resident individuals from (i) a fully-taxable Luxembourg resident company limited by share capital (*société de capitaux*), (ii) a company limited by share capital (*société de capitaux*) resident in a State with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg corporate income tax or (iii) a company resident in a EU Member State and covered by Article 2 of the EU Parent-Subsidiary Directive is exempt from income tax. A tax credit is as a rule granted for the 15% withholding tax.

Capital gains realized on the disposal of the Shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative gains and are subject to income tax at ordinary rates if the Shares are disposed of within 6 months after their acquisition or if their disposal precedes their acquisition. A participation is deemed to be substantial where a resident individual shareholder holds, either alone or together with his spouse/partner and/or minor children, directly or indirectly at any time within the 5 years preceding the disposal, more than 10% of the share capital of the Company. Capital gains realized on a substantial participation more than 6 months after the acquisition thereof are subject to income tax according to the half-global rate method, (i.e. the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A shareholder is also deemed to alienate a substantial participation if he acquired free of charge, within 5 years preceding the transfer, a participation that was constituting a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same 5-year period). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the Shares.

Capital gains realized on the disposal of the Shares by resident individual shareholders, who act in the course of their professional / business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Luxembourg resident corporate shareholders

Dividends and other payments derived from the Shares by a Luxembourg fully-taxable resident company are subject to corporate income tax and municipal business tax, unless the conditions of the participation exemption regime, as described below, are satisfied.

Should the conditions of the participation exemption not be fulfilled, 50% of the dividends received by a Luxembourg fully-taxable resident company from the Company are exempt from corporate income tax and municipal business tax. A tax credit is as a rule granted for the 15% withholding tax and any excess may be refundable.

Under the participation exemption regime, dividends derived from the Shares by a Luxembourg fully-taxable resident company may be exempt from income tax if cumulatively (i) the shareholder is a Luxembourg resident fully-taxable company and (ii) at the time the dividend is put at the shareholder's disposal, the shareholder has held or commits itself to hold for an uninterrupted period of at least 12 months a Qualified Shareholding in the Company. Liquidation proceeds are assimilated to receive dividends for the purpose of the participation exemption and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully-taxable resident company on the Shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Under the participation exemption regime, capital gains realized on the Shares by a Luxembourg fully-taxable resident company may be exempt from income tax at the level of the shareholder if cumulatively (i) the shareholder is a Luxembourg resident fully-taxable company and (ii) at the time the capital gain is realized, the shareholder has held or commits itself to hold for an uninterrupted period of at least 12 months Shares representing a direct participation (a) in the share capital of the Company of at least 10% or (b) of an acquisition price of at least EUR 6 million. Shares held through a fiscally transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Tax exempt shareholders

A shareholder who is either (i) a holding company subject to the amended law of July 31, 1929, (ii) an undertaking for collective investment subject to the amended law of December 20, 2002, (iii) a specialized investment fund governed by the law of February 13, 2007 or (iv) a family wealth management company governed by the law of May 11, 2007, is exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the Shares are thus not subject to income tax in their hands.

Taxation of Luxembourg non-residents shareholders

Non-resident shareholders who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the Shares are attributable are generally not liable to any Luxembourg income tax, whether they receive payments of dividends or realize capital gains upon sale of Shares, except for a potential withholding tax (see above) and capital gains realised on a substantial participation (see above) before the acquisition or within the first 6 months of the acquisition thereof that are subject to income tax in Luxembourg at ordinary rates (subject to the provisions of an applicable double tax treaty).

Dividends received by a Luxembourg permanent establishment or permanent representative, as well as capital gains realised on the Shares, are subject to Luxembourg income tax, unless the conditions of the participation exemption regime are satisfied *i.e*. if cumulatively (i) the Shares are attributable to a qualified permanent establishment ("Qualified Permanent Establishment") and (ii) at the time the dividend is put at the disposal of the Qualified Permanent Establishment, it has held or commits itself to hold for an uninterrupted period of at least 12 months a Qualified Shareholding. A Qualified Permanent Establishment means (a) a Luxembourg permanent establishment of a company covered by Article 2 of the EU Parent-Subsidiary Directive, (b) a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) resident in a State having a tax treaty with Luxembourg and (c) a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) or a cooperative society (*société coopérative)* resident in the European Economic Area other than a EU Member State. If the conditions of the participation exemption are not fulfilled, 50% of the gross amount of dividends received by a Luxembourg permanent establishment or permanent representative is exempt from income tax. A tax credit is further granted for the 15% withholding tax.

Under the participation exemption regime, capital gains realized on the Shares may be exempt from income tax if cumulatively (i) the Shares are attributable to a Qualified Permanent Establishment and (ii) at the time the capital gain is realized, the Qualified Permanent Establishment has held or commits itself to hold for an uninterrupted period of at least 12 months Shares representing a direct participation in the share capital of the Company (a) of at least 10% or (b) of an acquisition price of at least EUR 6 million.

Other taxes

Net Wealth Tax

Luxembourg net wealth tax will not be levied on the Shares in the hands of a shareholder unless (i) such shareholder is a corporate entity resident in Luxembourg other than (a) a holding company governed by the amended law of July 31, 1929, (b) an undertaking for collective investment governed by the amended law of December 20, 2002, (c) a securitization company governed by the law of March 22, 2004, (d) a company subject to the law of June 15, 2004 on venture capital vehicles, (e) a specialized investment fund governed by the law of February 13, 2007 or (f) a family wealth management company governed by the law of May 11, 2007, or (ii) the Shares are attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg of a corporate entity. Further, Qualified Shareholding held in the Company by a Luxembourg resident fully-taxable company or attributable to a Qualified Permanent Establishment may be exempt from net wealth tax.

Inheritance tax and gift tax

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the Shares are included in his or her taxable basis for inheritance tax purposes. On the contrary, no inheritance tax is levied on the transfer of the Shares upon death of a shareholder in cases where the deceased was not a resident of Luxembourg for inheritance purposes.

Gift tax may be due on a gift or donation of the Shares, if the gift is embodied in a Luxembourg notarial deed or otherwise registered.

Taxation in Poland

This section provides information regarding the taxation of income related to holding and trading in shares admitted to trading on the regulated market. For the avoidance of doubt, all references to shares presented in this section also pertain to the Shares.

The information presented below is of a general nature and should not constitute the sole basis for evaluating the tax consequences of making any investment decisions. Potential investors are urged to consult their tax advisors. Please note that the information presented below has been prepared based on the legal statutes as at the date of the Prospectus.

Polish Corporate Investors

Taxation of Income Relating to Holding Shares

Dividends and other income (revenue) actually earned on holding shares (such as remuneration for redeemed shares, liquidation proceeds) by legal persons and capital companies in organization, as well as other unincorporated entities (except civil, general, limited partnerships, professional partnerships, and limited joint-stock partnerships) with their registered office or place of management in Poland (the "Polish Corporate Shareholders"), shall be subject to taxation on the general rules under the Corporate Income Tax ("CIT") Act. They are taxed at the basic 19% rate.

Pursuant to Art. 20 section 3 of the CIT Act, an income tax exemption applies to dividends and other revenue earned on the holding of shares in companies whose seat or management office is outside Poland by Polish companies whose worldwide income is subject to CIT in Poland, regardless of where the source of income is located, if all of the following conditions are met:

a) the entity which distributes the dividends and other revenue earned on shares is a company whose worldwide income (regardless of where the source of income is located) is subject to income tax in a European Union Member State other than Poland, or in a other Member State of the European Economic Area;

b) Polish company holds directly not less than 10% of shares in the capital of the company referred to in item (a) above for an uninterrupted period of at least 2 years.

CIT Act expressly provides that in order to benefit from the above exemption, the 2-year holding period requirement may be also met after the dividend is paid, provided that a given taxpayer would actually satisfy that requirement afterwards. Otherwise, a taxpayer who did not meet the 2-year holding period requirement would be obliged to pay the due income tax along with penalty interests.

The above exemption will not apply, however, if distributions are made upon liquidation of a company.

Moreover, dividends paid out by a Luxembourg company to Polish Corporate Shareholders may be exempt from Luxembourg withholding tax under Council Directive of July 23, 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, provided that the conditions specified by the Luxembourgian tax laws are satisfied.

The Double Tax Treaty concluded by the Republic of Poland and Grand Duchy of Luxembourg ("Double Tax Treaty") provides that dividends paid by a company with its registered office in Luxembourg to Polish Corporate Shareholders may be taxed both in Poland and Luxembourg, although such Luxembourg tax cannot exceed 5% of the gross amount of the dividend if the recipient of the dividend is a company (other than a partnership) holding at least 25% of the capital of the Luxembourg company distributing the dividend, or 15% of the gross amount of the dividend in all other situations.

It should be noted that in relation to the dividends which may be subject to taxation in Luxembourg, pursuant to Art. 24 sec. 1(a) of the Double Tax Treaty, an exemption from income tax applies in Poland.

Please note that the method of avoidance of double taxation (i.e. the exemption method) provided by the Double Tax Treaty with reference to dividends which are subject to withholding tax in Luxembourg, is unique compared with other double tax treaties entered into by Poland. Therefore, a tax advisor should be consulted regarding the possibility of applying this method in practice.

Pursuant to the provisions of the Double Tax Treaty, if Polish Corporate Shareholder carries on business in Luxembourg through a permanent establishment situated in Luxembourg (i.e. a fixed place of business through which the business of an enterprise is wholly or partly carried on), and the shares in respect of which the dividends are paid are effectively connected with such permanent establishment, dividends will be taxed in Luxembourg as business profits earned by that permanent establishment.

Taxation of Income from Disposal of Shares

Income earned by Polish Corporate Shareholders on disposal of shares of a Luxembourg company is subject to corporate income tax in Poland in accordance with the general rules. This income is aggregated with the business incomes of the given fiscal year, and subject to the general 19% CIT rate.

The income is computed as the difference between the revenue (in principle, the price agreed for the shares) and tax deductible costs (in principle, the costs of acquisition of the shares and costs related to the sale).

However, it should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, such agreed price may be challenged by the tax authorities.

Polish Individual Investors

Taxation of Income Relating to Holding Shares

Income earned by an individuals domiciled in Poland (the "Polish Individual Shareholders") on dividends from a Luxembourg company is considered to be income from capital gains and it is not aggregated with incomes from other sources. Such income is subject to the 19% flat rate Personal Income Tax ("PIT"). The tax is settled on annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned.

It is not absolutely clear whether the tax due on dividend income earned by a Polish Individual Investor from a Luxembourg company shall be withheld by a Polish brokerage house assisting in the payment or not. On the one hand, there is a regulation (Art. 41 sec. 4 of the PIT Act) that clearly imposes on brokerage houses the obligation to withhold the tax. On the other hand, there is a regulation which provides that amounts of tax due on dividends earned outside Poland and the amounts of tax paid outside Poland on such dividends should be reported by a taxpayer (i.e. Polish Individual Investor) in his annual tax return (Art. 30a sec. 11). Most tax advisers seem to regard the latter provision as overruling the first one, and are thus of the opinion that a Polish brokerage house should not withhold any tax. However, in case of any doubts tax adviser should be consulted by a taxpayer.

The Double Tax Treaty provides that dividends paid by a company with its registered office in Luxembourg to Polish Individual Shareholders may be taxed both in Poland and Luxembourg, but such Luxembourg tax cannot exceed 15% of the gross amount of the dividend.

It should be noted that in relation to dividends which may be subject to tax in Luxembourg, the exemption with the progression method of avoidance of double taxation shall apply in Poland, pursuant to Art. 24 sec. 1(a) of the Double Tax Treaty. In accordance with these provisions, where a Polish Individual Shareholder receives dividends which may be taxed in Luxembourg, the Polish tax authorities shall exempt such income from tax. Nevertheless, when calculating the amount of tax on the remaining income such natural person, should take into account the exempted income from dividends.

Please note that the method of avoidance of double taxation (i.e. the exemption method) provided by the Double Tax Treaty with reference to dividends which are subject to withholding tax in Luxembourg, is unique compared with other double tax treaties entered into by Poland. Therefore, a tax advisor should be consulted regarding the possibility of applying this method in practice.

Pursuant to the provisions of the Double Tax Treaty, if the Polish Individual Shareholder carries on business in Luxembourg through a permanent establishment situated in Luxembourg (i.e. a fixed place of business through which the business of an enterprise is wholly or partly carried on) or performs in Luxembourg independent personal services from a fixed base situated in Luxembourg, and the shares in respect of which the dividends are paid are effectively connected with such permanent establishment or fixed base, dividends will be taxed in Luxembourg as business profits or as income from independent personal services earned by that permanent establishment or fixed base.

Taxation of Income from a Disposal of Shares

Income earned by a Polish Individual Shareholders on sale of shares should be classified as income from capital gains and as such it should not be combined with incomes from other sources but should be subject to the 19% flat PIT rate.

The income is computed as the difference between the revenue earned on disposal of shares (in principle, the price for the shares) and the related costs (in principle, the costs of acquisition of the shares and costs related to the sale). The tax is settled on annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned (this also being the deadline for paying the tax). No obligation exists to pay tax advances during the tax year.

The above is not applicable if a Polish Individual Shareholder holds the shares within the scope of its business activity. If this is the case, the income should be classified as a business income. In such case, income tax shall be paid at the progressive tax rates, which varies from 18% to 32%, or at the 19% flat rate (depending on the form of taxation chosen by the given individual).

It should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, this may be challenged by the tax authorities.

It should also be noted that pursuant to Art. 9 section 6 of the Polish PIT Act, losses incurred during a fiscal year on account of the disposal of shares may be deducted from the income received from that source over five consecutive fiscal years, provided that the amount of the deduction does not exceed 50% of the amount of the loss in any single fiscal year of the five-year period.

Foreign Investors

Individuals who do not have their place of residence in Poland and legal entities, companies in organization and other entities with no legal personality, if they are treated as tax residents under tax law of a given state, that have their registered office and place of management outside Poland are subject to PIT and CIT respectively, only with respect to the profits that are derive sources of income located on the territory of Poland.

Although this is not expressly provided for in Polish tax law, it should be noted that dividends from a Luxembourg company should not be treated as income derived from Poland, even if the company is listed on the Warsaw Stock Exchange. Consequently, it should be noted that dividends paid by a Luxembourg company to a foreign investor should not be subject to Polish income tax.

Polish tax law does not give clear direction on whether income from a sale of shares of a Luxembourg company should be treated as income derived from Poland if the shares are traded on the Warsaw Stock Exchange. It seems that the prevailing approach of the tax authorities is that trades on the Warsaw Stock Exchange shall be treated as, Polish source income. Consequently, as a rule, such income would be subject to Polish income tax and settled on general rules. In practice, however, most of the tax treaties would exempt such income from taxation in Poland. This should be verified on a case-by-case basis.

Tax on Civil Law Transactions

The tax on civil law transactions ("TCLT") is levied on agreements providing for a sale or exchange of rights, provided that these rights are executed in Poland or, if executed abroad, that the purchaser is a Polish tax resident and the transaction is effected in Poland.

The tax rate on the sale of shares and the exchange of shares is 1% at their market value and should be paid within fourteen days of the date on which the tax obligation arose (that is, the date the share or exchange agreement was concluded), unless the sale of shares and the exchange of shares agreements are concluded in a form of a notary deed. In that case the due tax should be collected by the notary public acting as a tax remitter. The purchaser of shares is liable for paying the due tax on civil law transactions. In the case of an exchange of shares, the liability for paying the due tax is borne jointly and severally by the parties to the exchange of shares transaction.

Exemptions from the tax on civil law transactions apply, without limitation, to transactions concerning the sale of financial instruments (including shares) to investment companies or to foreign investment companies or, through them, the sale of such instruments within the boundaries of a regulated market, and the sale of such instruments made by investment companies or foreign investment companies outside the boundaries of a regulated market, provided that such instruments were acquired by those companies within the boundaries of a regulated market, as defined in the Polish Act on Trading in Financial Instruments.

Additionally, civil law transactions are not subject to TCLT if at least one party of a given transaction is subject to VAT or is exempted from VAT with respect to such transaction, however, with exception of sale of shares agreement.

INDEPENDENT AUDITORS

The Financial Statements of the Issuer as at June 30, 2010 were audited by Interaudit s.a.r.l., an independent member of Baker Tilly International, with its seat at 119 avenue de la Faiencerie, L-1511 Luxembourg. Interaudit s.a.r.l. is a member of the "Institut des Reviseurs d'Entreprises" (IRE) and the "Ordre des Experts-comptables" (OEC) in Luxembourg.

Interaudit has given, and has not withdrawn, its written consent to the inclusion of its reports and the reference to themselves herein in the form and context in which they are included. Interaudit has no interest in the Company. The signatory of the independent auditors' report on the Financial Statements of the Issuer on behalf of Interaudit s.a.r.l. is Edward Kostka.

The Combined Financial Statements for the years ended December 31, 2009, December 31, 2008 and December 31, 2007 presented in the Prospectus were audited by BakerTilly Ukraine LLC, with its seat at 28 Fizkultury Street, Kyiv 03680, Ukraine.

The Interim Combined Financial Statements and Consolidated pro-forma financial information presented in the Prospectus were reviewed by BakerTilly Ukraine LLC, with its seat at 28 Fizkultury Street, Kyiv 03680, Ukraine.

BakerTilly Ukraine LLC has also issued a report on the forecasts included in the Prospectus.

BakerTilly Ukraine LLC is a member of the Ukrainian Chamber of Audit – the professional organisation of auditors in Ukraine.

BakerTilly Ukraine LLC has given, and has not withdrawn, its written consent to the inclusion of its reports and the reference to themselves herein in the form and context in which they are included. BakerTilly Ukraine LLC has no interest in the Company.

The signatory of the independent auditors' reports on the Combined Financial Statements, Interim Combined Financial Statements, pro-forma financial information and forecasts on behalf of BakerTilly Ukraine LLC is Alexander Pochkun.

BakerTilly Ukraine LLC, with its seat at 28 Fizkultury Street, Kyiv 03680, Ukraine, an independent auditor of the Group, has issued a report on the forecast and gave its consent to include the report in the Prospectus.

ADDITIONAL INFORMATION

Capitalized terms used in this Prospectus and not otherwise defined herein have the meaning ascribed to such terms in Annex I "*Defined Terms*" and certain industry terms and other technical terms used in this Prospectus are explained in Annex II "*Defined Technical Terms*".

This Prospectus has been prepared by the Company in connection with the Offering and Admission solely for the purpose of enabling a prospective investor to consider an investment in the Offer Shares. The information contained in this Prospectus has been provided by the Company and other sources identified herein.

Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should, therefore, read this Prospectus in its entirety, and in particular, a section "*Risk Factors*", when considering an investment in the Offer Shares. The contents of this Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice and not rely exclusively on the legal, financial or tax information contained in this Prospectus.

Save for the provisions of mandatory laws, no person is or has been authorized to give any information or to make any representation in connection with the Offering and/or Admission, other than as contained in this Prospectus, and if given or made, any other information or representation must not be relied upon as having been authorized by the Company, or by the Managers.

The corporate governance structure of the Company is set out in its Articles of Association which are available on the Company's website: www.sadovayagroup.com

Responsibility for this Prospectus

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Neither the delivery of this Prospectus nor any sale made hereby at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or any of its subsidiaries or the Company and its subsidiaries taken as a whole (the "Sadovaya Group", the "Group") since the date hereof or that the information contained herein is correct as of any date subsequent to the earlier of the date hereof or any date specified with respect to such information.

Neither the Managers nor the legal advisers to the Company accept any responsibility whatsoever for the contents of this Prospectus, or for its transaction, or for any other statement made or purported to be made by any of them or on their behalf in connection with the Company or the Offering. The Managers and the legal advisers to the Company accordingly disclaim all and any liability whether arising in tort or contract which they might otherwise have in respect of this Prospectus or any such statement. No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of the information set forth herein and nothing contained in this Prospectus is, or shall be relied upon as a promise or representation, whether as to the past or the future.

Notice to Prospective Investors

The distribution of this Prospectus and the Offering of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or any solicitation or invitation to purchase, any of the Offer Shares offered hereby in any jurisdiction in which such an offer or solicitation or invitation would be unlawful. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions, including those set out under "*Selling Restrictions*". Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition to the purchase of any Offer Shares in the Offering, each purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties and will be required to take certain actions described in particular in "*The Offering and Plan of Distribution*", which will be relied upon by the Company, the Managers and others. The Company and the Principal Shareholder reserve the right, in its sole and absolute discretion, to reject any purchase of Offer Shares that the Company, the Principal Shareholder, the Managers or any agents believe may give rise to a breach or a violation of any law, rule or regulation. See, in particular: "*Selling Restrictions*".

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other Unites States regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Presentation of Financial and Other Information

In this Prospectus, the terms "Issuer", "Company", "Sadovaya Group", "Group" and similar terms refer to Sadovaya Group S.A. and its direct and indirect consolidated subsidiaries, unless the context requires otherwise. Unless otherwise noted, references to "management" are to the members of the Board of Directors and the Senior Management, and statements as to the Company's beliefs, expectations, estimates and opinions are to those of the Company's management. The term "Operating Companies", refers to Ukrainian companies Shahta Sadovaya LLC, Shahta Rassvet-1 LLC, Donvostok STB LLC, Interinvest LLC, Interdon and Volat-Trans and term "Group Subsidiaries" refers to any direct or indirect subsidiary of the Company, if the context indicates.

The Company maintains its financial statements (the "IFRS Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC") and as applicable in the respective years.

The IFRS Financial Statements included in this Prospectus comprise: (i) the audited financial statements of the Issuer for the financial year ended 30 June 2010; (ii) the audited combined financial statements of the Group as at and for each of the past three years ended December 31, 2007, 2008 and 2009, respectively, and (iii) reviewed combined interim financial statements of the Group for the first half of the financial year ended June 30, 2010 together with comparative financial information as of June 30, 2009. In addition, we provide pro forma financial information to show the effect of acquisition of control of the Operating Companies by the Issuer.

The financial statements included in the Prospectus are presented in USD which is the accounting currency of the Group. The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the Combined Financial Statements, which have been prepared based on the Group Subsidiaries' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in tables in this Prospectus have also been rounded and accordingly the totals in these tables may not add up to 100 per cent.

Unless otherwise indicated, all references in this Prospectus to "US$" or "USD" are to the lawful currency of the United States and all references to "EUR", "Euro" or "€" are to the lawful currency of the European Economic and Monetary Union, of which Luxembourg is a member. References to "UAH" or "Hryvnia" are to the lawful currency of Ukraine, whereas all references to "PLN" and "Polish zloty" are to the lawful currency of Poland.

Potential investors should consult their own professional advisers to gain an understanding of the financial information contained herein.

Mineral Experts Report

IMC-Montan Consulting GmbH, with seat at Am Technologiepark 1,D-45307 Essen, Germany (the "Technical Expert") has prepared an estimate of reserves and resources held by the Company (the "Technical Report"). The Technical Report is reproduced in Annex III of the Prospectus with the consent of the Technical Expert.

Qualifications of consultants preparing the Technical Report are provided in Annex A to the Technical Report. The Technical Expert does not have any interest in the Issuer.

Market, Economic and Industry Data

All references to market, economic or industry data, statistics and forecasts in this Prospectus consist of estimates compiled by professionals, state agencies, market and other organisations, researchers or analysts, publicly available information from other external sources as well as our knowledge of our sales and markets and assessments made by our management.

Certain statistical data and market, economic or industry information and forecasts relating to the world and Ukrainian mining industry and market have been extracted and derived by the Company from reports and analysis produced by, *inter alia*, the following sources:

- information available on website owned and operated by the State Statistics Committee of Ukraine (www.ukrstat.gov.ua);
- statistical data of National Bank of Ukraine (www.bank.gov.ua);
- statistical data of National Bank of Poland (www.nbp.gov.pl).

While the Company has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Company nor the Managers have independently verified that data. The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by the cited sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. Subject to the foregoing, none of the Company or the Managers can assure investors of the accuracy or completeness of, or take any responsibility for, such data. The source for such third party information is cited whenever such information is used in this Prospectus.

With respect to industries in which the Group operates, some of estimates and assessments could not be substantiated by reliable external market and/or industry information as such information is not often available or may be incomplete. While the Company has taken every reasonable care to provide the best possible assessments of the relevant market situation and the information about the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigations of the relevant markets or employ a professional consultant. Industry publications generally state that their information is obtained from sources they believe reliable, but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. The Company has relied on the accuracy of such data and statements without carrying out an independent verification thereof, and therefore cannot guarantee their accuracy and completeness. Furthermore, the Company believes that its management's estimates and assessments are accurate and reliable; however, they have not been verified by independent external professionals. Consequently, the Company can guarantee neither their accuracy and completeness nor that estimates or projections made by another entity relying on other methods of collecting, analysing and assessing market data would be the same as the Company's.

Save where required by mandatory provisions of laws, the Company does not intend and do not undertake to update market, economic or industry data, statistics and forecasts contained in this Prospectus. Industry trends may change or significantly differ from the one projected in this Prospectus. Therefore investors should be aware that estimates made in this Prospectus may not be relied upon as indicatives of our future performances and actual trends.

In this Prospectus, the Company makes certain statements regarding its competitive position, growth and market leadership. The Company believes these statements to be true based on market data and industry statistics regarding the competitive position of certain of the Group's competitors. In presenting the overview of the Group's competitive position in the relevant markets, the Company also relied on management's assessments and analysis of such competitive position. In making such assessments and analysis the management has used market information collected by its own employees and advisors for such purpose, either available on the basis of public information or derivable from the same.

Documents Incorporated by Reference

No documents or content of any website are incorporated by reference in this Prospectus.

Forward-looking Statements

Some of the statements in some of the sections in this Prospectus include forward-looking statements which reflect the Company's current views with respect to future events and financial performance of its Group. Such forward-looking statements can be identified by the use of forward-looking terminology, including the terms such as "believes", "expects", "estimates", "anticipates", "intends", "plans", "may", "will", "should", "would", "could" or, in each case, their negatives or other variations or comparable terms. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. Such items in this Prospectus include, but are not limited to, statements under "*Risk Factors*", "*Business Description*", "*Industry Overview*" and "*Operating and Financial Review*".

By their nature, forward-looking statements involve known and unknown risk and uncertainty, and other factors that may cause the Group's actual results, performances and achievements to differ materially from any future results, performances, achievements or developments expressed in or implied by such forward-looking statements. The Company has based these forward-looking statements on numerous assumptions regarding the Group's present and future business strategies, the Group's current expectations and projections about future events and the environment in which the Group will operate in the future. These forward-looking statements are subject to risks, uncertainties and assumptions about the Group, including, among other things:

- the Group's ability to develop and expand its business;
- the Group's ability to keep up with new technologies and expand into new markets;
- the Company's and the Group Subsidiaries ability to control their costs;
- the Group's future capital spending and availability of financial resources to finance capital spending;
- political and economic conditions in the countries in which the Group Subsidiaries operate;
- volatility in the world's securities markets;
- the effects of regulation (including tax regulations) in Luxembourg and other countries in which the Group Subsidiaries operate.

The forward-looking statements speak only as at the date of this Prospectus. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, whether to reflect any new information, future events, any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statements is based, except as required by law, including under the Prospectus Act 2005 and the Polish Public Offerings Act.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Prospective investors are cautioned not to place undue reliance on such forward-looking statements, which are based on facts known to the Company only as at the date of this Prospectus.

Documents Available for Inspection

Copies of the following documents will, when published, be available for inspection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company from the date of this Prospectus throughout its validity period:

- the most recent version of the Articles of Association;
- the Audited Financial Statements of the Issuer for the year ended 30 June 2010, together with the auditor's reports;
- the Reviewed Interim Financial Statements of the Group for the six months ended June 30, 2010 together with comparable data for the six months ended June 30, 2009, together with the auditor's reports;
- the Audited Combined Financial Statements of the Group for the past three financial years ended December 31, 2007, 2008 and 2009, together with the auditor's reports;
- the Pro-forma Financial Information together with the auditor's report;
- the Technical Report;
- this Prospectus (including a summary translated into the Polish language) and supplements thereto, if any;
- copies of all corporate resolutions mentioned in this Prospectus.

Moreover, the following documents will be available through the Company's website www.sadovayagroup.com;

- this Prospectus together with a summary translated into the Polish language, and supplements and update reports to the Prospectus;
- the most recent version of the Articles of Association.

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Unaudited Pro Forma Consolidated Financial Information

SADOVAYA GROUP S.A.

Unaudited Pro Forma Consolidated Financial Information

for the six months ended 30 June 2010

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Auditor’s Report on the unaudited Pro Forma Financial Information

Auditors' Report on the unaudited Pro Forma Financial Information

BAKER TILLY UKRAINE

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The Directors

SADOVAYA GROUP S.A.

412 F, route d'Esch, L-2086 Luxembourg

10 November 2010

Dear Sirs

SADOVAYA GROUP S.A. (the "Company") and its subsidiaries (together, the "Group")

We report on the Unaudited Pro Forma Consolidated Financial Information (the "Pro Forma Financial Information") set out in the Group's prospectus dated November 2010 (the "Prospectus"), which has been prepared by the Group on the basis described in the Prospectus, for illustrative purposes only, to provide information about how the Operations (as defined in Note 2) might have affected the financial information of the Group, if these Operations had been completed by 30 June 2010. The Pro Forma Financial Information has been prepared for illustrative purposes; it addresses a hypothetical situation and does not represent the actual financial position of the Group as of 30 June 2010. This report is required by item 20 2 of Annex I to the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended (the "Prospectus Regulation") and is given solely for the purpose of complying with the Prospectus Regulation.

Responsibilities

It is the responsibility of the directors of the Group to prepare the Pro Forma Financial Information in accordance with the requirements of the Prospectus Regulation, in particular item 20.2 of Annex I and Annex II to the Prospectus Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II to the Prospectus Regulation as to the proper compilation of the Pro forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the Prospectus Regulation, consenting to its inclusion in the Prospectus.

an independent member of
BAKER TILLY
INTERNATIONAL

Basis of opinion

We conducted our work in accordance with International Standards on Assurance Engagements 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Group.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Group.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Pubic Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Group.

Yours faithfully,

Alexander Pochkun

«БЕЙКЕР ТІЛЛІ УКРАЇНА» Ідентифікаційний код 30373906

BAKER TILLY UKRAINE

Independent member of Baker Tilly International

Reg.# 1614

Overview

The unaudited pro forma consolidated financial information (the "Pro Forma Financial Information") has been prepared to provide information about how the Operations (as defined below) might have affected the financial information of the Group, if these Operations had been completed by 30 June 2010. This Pro Forma Financial Information has been prepared for illustrative purposes, it addresses a hypothetical situation and does not represent the actual financial position of the Group as of 30 June 2010. The Pro Forma Consolidated Financial Information has been prepared in accordance with the accounting policies adopted by the Group and the Prospectus Regulation.

Description of Operations

The group of Sadovaya Group S.A. currently includes the following Companies:

Group's Company	**Kind of activity**	**Country of incorporation**
Sadovaya Group S.A.	Parent company	Luxemburg
Sadovaya LLC	Intermediate holding company	Cyprus
Interdon	Processing of waste dumps	Ukraine
Interinvest LLC	The Company has machinery which is used by the Group	Ukraine
Shahta Sadovaya LLC	Mining and sale of coal, wholesale of coal	Ukraine
Donvostok STB LLC	Transportation	Ukraine
Shahta Rassvet-1 LLC	Mining and sale of coal, wholesale of coal	Ukraine
Volat trans LLC	The Company has machinery which is used by the Group	Ukraine

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, with declared, but unpaid share capital in the amount of USD 215 000. After Sadovaya Group S.A. paid up the share capital of Sadovaya LLC, Sadovaya LLC purchased shares in the six Ukrainian companies from Connectico LLC. As a result of these transactions (the "Operations") as of October 2010

(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.

The Pro Forma Consolidated Financial Information reflects the financial information on the Group as of 30 June 2010 in a hypothetical situation that the Operations had been completed before 30 June 2010 and Sadovaya Group S.A. had been a parent company of the Group on 30 June 2010.

Basis of Preparation

The transactions described in Note 1 were made between companies which are under common control they are presented in this Pro Forma Consolidated Financial Information using pooling of interests method (merger method). This method supposes following:

- assets and liabilities of united companies are presented at their book cost;

- the difference between the consideration paid and value of the share in net assets "acquired" owned is recognized as part of capital

- all intra-group transactions and balances are eliminated in full.

This unaudited Pro Forma Consolidated Financial Information was prepared on the basis of unaudited combined interim financial statements of six Ukrainian companies and audited stand-alone financial statements of Sadovaya Group S.A., which were prepared in accordance with International Financial Reporting Standards.

To prepare this Pro Forma Consolidated Financial Information the same accounting policies as for combined financial statements of Sadovaya Group for the year ended 31 December 2009 were used.

Unaudited pro forma consolidated income statement

for the six months ended 30 June 2010

	Historical unadjusted information	Pro forma adjustments		Resulting pro forma financial information
	Sadovaya Group S.A. (audited)	**Six Ukrainian Companies (unaudited)**	**Notes**	**Sadovaya Group S.A. (unaudited)**
Revenue	-	19 145 293	(2a)	19 145 293
Cost of sales	-	(13 737 591)	(2a)	(13 737 591)
Gross profit		**5 407 702**		**5 407 702**
Selling and distribution expenses	-	(102 319)	(2a)	(102 319)
General administrative expenses	(8 459)	(402 231)	(2a)	(410 690)
Other income/(expenses), net	-	(736 351)	(2a)	(736 351)
Operating profit/(loss)	**(8 459)**	**4 166 801**		**4 158 342**
Finance expenses	-	(1 497 346)	(2a)	(1 497 346)
Finance income	-	194 776	(2a)	194 776
Profit/(loss) before tax	**(8 459)**	**2 864 231**		**2 855 772**
Income tax	2 418	373 230	(2a)	375 648
Profit/(loss) for the period	**(6 041)**	**3 237 461**		**3 231 420**
Attributable to:				
Equity holders of the parent	-	3 198 390	(2b)	3 198 390
Non-controlling interests	-	33 030	(2b)	33 030

Unaudited pro forma statement of comprehensive income

for the six months ended 30 June 2010

	Historical unadjusted information	Pro forma adjustments		Resulting pro forma financial information
	Sadovaya Group S.A. (audited)	**Six Ukrainian Companies (unaudited)**	**Notes**	**Sadovaya Group S.A. (unaudited)**
Profit for the period	**(6 041)**	**3 237 461**		**3 231 420**
Other comprehensive income				
Exchange differences on translation in presentation currency	-	246 861		246 861

Other comprehensive income for the period	-	**246 861**		**246 861**
Total comprehensive income for the period	**-**	**3 484 322**		**3 484 322**
Attributable to:				
Equity holders of the parent	-	3 448 983	(2b)	3 448 983
Non-controlling interests	-	35 339	(2b)	35 339

Unaudited pro forma consolidated statement of financial position

as at 30 June 2010

	Historical unadjusted information	Pro forma adjustments		Resulting pro forma financial information
	Sadovaya Group S.A.	Six Ukrainian Companies	Notes	Sadovaya Group S.A.
	(audited)	(unaudited)		(unaudited)
Assets				
Non-current assets				
Property, plant and equipment	-	30 671 952	(3a)	30 671 952
Intangible assets	-	449 256	(3a)	449 256
Deferred tax assets	2 416	959 970	(3a)	962 386
	2 416	32 081 178		32 083 594
Current assets				
Inventories	-	8 754 257	(3a)	8 754 257
Trade and other receivables	-	5 079 904	(3a)	5 079 904
Prepayments and deferred expenses	-	3 588 580	(3a)	3 588 580
Income tax prepayment	-	4 149	(3a)	4 149
Other financial assets	-	2 155 339	(3a)	2 155 339
Cash and cash equivalents	36 412	86 853	(3b)	123 265
	36 412	19 669 082		19 705 494
Total assets	**38 828**	**51 750 260**		**51 789 088**
Equity and liabilities				
Equity				
Share capital	38 055	280 000	(3c)	318 055
Retained earnings	(6 041)	14 721 953	(3c)	14 715 912
Revaluation reserve	-	18 101 024	(3d)	18 101 024
Effect of foreign currency translation	(205)	(8 762 468)	(3d)	(8 762 673)
	31 809	24 340 509		24 372 318
Non-controlling interests		229 376		229 376
Total equity	**31 809**	**24 569 885**		**24 601 694**
Non-current liabilities				
Employee benefit liability	-	1 568 016	(3a)	1 568 016
Provisions	7 019	895 027	(3a)	902 046
Deferred tax liability	-	6 980 843	(3a)	6 980 843
	7 019	9 443 886		9 450 905

Current liabilities				
Trade and other payables	-	3 529 105	(3a)	3 529 105
Loans and borrowings	-	14 186 304	(3a)	14 186 304
Income tax payable	-	19 697	(3a)	19 697
Provisions	-	1 383	(3a)	1 383
	-	17 736 489		17 736 489
Tatal liabilities	**7 019**	**27 180 375**		**27 187 394**
Total equity and liabilities	**38 828**	**51 750 260**		**51 789 088**

Explanatory Notes to the Pro Forma Financial Information:

1. The consolidated statement of financial position of the Group as at 30 June 2010 and the consolidated income statement and the consolidated statement of comprehensive income for the six months ended 30 June 2010 have been extracted without material adjustments from the historical financial information.

2. Adjustments to the pro forma consolidated income statement and the pro forma statement of comprehensive income of the Group are as follows:

a) Items are extracted from the accounts of the entities without material adjustments;

b) Total comprehensive income for the period has been allocated between equity holders and non-controlling interests because that 1% stakes in “Interinvest” LLC, “Shahta “Sadovaya” LLC, “Shahta “Rassvet-1” LLC and “Donvostok STB” LLC were left in the possession of beneficial shareholders;

3. Adjustments to the pro forma consolidated statement of financial position of the Group are as follows:

a) Items are extracted from the accounts of the entities without material adjustments;

b) The difference between total consideration paid (USD 196 067) and the total amount of equity increase (USD 280 000) is shown as increase in cash item in amount of USD 83 933;

c) The difference between the consideration paid and value of the share in net assets “acquired” owned in the amount of USD 14 721 953 was recognized as part of retained earnings as if Sadovaya LLC purchased shares in the six Ukrainian companies on 30 June 2010;

d) Revaluation reserve and Effect of foreign currency translation, which are reflected in 6 Ukrainian companies as at 30 June 2010 have been allocated between equity holders and non-controlling interests.

AUDITED INTERIM CONDENSED FINANCIAL STATEMENTS OF THE ISSUER AS AT JUNE 30, 2010

SADOVAYA GROUP S.A.
(formerly ERCEVAL FINANCE S.A.)
Luxembourg
RCS Lux B 153.489

INTERIM CONDENSED FINANCIAL STATEMENTS
As at June 30, 2010
AND
INDEPENDENT AUDITOR'S REPORT

SADOVAYA GROUP S.A.
(formerly ERCEVAL FINANCE S.A.)

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interaudit

Cabinet de révision agréé

To the Sole Shareholder of
SADOVAYA GROUP S.A.
(formerly ERCEVAL FINANCE S.A.)
412F, route d'Esch
L-2086 Luxembourg

Independent auditor's report on the interim condensed financial statements as at June 30, 2010

We have audited the accompanying interim condensed financial statements of SADOVAYA GROUP S.A. (formerly ERCEVAL FINANCE S.A.) as at June 30, 2010 which comprise the interim condensed statement of financial position and the related interim condensed income statement, statement of changes in shareholder's equity and statement of cash flow for the period from May 31, 2010 (date of incorporation) to June 30, 2010, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the interim condensed financial statements

The Board of Directors is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union ("IAS 34"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of interim condensed financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the independent auditor

Our responsibility is to express an opinion on these interim condensed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the interim condensed financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim condensed financial statements. The procedures selected depend on the judgment of the independent auditor, including the assessment of the risks of material misstatement of the interim condensed financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the interim condensed financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Director, as well as evaluating the overall presentation of the interim condensed financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the interim condensed financial statements give a true and fair view of the financial position of SADOVAYA GROUP S.A. (formerly ERCEVAL FINANCE S.A.) as of June 30, 2010, and of the results of its financial performance and its cash flows for the one-month period from May 31, 2010 (date of incorporation) to June 30, 2010 in accordance with IAS 34.

Luxembourg, October 15, 2010

INTERAUDIT S.à r.l.

Edward KOSTKA

For the period from May 31, 2010 (date of incorporation) to June 30, 2010

Interim condensed income statement

USD	Note	2010
Administrative expenses	6	-8.459,88
Operating loss		**-8.459,88**
Income tax	8	2.418,69
Loss for the period		**-6.041,20**
Loss for the period attributable to the equity holder		**-6.041,20**
Earnings per share		
Basic		**-19,49**
Diluted		**-19,49**

Interim condensed statement of comprehensive income

USD	
Loss for the period	**-6.041,20**
Other comprehensive income	
Currency translation adjustment	**-205,31**
Total comprehensive income for the period	**-6.246,51**
Total comprehensive income attributable to the equity holder	**-6.246,51**

Interim condensed statement of financial position

USD	Note	2010
ASSETS		
Current assets		
Cash and cash equivalents	3(b)-9	36.412,20
Deferred tax assets	3(e)-8	2.416,49
Total current assets		**38.828,69**
TOTAL ASSETS		**38.828,69**
EQUITY AND LIABILITIES		
Equity		
Equity attributable to the equity holder of the Company		
Share capital	3(d)-11	38.055,60
Retained earnings	3(f)-12	-6.041,20
Currency translation adjustment		-205,31
Equity attributable to the equity holder of the Company		**31.809,09**
Total equity		**31.809,09**
Current liabilities		
Trade and other payables	3(c)-10	7.019,60
Total current liabilities		**7.019,60**
TOTAL EQUITY AND LIABILITIES		**38.828,69**

Statement of changes in equity

	Equity attributable to the equity holder of the Company			
USD	Share capital	Retained earnings	Currency translation adjustment	Total equity
Opening balance	-	-	-	-
Loss for the period		-6.041,20		-6.041,20
Other comprehensive income :				
Currency translation adjustment			-205,31	-205,31
Total comprehensive income for the period		**-6.041,20**	**-205,31**	**-6.246,51**
Shares issued during the period	38.055,60			38.055,60
Balance at 30 June 2010	**38.055,60**	**-6.041,20**	**-205,31**	**31.809,09**

Statement of cash flow	
USD	2010
Cash flow from operating activities	
Loss for the period from continuing operations before tax	-8.459,88
Changes in operating assets and liabilities	7.025,98
Cash flow from operating activities - net	**-1.433,90**
Cash flow from financing activities	
Shares issued	38.055,60
Cash flow from financing activities - net	**38.055,60**
Net increase in cash and cash equivalents	**36.621,70**
Effects of exchange rates on cash and cash equivalents	**-209,50**
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	**36.412,20**

1. Reporting entity

Sadovaya Group S.A. (formerly Erceval Finance S.A.) (the "**Company**") is a company domiciled in Grand-Duchy of Luxembourg. The address of the Company's registered office is 412F, Route d'Esch L-2086 Luxembourg. The interim condensed financial statements of the Company have been drawn as at and for the period from incorporation on May 31, 2010 to June 30, 2010.

The Company was formed for the acquisition of interests in any from whatsoever in other Luxembourg or foreign companies and any other form of Investment, the acquisition by purchase, subscription or in any other manner as well as the transfer by sale, exchange or in any other manner of securities of any kinds or of any liquid funds, the management, supervision and development of these interests.

2. Basis of preparation

(a) Statement of compliance

The interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IAS 34 - interim financial reporting) as adopted by the European Union (EU).

(b) Basis of measurement

The interim condensed financial statements have been prepared on a going concern basis under the historical cost basis.

(c) Functional and reporting currency

These interim condensed financial statements are presented in United States dollars ("USD"), which is the Company's reporting currency for the Company's management purposes. Its functional currency is the Euro (''EUR'').

	Closing date	Average rate for the period
EUR/USD	1.22080	1.22191

(d) Standards and interpretations issued but not yet effective as at the date of authorization of the interim financial reporting:

A number of new standards, amendments to standards and interpretations are not yet effective at June 30, 2010 and have not been applied in preparing these interim condensed financial statements.

(e) Use of estimates and judgments

The preparation of the interim condensed financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(f) Segmental reporting

The Company had no activity from May 31, 2010 (date of incorporation) to June 30, 2010. Therefore, segmental reporting is not relevant for these interim condensed financial statements.

3. Summary of significant accounting policies

The accounting policies set out below have been applied in these interim condensed financial statements, and have been applied consistently by the Company.

(a) Foreign currency

Foreign currency transactions

In preparing these interim condensed financial statements, no transactions in currencies other than the Company's functional currency have been recorded. Currency translation adjustments have been recognized for the translation of the financial statements from the functional currency (EUR) to the reporting currency (USD).

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash deposits with original maturities of three months or less.

The carrying amount of cash and cash equivalents approximates their fair value.

(c) Trade and other payables

Interim condensed financial statements are prepared in the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur and they are recorded in the accounting records and reported in the reporting of financial position of the periods to which they relate. Their carrying amounts approximate their fair value.

(d) Share capital

Share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders. Share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss account as accrued.

Incremental costs directly attributable to the issue of the shares are recognized as a deduction from equity, net of any tax effects.

(e) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(e) Income tax (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences : the initial recognition of assets or liabilities in a transaction

that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(f) Earnings per share

The Company presents basic and diluted earnings per share (‘”EPS”) data for its shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Group by the weighted average number of shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding, adjusted for own shares held, for the effects of all dilutive potential shares.

4. Related parties and ultimate controlling party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The definition is not restricted ; it also includes individual.

At October 5, 2010, the shareholder of the Company is CONNEKTICO VENTURES LIMITED, Cyprus.

5. *Financial risk management*

The Company is not significantly exposed to interest rate risk, credit risk, liquidity risk and currency risk from the financial instruments it holds.

6. *Administrative Expenses*

Administrative expenses are accounted for on an accrual basis.

	USD
Bank fees	212.62
Accounting and audit fees	3,512.99
Other fees	4,734.27
	8,459.88

7. *Revenues*

The Company has booked no revenues for the period from May 31, 2010 (date of incorporation) to June 30, 2010. The Company has neither engaged any operations nor generated any revenues to date.

8. *Income tax*

Income tax

Current tax expense	-
Deferred tax credit	2,418.69
	2,418.69

Loss before tax	8,459.88
Income tax rate applicable in Luxembourg	28.59%
Income tax income	2,418.69

A total amount of USD 2,418.69 of deferred tax assets has been recognized in relation with tax losses to carry forward given that the Management considers it probable that future taxable profits will be available to utilize tax losses to carry forward generated.

9. Cash and cash equivalent

	USD
Cash account	36,412.20
	36,412.20

10. Trade and other payables

	USD
Trade and other payables	7,019.60
	7,019.60

The Management considers that the carrying amounts of trade and other payables approximate their fair value.

11. Share capital

Subscribed capital	USD
310 shares within a nominal value of EUR 100.00 each	38,055.60
TOTAL	**38,055.60**

The Company was incorporated on May 31, 2010 with a share capital of EUR 31,000 represented by 310 Shares.

12. Earnings per share

The calculation of basic and diluted earnings per share as at June 30, 2010 was based on the loss attributable to the equity holder of USD 6,041.20, and a weighted average number of shares outstanding during the period of 310.

There is no dilutive impact as at June 30, 2010.

Loss for the period	-6,041.20
Weighted average number of shares	310
Basic earnings per share	- 19.49
Diluted earnings per share	- 19.49

13. Events after the balance sheet date

On October 13, 2010, the sole shareholder decided to change the Company's name into "SADOVAYA GROUP S.A.".

AUDITED COMBINED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEARS ENDED December 31, 2009, 2008 AND 2007

Group of companies “Shahta “Sadovaya”

Special Purpose Combined Financial Statements

for the years ended 31 December 2009, 31 December 2008 and 31 December 2007

& INDEPENDENT AUDITOR'S REPORT

Contents

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INDEPENDENT AUDITOR'S REPORT

To the owners of: "Shahta"Sadovaya" LTD, "Shahta"Rassvet-1" LTD, "Volat Trans" PE, "Interinvest" LTD, "Interdon" PE, "Donvostok" LTD, which together comprise the Group of companies "Shahta "Sadovaya".

Report on the special purpose combined financial statements

We have audited special purpose combined financial statements of the Group of companies "Shahta "Sadovaya" (the Group hereinafter), which comprise the special purpose combined statement of financial position as at 31 December 2009, 31 December 2008 and 31 December 2007, special purpose combined income statement and special purpose combined statement of comprehensive income, special purpose combined statement of changes in equity and special purpose combined statement of cash flows for the years ended 31 December 2009, 31 December 2008 and 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the special purpose combined financial statements

Management is responsible for the preparation and fair presentation of these special purpose combined financial statements in accordance with the Basis of preparation described in p.2.1 of the accompanying special purpose combined financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of special purpose combined financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these special purpose combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special purpose combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

1. We have not received sufficient evidence concerning the nature and completeness of the transactions with certain counterparties in respect of the formation of cost of inventories, dividend distribution, trade and other accounts payable. As a result, we are not able to confirm in full the cost of sales in the Group's special purpose combined income statement, the amount of dividends in the special purpose combined statement of changes in equity for the years ended 31 December 2009, 31 December 2008, 31 December 2007. We are also not able to confirm that trade and other accounts payable are recorded in full in the special purpose combined statements of financial position as at 31 December 2009, 31 December 2008 and 31 December 2007.

Qualified Opinion

In our opinion, except for the effect on the special purpose combined financial statements of the matters referred to in the preceding paragraph, the special purpose combined financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, 31 December 2008, 31 December 2007, its operating results and cash flows for the years ended 31 December 2009, 31 December 2008, 31 December 2007 in accordance with the Basis of preparation described in p.2.1 of the accompanying special purpose combined financial statements.

Emphasis of matter

Without qualifying our opinion, we draw your attention to:

As indicated in Note 2.1. "Basis of preparation", the special purpose combined financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standarts Board, except for IFRS 3 "Business Combinations".

Interpretation of the transactions described in Note 27 "Contingent assets and liabilities" by the Ukrainian tax authorities may differ from their understanding by the Group, which may result in additional income tax and value added tax obligations. Ukrainian tax authorities did not make any additional charges in addition to the declared taxes in the submitted tax returns for the years ended 31 December 2009, 31 December 2008, 31 December 2007. Based on this experience the Group does not recognize any additional allowances or liabilities, and we are not able to estimate amounts of such additional allowances and liabilities, should they arise in future.

Limitation in use

This report is intended solely for the purpose of incorporation into the prospectus of Sadovaya Group S.A., the parent company of the Group incorporated in Luxembourg (the "Issuer"), which prospectus is to be submitted to the Luxembourg capital markets authority in connection with the proposed public offering of the Issuer's shares and listing at the Warsaw Stock Exchange. This report cannot be distributed to any other counterparty without our written consent.

Managing Partner

"BAKER TILLY UKRAINE" LLP

Alexander Pochkun

22 October 2010

Kiev, Ukraine

Registration # 1606

Special purpose combined income statement
for the year ended 31December 2009, 2008, 2007

	Note	2009	2008	2007
Revenue	6	13 322 222	98 888 042	43 150 993
Cost of sales	7	(17 470 418)	(67 289 305)	(35 359 649)
Gross profit		**(4 148 196)**	**31 598 737**	**7 791 344**
Selling and distribution expenses	9	(520 313)	(2 337 672)	(1 148 424)
General administrative expenses	8	(556 391)	(752 938)	(573 147)
Other income/(expenses), net	10	(2 071 696)	(397 431)	(171 923)
Operating profit/(loss)		**(7 296 596)**	**28 110 696**	**5 897 850**
Finance expenses	12	(2 288 131)	(2 628 230)	(1 167 888)
Finance income	11	336 771	443 992	848 174
Profit/(loss) before tax		**(9 247 956)**	**25 926 458**	**5 578 136**
Income tax expense		836 183	(641 340)	(222 846)
Profit/(loss) for the period		**(8 411 773)**	**25 285 118**	**5 355 290**

Notes on pages 11-48 are the integral part of these special purpose combined financial statements

Special purpose combined statement of comprehensive income

for the year ended 31 December 2009, 2008, 2007

	2009	2008	2007
Profit for the year	**(8 411 773)**	**25 285 118**	**5 355 290**
Other comprehensive income			
Revaluation of non-current assets	-	27 470 641	-
Income tax effect	-	(6 867 660)	-
	-	**20 602 981**	**-**
Exchange differences on translation in presentation currency	(1 067 214)	(8 021 949)	-
Other comprehensive income for the year	**(1 067 214)**	**12 581 032**	-
Total comprehensive income for the year	**(9 478 987)**	**37 866 150**	**5 355 290**

Notes on pages 11-48 are the integral part of these special purpose combined financial statements

Special purpose combined statement of financial position

as at 31December 2009, 2008, 2007

	Note	2009	2008	2007
Assets				
Non-current assets				
Property, plant and equipment	16	31 493 825	34 500 528	10 596 322
Intangible assets	17	463 469	172 840	291 376
Other financial assets	18	-	1 676 729	2 130 497
Deferred tax assets	15	718 521	477 883	562 360
Prepayments	21	-	4 755	-
		32 675 815	36 832 735	13 580 555
Current assets				
Inventories	19	7 144 660	8 798 977	6 679 981
Trade and other receivables	20	4 699 338	7 602 701	6 056 438
Prepayments and deferred expenses	21	2 747 764	2 052 519	1 007 941
Other financial assets	18	1 940 259	-	19 083
Cash and cash equivalents	22	39 678	1 405 124	1 210 212
		16 571 699	19 859 321	14 973 655
Total assets		**49 247 514**	**56 692 056**	**28 554 210**
Equity and liabilities				
Equity				
Share capital	23	2 778 491	2 140 594	2 140 594
Retained earnings		13 517 875	20 147 427	7 059 451
Revaluation reserve		19 057 707	21 089 213	589 677
Effect of foreign currency translation		(9 089 163)	(8 021 949)	-
		26 264 910	35 355 285	9 789 722
Non-current liabilities				
Loans and borrowings	18	1 627	41 904	2 475 248
Employee benefit liability	24	1 264 114	807 567	526 393
Provisions	26	811 499	709 990	1 558 282
Deferred tax liability	15	7 085 674	7 959 767	1 084 841
		9 162 914	9 519 228	5 644 764
Current liabilities				
Trade and other payables	25	2 885 890	2 668 081	5 591 131
Loans and borrowings	18	10 932 826	9 128 793	7 487 129
Income tax payable		974	20 669	41 464
		13 819 690	11 817 543	13 119 724
		22 982 604	21 336 771	18 764 488
Total equity and liabilities		**49 247 514**	**56 692 056**	**28 554 210**

Notes on pages 11-48 are the integral part of these special purpose combined financial statements

Special purpose combined statement of changes in equity

for the year ended 31 December 2009, 2008, 2007

	Share capital	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total capital
As at 31December 2006	**1 427 723**	**6 703 948**	**673 675**	**-**	**8 805 346**
Profit for the period	–	5 355 290	–	–	5 355 290
Depreciation transfer	–	83 998	(83 998)	–	–
Total comprehensive income	–	5 439 288	(83 998)	–	5 355 290
Increase in share capital	198 020	–	–	–	198 020
Establishment of the Group	514 851	–	–	–	514 851
Dividends	–	(5 083 785)	–	–	(5 083 785)
As at 31 December 2007	**2 140 594**	**7 059 451**	**589 677**	–	**9 789 722**
Profit for the period	–	25 285 118	–	–	25 285 118
Other comprehensive income	–	–	20 602 981	(8 021 949)	12 581 032
Depreciation transfer	–	103 445	(103 445)	–	–
Total comprehensive income	–	25 388 563	20 499 536	(8 021 949)	37 866 150
Dividends	–	(12 300 587)	–	–	(12 300 587)
As at 31 December 2008	**2 140 594**	**20 147 427**	**21 089 213**	**(8 021 949)**	**35 355 285**
Profit for the period	–	(8 411 773)	–	–	(8 411 773)
Other comprehensive income	–	–	–	(1 067 214)	(1 067 214)
Depreciation transfer	–	2 031 506	(2 031 506)	–	–
Total comprehensive income	–	(6 380 267)	(2 031 506)	(1 067 214)	(9 478 987)
Increase in share capital	637 897	–	–	–	637 897
Dividends	–	(249 285)	–	–	(249 285)
As at 31December 2009	**2 778 491**	**13 517 875**	**19 057 707**	**(9 089 163)**	**26 264 910**

Notes on pages 11-48 are the integral part of these special purpose combined financial statements

Special purpose combined statement of cash flows

for the year ended 31 December 2009, 2008, 2007

Operating activities	2009	2008	2007
Profit/(loss) before tax	(9 247 956)	25 926 458	5 578 136
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	3 738 613	1 712 263	1 092 135
(Profit)/loss on disposal of property, plant and equipment and intangible assets	353 767	(103 676)	(5 934)
Revaluation of property, plant and equipment	-	130 156	-
Impairment of receivables	383 748	205 785	10 637
Shortages and losses from impairment of inventory	11 851	114 990	38 270
Net profit on exchange differences	(137 523)	(71 537)	-
Finance expenses	2 288 131	2 628 230	1 167 888
Finance income	(336 771)	(443 992)	(848 174)
Movements in provisions, pensions	499 575	643 046	341 415
Working capital adjustments:			
(Increase)/decrease in trade and other receivables and prepayments	1 675 038	(7 920 837)	(3 080 521)
Decrease in inventories	1 361 744	(6 546 542)	(4 022 263)
Increase in trade and other payables	320 058	(482 708)	3 572 950
	910 275	**15 791 636**	**3 844 539**
Interest received	5 352	8 764	366
Income tax paid	(52 018)	(250 958)	(77 078)
Net cash flows from operating activities	**863 610**	**15 549 442**	**3 767 827**

Notes on pages 11-48 are the integral part of these special purpose combined financial statements

Special purpose combined statement of cash flows (continued)
for the year ended 31 December 2009, 2008, 2007

Investing activities			
Proceeds from sale of property, plant and equipment	58 944	464 453	7 586
Purchase of property, plant, equipment and intangible asset	(2 636 050)	(3 224 116)	(3 575 721)
Proceeds from sale of financial instruments	-	18 732	-
Proceeds from paying off of borrowings, employees loans and other loans issued	-	(952 613)	(309 307)
Net cash flows used in investing activities	**(2 577 106)**	**(3 693 544)**	**(3 877 442)**
Financing activities			
Proceeds from borrowings	2 182 823	33 551 834	14 869 307
Repayment of borrowings	(39 746)	(29 710 037)	(7 974 257)
Interest paid	(2 159 489)	(2 396 249)	(1 139 645)
Dividends paid	(249 285)	(12 300 587)	(5 083 785)
Increase in share capital and establishment of the Group	637 255	555 366	517 267
Net cash flows from/(used in) financing activities	**371 559**	**(10 299 673)**	**1 188 887**
Net increase in cash and cash equivalents	**(1 341 937)**	**1 556 224**	**1 079 272**
Net foreign exchange difference	(23 509)	(1 361 312)	(10 608)
Cash and cash equivalents at 1 January	1 405 124	1 210 212	141 548
Cash and cash equivalents at 31 January	**39 678**	**1 405 124**	**1 210 212**

Notes on pages 11-48 are the integral part of these special purpose combined financial statements

Notes to the special purpose financial statements

1. General information

The Group of Companies “Shahta “Sadovaya” (“the Group”) comprises 6 companies, operating in spheres indicated below. These special purpose combined financial statements include financial statements of the Group’s Companies. Mr. Tolstoukhov A.Y. and Mr. Stetsurin S.N. are ultimate Group’s owners. Note 23 contains detailed information about ownership ratios.

Group’s Company	Country of incorporation	Kind of activity
“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

“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. Today the Company has 7 coal beds, with general quantity of inventories equalling to– 33 mln. tonnes of coal. The Group employs more than 800 employees. Mining is carried out under the ground. There are 3 production and 8 development faces.
“Shahta”Rassvet-1” LTD has been founded on the bases of “Shahta”Rassvet-1” State OJSK GP SHC "Zhovtenvuhillya" and was registered on 18 May 2007. Basic activity of the Company is mining and coal cleaning. The Company does not have its own processing plant, that’s why in future it plans to buy a dry cleaning coal machine, that will give possibility to dispatch qualitative coal in competitive prices.
“Volat Trans” PE was founded on 25 January 2006. Basic type of services rendered is lease of vehicles. In 2008 there was a significant increase in property, plant and equipment that allows to develop scope of work and to take competitive position at the market. Today 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.
Issue of the Group's special purpose combined financial statements for the year ended 31 December 2007, 2008, 2009 was approved by the Decision of the Board of Directors dated 30 August 2010.

2.1 Basis of preparation

This report is intended solely for the purpose of incorporation into the prospectus of Sadovaya Group S.A., the parent company of the Group incorporated in Luxembourg (the "Issuer"), which prospectus is to be submitted to the Luxembourg capital markets authority in connection with the proposed public offering of the Issuer's shares and listing at the Warsaw Stock Exchange.

The special purpose combined financial statements have been prepared on a historical cost basis, except for property, plant and equipment and available-for-sale financial assets at fair value. The special purpose combined financial statements are presented in US dollars and all values are rounded to the whole number except when otherwise indicated.

Essential accounting estimates, valuation figures and assumptions, used for preparation of the financial statements were described in the Note 3.

Statement of compliance

The special purpose combined 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), except for IFRS 3 “Business combination”.

Basis of combination

The Group comprises the Companies, which are under the common control of the majority ultimate owners, but are not connected by the formal structure and have no single parent company. The special purpose combined financial statements were prepared for the purpose of the presentation of combined balances and transactions results, which show that the Group is under the common control of the majority ultimate owners.

Business combination, which includes the Companies under the common control is not regulated by IFRS 3 ”Business combination”, therefore financial statements were prepared by means of summarising of the share capital, assets, liabilities, revenues and expenses of the Companies, which are under the common control of the majority ultimate owners. 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 all the Group’s entities is the Ukrainian Hrivnia (“UAH”).
Presentation currency of the special purpose combined financial statements is the US Dollar.
The principal UAH exchange rates used in the preparation of special purpose combined financial statements are as follows:

31 December 2006	2007	31 December 2007	2008	31 December 2008	2009	31 December 2009
5,05	5,05	5,05	5,28	7,7	7,79	7,98

i) Transactions and balances

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

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

All differences are taken to the income statement.

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

ii) Translation into presentation currency

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

(a) assets and liabilities for each statement of financial position presented are translated at the official rate at the date of the balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates on the dates of the transactions;

(c) share capital is translated at historical exchange rate;

(d) revaluation reserve is translated at historical exchange rate;

(e) all resulting exchange differences are recognized as a separate component of other comprehensive income;

(f) line items of the statement of cash flows are translated at average exchange rates of the appropriate reporting period.

b) Revenue recognition

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

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

Sale of goods

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

Rendering of services

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

Interest income

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

Rental income

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

c) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. In Ukraine the income tax rate is 25%.

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

Deferred tax

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

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

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

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

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

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

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

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

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

Value added tax

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

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

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

d) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

e) Intangible assets

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

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

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

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

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

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

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

f) Leases

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

Group as a lessee

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

Group as a lessor

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

g) Borrowing costs

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

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

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

h) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

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

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through

profit or loss, directly attributable transaction costs.

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

Subsequent measurement

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

Loans and receivables

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

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

Available-for-sale financial investments

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

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

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

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

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

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

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

Derecognition

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

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

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

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

Derecognition

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

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

iii) Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

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

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

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

Available-for-sale financial investments

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

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

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

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

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

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

iv) Offsetting of financial instruments

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

v) Fair value of financial instruments

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

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

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

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

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 futere 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

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

Net realisable value of inventories

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

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

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

Taxes

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

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

Pension benefits

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

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

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

Fair value of financial instruments

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

4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issue of the Group's financial statements are listed below.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted.

IFRS 7 Financial Instruments: Disclosures - Financial instrument disclosure exemptions - the amendments to the transitional provisions (effective from 1 July 2010);

IFRS 9 Financial Instruments: Classification and Measurement - phase 1 of the accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement (effective from 1 January 2013);

IAS 24 Related Party Disclosure - a revised version of the standard that clarifies and simplifies the definition of a related party (effective from 1 January 2011);

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - this amendment will allow entities that were subject to minimum funding requirements and could not treat any surplus in a defined benefit pension plan as an economic benefit, to recognize a prepayment of pension contributions as an asset rather than an expense (effective from 1 January 2011);

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - clarifications to the treatment of financial liabilities that are settled with equity instruments (effective from 1 July 2010);

IFRS 3 Business Combinations - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; Measurement of non-controlling interests; Un-replaced and voluntarily replaced share-based payment awards (effective from 1 July 2010);

IFRS 7 Financial Instruments: Disclosures - Clarifications of disclosures (effective from 1 January 2011);

IAS 1 Presentation of Financial Statements - Clarification of statement of changes in equity (effective from 1 January 2011);

IAS 27 Consolidated and Separate Financial Statements - Transition requirements for amendments made as result of IAS 27 application (effective from 1 July 2010).

5. Operating segment information

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

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

Segment performance is evaluated based on operating profit or loss.
Group financing activities, administrative expenses, selling and distribution expenses and income taxes are managed on 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 combined.

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

Year ended 31 December 2009	**Trade activities**	**Mining and coal cleaning**	**Processing of waste dumps**	**Others**	**Adjustments and eliminations**	**Total**
Revenue						
External customer	2 467 728	10 760 665	3 109	90 720	-	13 322 222
Inter-segment	-	-	-	422 412	(422 412)	-
Revenue-total	**2 467 728**	**10 760 665**	**3 109**	**513 132**	**(422 412)**	**13 322 222**
Financial results						
Depreciation and amortisation	-	(3 405 286)	(83 078)	(215 610)	(34 639)	(3 738 613)
Segment profit	**(1 090 215)**	**(2 742 209)**	**(8 880)**	**(306 892)**	**(5 099 760)**	**(9 247 956)**
Operating assets	**2 565 183**	**35 869 249**	**587 964**	**959 612**	**9 265 506**	**49 247 514**
Operating liabilities	**-**	**2 075 613**	**-**	**-**	**20 906 991**	**22 982 604**
Other disclosures						
Capital expenditure	-	2 202 759	74 787	-	21 588	2 299 134

1. Inter-segment revenues are eliminated on combination.
2. Profit for each operating segment does not include finance income (336 771), finance expenses (2 288 131), selling and distribution expenses (520 313), administrative expenses (556 391), and other income/(expenses), net (2 071 696).
3. Segment assets do not include cash and cash equivalents (39 678), other financial assets (1 940 259), prepayments (1 744 305), deferred tax assets (718 521), trade and receivables (4 699 338), property plant equipment (123 405), as these assets are managed on a group basis.
4. Segment liabilities do not include income tax payable (974), loans and borrowings (10 934 453), trade and other payables (2 885 890), deferred tax liabilities (7 085 674), as these assets are managed on a group basis.
5. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Year ended 31 December 2008	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	56 347 452	40 491 059	521 295	1 528 236	-	98 888 042
Inter-segment	-	-	-	1 849 687	(1 849 687)	-
Revenue-total	**56 347 452**	**40 491 059**	**521 295**	**3 377 923**	**(1 849 687)**	**98 888 042**
Financial results						
Depreciation and amortisation	-	(1 400 325)	(70 038)	(200 342)	(41 558)	(1 712 263)
Segment profit	**18 748 669**	**12 133 941**	**355 718**	**360 409**	**(5 672 279)**	**25 926 458**
Operating assets	**4 418 261**	**37 128 177**	**618 478**	**1 244 945**	**13 282 195**	**56 692 056**
Operating liabilities	**-**	**1 517 557**	**-**	**-**	**19 819 214**	**21 336 771**
Other disclosures						
Capital expenditure	-	2 117 133	138 649	776 826	189 470	3 222 078

1. Inter-segment revenues are eliminated on combination.
2. Profit for each operating segment does not include finance income (443 992), finance expenses (2 628 230), selling and distribution expenses (2 337 672), administrative expenses (752 938), and other income/(expenses), net (397 431).
3. Segment assets do not include cash and cash equivalents (1 405 124), other finance assets (1 676 729), prepayments (1 966 677), deferred tax assets (477 883), trade and other receivables (7 602 701), property plant equipment (153 081), as these assets are managed on a group basis.
4. Segment liabilities do not include income tax payable (20 669), loans and borrowings (9 170 697), trade and other payables (2 668 081), deferred tax liabilities (7 959 767), as these assets are managed on a group basis.
5. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Year ended 31 December 2007	Trade activities	Mining and coal cleaning	Processing of waste dumps	Others	Adjustments and eliminations	Total
Revenue						
External customer	24 609 122	17 704 391	315 424	522 056	-	43 150 993
Inter-segment	-	-	-	943 457	(943 457)	-
Revenue-total	**24 609 122**	**17 704 391**	**315 424**	**1 465 513**	**(943 457)**	**43 150 993**
Financial results						
Depreciation and amortisation		(846 448)	(64 664)	(125 751)	(55 271)	(1 092 134)
Segment profit	**4 423 319**	**3 025 760**	**113 450**	**228 815**	**(2 213 208)**	**5 578 136**
Operating assets	**2 058 124**	**13 890 909**	**711 386**	**931 022**	**10 962 769**	**28 554 210**
Operating liabilities	**-**	**2 084 675**	**-**	**-**	**16 679 813**	**18 764 488**
Other disclosures						
Capital expenditure	-	4 156 173	319 656	460 872	105 658	5 042 359

1. Inter-segment revenues are eliminated on combination.

2. Profit for each operating segment does not include finance income (848 174), finance expenses (1 167 888), selling and distribution expenses (1 148 424), administrative expenses (573 147), and other income/(expenses), net (171 923).
3. Segment assets do not include cash and cash equivalents (1 210 212), other finance assets (2 149 580), prepayments (890 482), deferred tax assets (562 360), trade and other receivables (6 056 438), property plant equipment (93 699), as these assets are managed on a group basis.
4. Segment liabilities do not include income tax payable (41 464), loans and borrowings (9 962 377), trade and other payables (5 591 131), deferred tax liabilities (1 084 841), as these assets 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

	2009	2008	2007
Ukraine	12 157 573	97 195 369	43 150 993
Export	1 164 649	1 692 673	-
	13 322 222	**98 888 042**	**43 150 993**

6. Revenue

	2009	2008	2007
Revenue from sales of finished goods	10 763 774	41 012 354	18 019 843
Revenue from sales of merchandise	2 467 728	56 347 454	24 609 094
Revenue from rendering of services	64 243	1 095 851	234 930
Revenue from lease	26 477	432 383	287 126
	13 322 222	**98 888 042**	**43 150 993**

7. Cost of sales

	2009	2008	2007
Change in finished goods and work-in-progress	1 119 539	3 485 376	756 230
Held for resale merchandise	(3 557 943)	(37 598 783)	(20 185 803)
Raw materials	(9 889 012)	(22 132 102)	(10 211 317)
Wages and salaries of operating personnel	(2 024 379)	(6 099 217)	(3 110 966)
Depreciation of non-current assets	(2 380 472)	(1 378 170)	(944 435)
Energy supply	(395 157)	(796 755)	(529 128)
Subcontractors services	(262 262)	(2 546 718)	(1 003 291)
Taxes and obligatory payments	(80 732)	(222 936)	(130 939)
	(17 470 418)	**(67 289 305)**	**(35 359 649)**

8. Administrative expenses

	2009	2008	2007
Wages and salaries of administrative personnel	(319 260)	(517 319)	(332 227)
Utilities	(38 172)	(54 980)	(29 863)
Depreciation of non-current assets	(32 741)	(38 700)	(51 604)
Cost of transportation	(9 376)	(16 192)	(19 069)
Professional services	(134 485)	(103 861)	(115 964)
Other expenses	(22 357)	(21 886)	(24 420)
	(556 391)	**(752 938)**	**(573 147)**

9. Selling and distribution expenses

	2009	2008	2007
Delivery costs	(219 108)	(863 270)	(467 737)
Raw materials	(120 659)	(933 370)	(411 322)
Wages and salaries of distribution personnel	(41 361)	(157 507)	(100 186)
Depreciation of non-current assets	(86 347)	(195 417)	(85 727)
Other expenses	(52 838)	(188 108)	(83 452)
	(520 313)	**(2 337 672)**	**(1 148 424)**

10. Other income/(expenses), net

	2009	2008	2007
Net income from exchange differences	137 523	71 537	-
Income from sale of foreign currency	78 396	60 406	-
Profit/(loss) from sale of property, plant and equipment	(297 169)	120 883	5 934
Revaluation increase in non-current assets	-	74 705	-
Other operating income	20 975	110 004	17 757
Fines and penalties accrued	(293 303)	(96 475)	(42 830)
Shortages and losses from impairment of inventories	(11 851)	(114 990)	(38 270)
Wages and salaries of non-operating personnel	(8 053)	(3 588)	(33 691)
Impairment of receivables	(383 748)	(205 785)	(10 637)
Expenses for researches and developments	(2 397)	(61 911)	(42 343)
Charity	-	(27 349)	(15 135)
Writing-off of non-current assets	(56 598)	(17 207)	-
Revaluation decrease in non-current assets	-	(204 861)	-
Cost of idle capacity	(1 205 897)	(94 430)	(10 309)
Other expenses	(49 574)	(8 370)	(2 399)
	(2 071 696)	**(397 431)**	**(171 923)**

As at 31 December 2009 cost of idle capacity includes: depreciation of idle assets in amount of USD 1 058 806 (as at 31 December 2008 – USD 94 430, as at 31 December 2007 – USD 10 309), wages of workers for idle period in amount USD 43 036, subcontractors services to maintain property in working condition in amount USD 104 055.

11. Finance income

	2009	2008	2007
Interest received	5 352	8 764	366
Income from borrowings and receivables at amortized cost	331 419	435 228	847 808
	336 771	**443 992**	**848 174**

12. Finance expenses

	2009	2008	2007
Interest expenses	(1 822 104)	(2 162 142)	(1 120 427)
Borrowing costs	(337 385)	(234 107)	(19 218)
Effect of reserve discounting	(128 642)	(231 981)	(28 243)
	(2 288 131)	**(2 628 230)**	**(1 167 888)**

13. Depreciation of non-current assets

	2009	2008	2007
Depreciation of property, plant and equipment, recognised in:			
cost of sales	(2 358 677)	(1 349 210)	(941 261)
administrative expenses	(32 429)	(38 591)	(51 569)
selling and distribution expenses	(86 347)	(195 417)	(85 727)
other expenses (temporarily idle capacity)	(1 058 806)	(94 430)	(10 306)
expenses on creation of other assets	(172 569)	(5 507)	-
Amortization of intangible assets, recognized in:			
cost of sales	(21 795)	(28 960)	(3 174)
administrative expenses	(312)	(109)	(35)
deferred expenses	(7 678)	(39)	(63)
	(3 738 613)	**(1 712 263)**	**(1 092 135)**

14. Employee benefit expenses

	2009	2008	2007
Wages and salaries	(1 649 381)	(4 083 098)	(2 175 548)
Contributions to Pension Fund	(571 229)	(1 381 090)	(730 549)
Other contributions	(262 307)	(625 177)	(327 973)
Net plan expenses	(518 441)	(701 467)	(343 000)
	(3 001 358)	**(6 790 832)**	**(3 577 070)**

Average number of employees, persons	618	1 064	801

Wages and salaries of operating personnel	(1 505 938)	(5 397 750)	(2 767 966)
Wages and salaries of administrative personnel	(319 260)	(517 319)	(332 227)
Wages and salaries of distribution personnel	(41 361)	(157 507)	(100 186)
Wages and salaries of non-operating personnel	(8 053)	(3 588)	(33 691)
Wages and salaries of personnel involved in production of property, plant and equipment	(353 401)	(13 201)	-
Wages and salaries of personnel recognized as deferred expenses	(254 904)	-	-
Net plan expenses	(518 441)	(701 467)	(343 000)
	(3 001 358)	**(6 790 832)**	**(3 577 070)**

15. Income tax

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

Special purposes combined income statement

	2009	2008	2007
Current income tax charge	(32 586)	(243 066)	(116 813)
Deferred income tax benefit/(loss) relating to origination and reversal of temporary differences	868 769	(398 274)	(106 033)
Income tax expense reported in the income statement	**836 183**	**(641 340)**	**(222 846)**

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

	2009	2008	2007
Accounting profit before tax	**(9 247 956)**	**25 926 458**	**5 578 136**
At Ukraine's statutory income tax rate of 25%	2 311 989	(6 481 615)	(1 394 534)
Effect of permanent differences	(1 475 806)	5 840 275	1 171 688
At the effective income tax rate	**836 183**	**(641 340)**	**(222 846)**

Deferred income tax relates to the following:

	Combined statement of financial position		**Combined income statement**	**Combined statement of comprehensive income**
	2009	**2008**	**2009**	**2009**
Deferred tax assets				
Prepayments received	26 169	277	25 892	-
Trade receivables	114 300	24 486	89 814	-
Provisions	202 875	177 498	25 377	-
Defined benefit plan obligations	321 988	207 879	114 109	-
Charged vacation expenses	53 189	67 743	(14 554)	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(6 211 515)	(7 065 604)	854 089	-
Inventories	(384 566)	(461 806)	77 240	-
Prepayments and deferred expenses	(207 418)	(223 574)	16 156	-
Other financial assets	(282 175)	(208 783)	(73 392)	-
Effect of translation into presentation currency			(245 962)	-
Deferred income tax (expenses)/benefits			**868 769**	**-**
Net deferred tax asset/(liability)	**(6 367 153)**	**(7 481 884)**		

	Combined statement of financial position		Combined income statement	Combined statement of comprehensive income
	2008	**2007**	**2008**	**2008**
Deferred tax assets				
Property, plant and equipment and intangible assets	-	1 886	(1 886)	-
Prepayments received	277	730	(453)	-
Trade receivables	24 486	582	23 904	-
Provisions	177 498	389 571	(212 073)	-
Defined benefit plan obligations	207 879	132 830	75 049	-
Charged vacation expenses	67 743	36 762	30 981	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(7 065 604)	(711 824)	513 880	(6 867 660)
Inventories	(461 806)	(158 193)	(303 613)	-
Prepayments and deferred expenses	(223 574)	(3 008)	(220 566)	-
Other financial assets	(208 783)	(211 817)	3 034	-
Effect of translation into presentation currency			(306 531)	-
Deferred income tax (expenses)/benefits			**(398 274)**	**(6 867 660)**
Net deferred tax asset/(liability)	**(7 481 884)**	**(522 481)**		

	Combined statement of financial position		Combined income statement	Combined statement of comprehensive income
	2007	**2006**	**2007**	**2007**
Deferred tax assets				
Property, plant and equipment and intangible assets	1 886	-	1 886	-
Prepayments received	730	672	58	-
Trade receivables	582	16 446	(15 864)	-
Other financial assets	-	265	(265)	-
Provisions	389 571	43 118	346 453	-
Defined benefit plan obligations	132 830	47 625	85 205	-
Charged vacation expenses	36 762	16 930	19 832	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(711 824)	(400 067)	(311 757)	-
Inventories	(158 193)	(134 333)	(23 860)	-
Prepayments and deferred expenses	(3 008)	(7 104)	4 096	-
Other financial assets	(211 817)	-	(211 817)	-
Effect of translation into presentation currency			-	-
Deferred income tax (expenses)/benefits			**(106 033)**	**-**
Net deferred tax asset/(liability)	**(522 481)**	**(416 448)**		

Reconciliation of deferred tax assets/(liabilities):

As at 31December 2006	**(416 448)**
Deferred income tax benefits/(expenses) for the reporting period, recognised in the profit or loss	(106 033)
As at 31December 2007	**(522 481)**
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	(398 274)
Deferred income tax benefits /(expenses) for the reporting period, recognised in other comprehensive income	(6 867 660)
Effect of translation into presentation currency	306 531
As at 31December 2008	**(7 481 884)**
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	868 769
Effect of translation into presentation currency	245 962
As at 31December 2009	**(6 367 153)**

16. Property, plant and equipment

	Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in-progress	Total
Cost							
As at 31 December 2006	**2 330 608**	**4 068 101**	**554 136**	**29 694**	**96 861**	**742 357**	**7 821 757**
Additions	2 509 572	1 655 339	193 723	55 253	52 185	576 287	**5 042 359**
Disposals	(234 609)	(4 712)	(22 770)	(566)	(5 788)	-	**(268 445)**
Transfer	60 014	129 895	-	-	-	(189 909)	**-**
As at 31 December 2007	**4 665 585**	**5 848 623**	**725 089**	**84 381**	**143 258**	**1 128 735**	**12 595 671**
Additions	1 218 343	1 119 221	443 163	47 554	76 152	317 645	**3 222 078**
Disposals	(762 860)	(318 671)	(186 274)	(3 418)	(29 881)	-	**(1 301 104)**
Transfer	117 749	375 065	-	-	-	(492 814)	**-**
Revaluation	23 858 806	8 541 922	25 301	8 863	1 536	-	**32 436 428**
Effect of translation into presentation currency	(1 869 838)	(2 415 218)	(341 947)	(44 802)	(65 920)	(342 082)	**(5 079 807)**
As at 31 December 2008	**27 227 785**	**13 150 942**	**665 332**	**92 578**	**125 145**	**611 484**	**41 873 266**
Additions	1 718 741	540 605	-	-	21 588	18 200	**2 299 134**
Disposals	-	(571 821)	-	(1 696)	(2 888)	-	**(576 405)**
Effect of translation into presentation currency	(1 010 569)	(468 598)	(23 826)	(3 263)	(4 921)	(22 297)	**(1 533 474)**
As at 31 December 2009	**27 935 957**	**12 651 128**	**641 506**	**87 619**	**138 924**	**607 387**	**42 062 521**
Accumulated depreciation							
As at 31 December 2006	**(543 799)**	**(486 771)**	**(44 465)**	**(10 334)**	**(92 143)**	**-**	**(1 177 512)**
Additions	(374 007)	(556 249)	(108 193)	(6 206)	(44 207)	-	**(1 088 862)**
Disposals	234 608	4 712	21 654	416	5 635	-	**267 025**

As at 31 December 2007	**(683 198)**	**(1 038 308)**	**(131 004)**	**(16 124)**	**(130 715)**	**-**	**(1 999 349)**
Additions	(701 554)	(784 500)	(141 181)	(14 868)	(41 052)	-	**(1 683 155)**
Disposals	1 652	183 540	48 245	1 177	28 513	-	**263 127**
Revaluation	(3 086 408)	(1 992 927)	(15 168)	(3 916)	2 476	-	**(5 095 943)**
Effect of translation into presentation currency	459 693	549 315	74 691	9 938	48 945	-	**1 142 582**
As at 31 December 2008	**(4 009 815)**	**(3 082 880)**	**(164 417)**	**(23 793)**	**(91 833)**	**-**	**(7 372 738)**
Additions	(1 583 075)	(1 973 105)	(118 318)	(13 195)	(21 135)	-	**(3 708 828)**
Disposals	-	160 789	-	106	2 799	-	**163 694**
Effect of translation into presentation currency	181 500	154 047	8 739	1 167	3 723	-	**349 176**
As at 31 December 2009	**(5 411 390)**	**(4 741 149)**	**(273 996)**	**(35 715)**	**(106 446)**	**-**	**(10 568 696)**
Net carrying amount							
As at 31 December 2006	**1 786 809**	**3 581 330**	**509 671**	**19 360**	**4 718**	**742 357**	**6 644 245**
As at 31 December 2007	**3 982 387**	**4 810 315**	**594 085**	**68 257**	**12 543**	**1 128 735**	**10 596 322**
As at 31 December 2008	**23 217 970**	**10 068 062**	**500 915**	**68 785**	**33 312**	**611 484**	**34 500 528**
As at 31 December 2009	**22 524 567**	**7 909 979**	**367 510**	**51 904**	**32 478**	**607 387**	**31 493 825**

The Group conducted appraisal of property, plant and equipment as at 31 December 2005, which was made by independent expert Olefirenko V.L. (Certificate of registration in the State Register of Valuers of Ukraine # 3000 dated 08 June 2005) and Mazurenko V.N. (Certificate of registration in the State Register of Valuers of Ukraine # 6893 dated 01 October 2008).

The Group conducted revaluation of property, plant and equipment as at 31 December 2008, which was made by independent experts Olefirenko V.L. and Mazurenko V.N. Revaluation increase of property, plant and equipment as a result of revaluation was recognised in other comprehensive income in the amount of USD 27 538 785 and in the amount of USD 74 705 in profits and losses in item “Other income/(expenses), net”. Loss from impairment of property, plant and equipment is recognized in the amount of USD 68 144 in other comprehensive income and in the amount of USD 204 861 in profits and losses in item "Other income/(expenses), net".

While measuring value in use of assets as at 31 December 2008 cash flows were discounted at rate, determined for every separate company of the Group subject to inherent risk, which varies from 17% to 19%, as at that date and from 15% to 17% as at 31 December 2005.

As at 31 December 2009, bank loans were secured by property, plant and equipment with carrying amount of USD 22 397 440 (as at 31 December 2008 - USD 27 335 368; as at 31 December 2007 - USD 1 693 884; as at 31 December 2006 - USD 2 568 979).

Carrying amount of temporarily idle capacity as at 31 December 2009 was USD 11 802 482 (as at 31 December 2008 – USD 12 800 230; as at 31 December 2007 – USD 1 348 181).

As at 31 December 2008 contractual liabilities of the Group for the purchase of property, plant and equipment amounted to USD 4 755 (as at 31 December 2009 and 31 December 2007 – absent).

As at 31 December 2009 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".

If land and buildings, machinery, vehicles, office equipment and other assets were reflected at cost, amounts in the financial statements would be as follows:

	Buildings	**Machinery**	**Vehicles**	**Furniture and fittings**	**Other assets**	**Construction in-progress**	**Total**
As at 31 December 2006							
Cost	913 413	3 736 280	519 269	28 651	96 762	742 357	**6 036 732**
Accumulated depreciation	(50 489)	(291 840)	(36 631)	(7 439)	(82 392)	-	**(468 791)**
As at 31 December 2007							
Cost	1 627 227	5 548 049	711 625	82 787	143 160	1 119 554	**9 232 402**
Accumulated depreciation	(182 594)	(887 478)	(117 410)	(14 248)	(138 616)	-	**(1 340 346)**
As at 31 December 2008							
Cost	1 208 493	4 475 430	650 688	82 633	124 955	601 991	**7 144 190**
Accumulated depreciation	(193 416)	(1 053 648)	(147 226)	(18 561)	(100 226)	-	**(1 513 077)**
As at 31 December 2009							
Cost	2 148 295	4 654 293	628 488	78 373	138 690	593 590	**8 241 729**
Accumulated depreciation	(321 908)	(1 624 431)	(250 176)	(29 097)	(114 112)	-	**(2 339 724)**
Net carrying amount							
As at 31 December 2006	**862 924**	**3 444 440**	**482 638**	**21 212**	**14 370**	**742 357**	**5 567 941**
As at 31 December 2007	**1 444 633**	**4 660 571**	**594 215**	**68 539**	**4 544**	**1 119 554**	**7 892 056**
As at 31 December 2008	**1 015 077**	**3 421 782**	**503 462**	**64 072**	**24 729**	**601 991**	**5 631 113**
As at 31 December 2009	**1 826 387**	**3 029 862**	**378 312**	**49 276**	**24 578**	**593 590**	**5 902 005**

17. Intangible assets

	Computer software	Licenses and rights to use natural resource	Expenses on acquisition of IA	Total
Cost				
As at 31 December 2006	**103**	**290 416**	**-**	**290 519**
Additions	-	454	3 725	**4 179**
As at 31 December 2007	**103**	**290 870**	**3 725**	**294 698**
Additions	1 206	-	832	**2 038**
Disposals	(51)	-	-	**(51)**
Effect of translation into presentation currency	(410)	(100 104)	(1 553)	**(102 067)**
As at 31 December 2008	**848**	**190 766**	**3 004**	**194 618**
Additions	718	336 221	-	**336 939**
Disposals	**-**	**-**	(2 969)	**(2 969)**
Effect of translation into presentation currency	(48)	(14 972)	(35)	**(15 055)**
As at 31 December 2009	**1 518**	**512 015**	**-**	**513 533**
Accumulated amortization				
As at 31 December 2006	**(50)**	**-**	**-**	**(50)**
Additions	(35)	(3 237)	-	**(3 272)**
As at 31 December 2007	**(85)**	**(3 237)**	**-**	**(3 322)**
Additions	(110)	(28 998)	-	**(29 108)**
Disposals	52	-	-	**52**
Effect of translation into presentation currency	48	10 552	-	**10 600**
As at 31 December 2008	**(95)**	**(21 683)**	**-**	**(21 778)**
Additions	(285)	(29 500)	-	**(29 785)**
Effect of translation into presentation currency	10	1 489	-	**1 499**
As at 31 December 2009	**(370)**	**(49 694)**	-	**(50 064)**

Net carrying amount				
As at 31 December 2006	**53**	**290 416**	**-**	**290 469**
As at 31 December 2007	**18**	**287 633**	**3 725**	**291 376**
As at 31 December 2008	**753**	**169 083**	**3 004**	**172 840**
As at 31 December 2009	**1 148**	**462 321**	**-**	**463 469**

Intangible assets os “Shahta “Sadovaya” LTD as at 31 December 2009 represent special permission for subsurface use #4488 dated 08 November 2007 issued by the Ministry of Ecology and Natural Resources of Ukraine for 19 years. Carrying amount of this permission as at 31 December 2009 equals to USD 183 669 (as at 31 December 2006 – USD 290 415; as at 31 December 2007 – USD 290 415; as at 31 December 2008 – USD 190 467).

A special permission for subsurface use #4982 dated 11 June 2009 for 20 years comprises intangible assets of “Shahta”Rassvet-1“LTD. Carrying amount of this permission as at 31 December 2009 equals to USD 298 506.

The Group has no intangible assets with indefinite useful life.

18. Other financial assets and financial liabilities

18.1 Other financial assets

	2009	**2008**	**2007**
Receivables acquired under factoring contract	-	1 676 729	2 130 497
Total non-current	**-**	**1 676 729**	**2 130 497**
Receivables acquired under factoring contract	1 940 259	-	-
Employee’s loans	-	-	6 212
Other loans issued	-	-	12 871
Total current	**1 940 259**	**-**	**19 083**

Receivables acquired under factoring agreement

Receivables acquired under factoring agreement comprise receivables of "Thermal Power Plant-2" ESHAR" SE which were acquired from "Atomenergokomplekt" OJSC and "Harimpecs" OJSK in December 2007. From the date of acquisition of this financial instrument and on the date of confirmation of these financial statements The Law of Ukraine "On measures aimed at safeguarding the stable functioning of the fuel and energy complex enterprises" №2711-IV dated 23.06.05 is effective, which relieves fuel and energy complex enterprises from discharge of obligations up to 01 January 2011.
This obligation is accounted at amortized cost. Effective interest rate is 20%.
The Group expects that receivables will be discharged in whole amount in January 2011 and provision for impairment wasn’t charged.

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Employees' loans

Employees' loans are accounted for at amortized cost, which is calculated using an effective interest rate method and discounting rate equaling to 9,5%. Nominal value of this loan is USD 6 733.

Short-term deposits (from 3 to 12 months)
Deposits are placed in Prominvestbank under 5% annual rate in UAH.

Other loans issued

Other loans issued represent interest-free accommodation falling due one year.

18.2 Loans and borrowings

	Currency	2009		2008		2007	
		Interest rate, %	Residual debt	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	UAH	19%	8 533 339	19%	8 849 183	16%	9 900 992
Loan 2	UAH	30%	172 809	-	-	-	-
Loan 3	UAH	18%	51 722	18%	93 852	-	-
Loan 4	UAH	-	-	-	-	17%	13 861
Loan 5	UAH	25%	1 502 818	-	-	-	-
Loan 6	UAH	20%	548 527	20%	227 662	-	-
Non-interest borrowing	UAH	-	125 238		-		47 524
			10 934 453		**9 170 697**		**9 962 377**
Short-term			10 932 826		9 128 793		7 487 129
Long-term			1 627		41 904		2 475 248

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. 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 10 March 2010.

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 July 2006 in Prominvestbank. The borrower is "Volat Trans" PE. Loan was discharged on 04 July 2008. Obligations under credit contract were guaranteed by borrower's vehicles.

Loan 5

Loan was received in October 2009 in SB "Credit-Dnepr". The borrower is "Shahta Rassvet-1" LTD. Maturity date is 01 March 2010. 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 6
Loan was received in December 2009 from an individual. The borrower is "Shahta Sadovaya" LTD. Maturity date is 01 October 2010. This loan is unsecured.

Non-interest borrowing

All the non-interest borrowing received by the Group in Ukrainian hryvnas, are reimbursable, interest-free and unsecured.

18.3 Fair value

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

Financial assets

Carrying amount	2009	2008	2007
Trade and other receivables	4 149 325	6 117 540	4 756 347
Employee's loans	-	-	6 212
Receivables, acquired under factoring contract	1 940 259	1 676 729	2 130 497
Other loans issued	-	-	12 871
Cash and cash equivalents	39 678	1 405 124	1 210 212
Total	**6 129 262**	**9 199 393**	**8 116 139**

Fair value	2009	2008	2007
Trade and other receivables	4 149 325	6 117 540	4 756 347
Employee's loans	-	-	6 212
Receivables, acquired under factoring contract	1 940 259	1 676 729	2 130 497
Other loans issued	-	-	12 871
Cash and cash equivalents	39 678	1 405 124	1 210 212
Total	**6 129 262**	**9 199 393**	**8 116 139**

Financial liabilities

Carrying amount	2009	2008	2007
Trade and other payables	2 701 502	2 626 904	5 563 779
Loans and borrowings	10 934 453	9 170 697	9 962 377
Total	**13 635 955**	**11 797 601**	**15 526 156**

Fair value	2009	2008	2007
Trade and other payables	2 701 502	2 626 904	5 563 779
Loans and borrowings	10 934 453	9 170 697	9 962 377
Total	**13 635 955**	**11 797 601**	**15 526 156**

The fair value of the financial assets and liabilities carried in the financial statements represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Fair value of cash and short-term deposits, trade receivables and trade payables, and other current liabilities is approximately equal to their carrying amount mainly due to the fact that these instruments will be repaid in the nearest future.

Fair value of loans from banks and other financial liabilities, bills is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

19. Inventories

	2009	2008	2007
Finished goods	3 533 839	2 734 516	1 892 407
Merchandise	2 565 183	4 418 261	2 058 124
Raw materials	928 084	1 348 835	2 457 227
Spare parts	96 468	266 227	250 489
Other inventories	21 086	31 138	21 734
	7 144 660	**8 798 977**	**6 679 981**

20. Trade and other receivables

	2009	2008	2007
Trade receivables	4 481 527	6 198 147	4 191 528
Provision for impairment of trade receivables	(348 426)	(97 954)	(2 607)
VAT recoverable	523 218	1 478 325	1 300 070
Liabilities for contribution to share capital	626	-	555 366
Prepayments for other taxes	26 795	6 836	21
Other receivables	15 598	17 347	12 060
	4 699 338	**7 602 701**	**6 056 438**

For terms and conditions relating to related party receivables, refer to Note 23.
Trade receivables are non-interest bearing and are generally due in 90-180 day terms.

See below for the movements in the provision for impairment of receivables (see credit risk disclosure Note 25 for further guidance).

	Trade receivables	Other receivables	Total
As at 1 January 2007	**7 563**	**24 752**	**32 315**
Charge for the year	29	10 608	**10 637**
Utilised	(4 985)	(35 360)	**(40 345)**
As at 31 December 2007	**2 607**	**-**	**2 607**
Charge for the year	121 279	75 378	**196 657**
Utilised	(2 115)	(75 378)	**(77 493)**
Effect of translation into presentation currency	(23 817)	-	**(23 817)**
As at 31 December 2008	**97 954**	**-**	**97 954**
Charge for the year	269 454	9 657	**279 111**
Utilised	(9 481)	(9 657)	**(19 138)**
Effect of translation into presentation currency	(9 501)	-	(9 501)
As at 31 December 2009	**348 426**	**-**	**348 426**

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

	Total	Undue and not impaired	Past due and partly impaired	Past due, but not impaired < 60 days	Past due, but not impaired 60-180 days	Past due, but not impaired 180-360 days	Past due, but not impaired > 360 days
2009	4 148 699	563 558	2 022 297	391 038	18 048	911 551	242 207
2008	6 117 540	3 486 241	-	312 715	710 225	1 043 393	564 966
2007	4 188 921	323 598	-	2 948 040	306 732	329 594	280 957

As at 31 December 2009 receivables, which nominal value amounted to USD 94 658 (as at 31 December 2008: USD 97 954; as at 31 December 2007: USD 2 607), were impaired in full. As well, the provision for impairment of receivables at the rate from 8% to 50% was charged on receivables, which nominal value amounted to USD 2 276 065 (as at 31 December 2008: USD 0; as at 31 December 2007: USD 0)

In respect of the contractors, who expired maturity date of liabilities, the Group initiated a recovery juridical procedure. On the basis of claims, the court made positive decision, however at the reporting date a large portion of the amount was not received. Nevertheless, the Group does not consider it necessary to charge a provision for impairment, as it expects to receive the repayment in the nearest future.

21. Prepayments and deferred expenses

	2009	2008	2007
Prepayments to suppliers	1 853 209	1 969 295	904 902
Provisions for impairment of prepayments	(108 904)	(7 373)	(14 420)
Deferred expenses	1 003 459	90 597	117 459
Total current	**2 747 764**	**2 052 519**	**1 007 941**

Objects of mine workings, useful life of which is less than 1 year, are recognised in deferred expenses by the Group.

	2009	2008	2007
Prepayments for the property, plant and equipment	-	4 755	-
Total non-current	**-**	**4 755**	**-**

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

	2009	2008	2007
As at 1 January	**7 373**	**14 420**	**23 132**
Charge for the year	111 793	9 128	-
Utilised	-	(11 710)	(8 712)
Unused amounts recovered	(7 156)	-	-
Effect of translation into presentation currency	(3 106)	(4 465)	-
As at 31 December	**108 904**	**7 373**	**14 420**

22. Cash and cash equivalents

		2009	2008	2007
	UAH	39 678	1 293 948	1 210 212
Cash in banks	USD	-	80 040	-
	RUB	-	11 176	-
Cash in transit	USD	-	19 960	-
		39 678	**1 405 124**	**1 210 212**

23. Share capital

	2009		2008		2007	
	%	Amount	%	Amount	%	Amount
Tolstoukhov A.U.	-	-	47,86	1 024 480	47,86	1 024 480
Stetsurin S.N.	-	-	27,05	579 012	27,05	579 012
Bespalov A.I.	-	-	15,84	339 082	15,84	339 082
Shelyuk V.V.	-	-	9,251	198 020	9,251	198 020
Conektico Ltd	100,00	2 778 491	-	-	-	-
		2 778 491		**2 140 594**		**2 140 594**

24. Employees benefits obligations

The Group has juridical obligation to refund to the State Pension Fund of Ukraine additional pensions, which are paid to definite category of personnel after their retirement.

This pension plan is not financed.

In 2008, past service costs resulted from changes in pension law, in accordance with which estimation of one year of the insurance standing of mining personnel was increased from 1% to 1,35%.

Changes in the present value of the defined benefit obligations are as follows:

	2009	2008	2007
Defined benefit plan obligations as at 1 January	**1 217 894**	**966 963**	**521 641**
Current services cost	303 053	404 857	241 005
Interests expenses	179 027	88 098	46 769
Actuarial (gain)/loss	190 959	(127 240)	161 516
Paid benefits	(20 231)	(14 248)	(3 968)
Past service costs	-	391 012	-
Effect of translation into presentation currency	(54 678)	(491 548)	-
Defined benefit obligation as at 31 December	**1 816 024**	**1 217 894**	**966 963**

Amounts recognized in combined statement of financial position:

	2009	2008	2007
Present value of defined benefit plan, not secured by funds	**1 816 024**	**1 217 894**	**966 963**
Unrecognized net actuarial (gain)/loss	(328 308)	(137 793)	(435 644)
Unrecognized cost of past services	(199 760)	(248 587)	-
Defined benefit plan obligations as at 31 December	**1 287 956**	**831 514**	**531 319**
Long- term	1 264 114	807 567	526 393
Short-term	23 842	23 947	4 926

Net plan expenses (recognised in cost of sales)

	2009	2008	2007
Current service costs	303 054	404 858	241 005
Recognized actuarial loss	(4 586)	32 171	55 226
Interests expenses	179 027	88 098	46 769
Recognized cost of past services	40 946	176 340	-
	518 441	**701 467**	**343 000**

Changes in present value of liabilities recognized in special purposes combined statement of financial position

	2009	2008	2007
As at 1 January	**831 514**	**531 319**	**192 287**
Paid-up remuneration	(20 231)	(14 248)	(3 968)
Net expenses in special purposes combined income statement	518 441	701 467	343 000
Effect of translation into presentation currency	(41 770)	(387 024)	-
As at 31 December	**1 287 954**	**831 514**	**531 319**

Basic actuarial assumptions:

	2009	2008	2007
Discounting rate	15%	15%	9%

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

	2009		2008		2007	
Change in parameter	-1%	1%	-1%	1%	-1%	1%
Parameter	Change of obligations, USD					
Wage increase	(160 917)	127 004	(121 763)	140 218	(126 608)	151 284

Discounting rate	198 825	(166 036)	138 971	(119 298)	157 362	(128 909)
Employee turnover	(4 347)	3 218	(3 266)	2 895	(6 353)	5 709

25. Trade and other payables

	2009	2008	2007
Trade payables	2 101 299	1 980 762	4 065 422
Accounts payable for salaries, wages and related taxes	338 035	356 189	339 645
Provision for unused vacations	176 241	270 958	147 048
Accounts payable for other taxes	55 932	16 123	19 507
Advances from customers	104 614	1 107	2 919
Current portion of non-current liabilities on defined benefit plan	23 842	23 947	4 926
Other current liabilities	85 927	18 995	1 011 664
	2 885 890	**2 668 081**	**5 591 131**

26. Provisions

	Provision on processing waste dump	Provision on mine abandon and dismantling of machinery	Total
As at 31 December 2006	**1 289**	**171 184**	**172 473**
Accrued obligations	2 084	1 316 666	**1 318 750**
Estimation changes	300	38 516	**38 816**
Discounting effect	211	28 032	**28 243**
As at 31 December 2007	**3 884**	**1 554 398**	**1 558 282**
Accrued obligations	1 507	-	**1 507**
Estimation changes	(1 860)	(727 185)	**(729 045)**
Discounting effect	578	231 403	**231 981**
Effect from translation into presentation currency	(1 337)	(351 398)	**(352 735)**
As at 31 December 2008	**2 772**	**707 218**	**709 990**
Accrued obligations	1 365	-	**1 365**
Discounting effect	502	128 140	**128 642**
Effect from translation into presentation currency	(144)	(28 354)	**(28 498)**
As at 31 December 2009	**4 495**	**807 004**	**811 499**

Provision for land reclamation and abandoning of mines is charged due to mining activity of the Group in the result of which liabilities arise for mine closing and dismantling, and reclamation of land, balance of which was disrupt by underground works and waste dumps.

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

	2009	2008	2007
Discounting rate	18,3%	18,3%	16,4%
Long-term inflation	8,0%	8,0%	8,0%
Medium-term inflation	12,3%	22,3%	16,6%

27. Contingent assets and liabilities

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

Claims of the Group to the third parties:

Company of the Group	Defendant	Amount of claim, USD	Essence of claim	Probable adjudication for the Group
“Shahta Sadovaya” LTD	"Nikopolskii Ferroalloy Plant" OJSC	170 201	Recovery of amount of cargo shortage lost on travel line	decision of recovery
	"Zaporozhye plant ferosplavov" OJSC	89 625	Recovery of amount of cargo shortage lost on travel line	decision of recovery
	"CHP-2 ESHAR" SE	942 393	Recovery of amount of cargo shortage lost on travel line	low probability of settle of a claim
	"Lider-pro"LTD	29 880	Recovery of amount of cargo shortage lost on travel line	low probability of settle of a claim
	"Primgo"LTD	26 988	Recovery of amount of cargo shortage lost on travel line	low probability of settle of a claim

Claims of third parties to the Group:

Company of the Group	Demandant	Amount of claim, USD	Essence of claim	Probable adjudication for the Group
“Shahta Sadovaya” LTD	LOO Fund of social protection of disabled persons	63 950	Recovery of administrative-economic sanctions for not creation of work places for disabled persons for the 2008	low probability of settle of a claim

"Shahta Rassvet-1" LTD	LOO Fund of social protection of disabled persons	8 525	Recovery of administrative-economic sanctions for not creation of work places for disabled persons for the 2008	low probability of settle of a claim

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

Litigations
As at 31 December 2009 outstanding litigations amounted to USD 72 475. These lawsuits are connected with not creation of work places for disabled persons. In the management's opinion, no lawsuits will exercise material negative influence on the Company's financial position or performance.

Operating lease
All operating lease contracts, in which the Group acts as a lessor, are cancellable. According with them, the Group leases state land, equipment from related parties, machinery from the third parties. Minimum lease payments recognised in expenses of the period amount to: in 2007 – USD 69 113, in 2008 – USD 99 750, in 2009 – USD 144 308.

Contingent tax liabilities in Ukraine

Ukrainian tax system and legislation are fairly new and are characterized by a great number of taxes and frequent changes in the legislation which are often ambiguous, inconsistent and are subject to controversial interpretations by different executive and legislative power bodies entitled to impose significant fines and penalties. All listed creates a taxation risk exposure which considerably exceeds that of the countries with more advanced tax systems.

Tax consequences of business transactions for the purpose of Ukrainian statutory taxation are often determined by the form in which those transactions are documented and reflected based on the requirements stipulated by the Ukrainian Accounting Standards. Accordingly the Group carries out a number of operations aimed at effective taxation rate optimization. In the process of special purpose combined financial statements' preparation, in order to render the economic essence of those operations, the Group's financial position and performance, the Group's management reflected actual revenue and costs receivables and payables.

The Management proceeding from their interpretation of the tax legislation official documents and court decisions think that keeping records of business transactions by the Group is sufficient for confirming its tax returns by the taxation authorities. In connection with the above at 31 December 2009, 2008, 2007 the Management did not create any provisions for the payment of potential tax liabilities. However should the controlling authorities classify such transactions as subject to taxation and apply such classification to the companies of the Group, actual taxes and penalties may differ from the Management assessment.

The Group's Operating Environment

Ukraine has experienced political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine have historically involved risks that do not typically exist in other markets. The accompanying special purpose combined financial statements reflect Group management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. While Ukraine has brought about a relative increase in political stability in the last twelve months with recent elections, the effect of future political developments on the financial position and the ability of others to continue to transact with the Group cannot, of course, be absolutely guaranteed.

The special purpose combined financial statements therefore may not include all adjustments that might ultimately result from these adverse conditions.

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

Management believes it is taking all necessary measures to support and maintain the existing operating and financial sustainability and stability profile of the Group's business as well as taking advantage of current economic environment to further grow its market share in the respective subsectors of the Group's business activities.

28. Related parties

Residual debts and transactions between the Group's Companies were eliminated in combination, and information about them is not disclosed in this note. Information about transactions between the Group and its related parties are as follows:

	Purchase of goods and services		
	2009	**2008**	**2007**
Companies, directly or indirectly controlled by the Group owners	79 029	17 869	22 586
	79 029	**17 869**	**22 586**

	Proceeds from goods and services		
	2009	**2008**	**2007**
Companies, directly or indirectly controlled by the Group owners	445 015	1 836 070	1 527 728
	445 015	**1 836 070**	**1 527 728**

	Liabilities to related parties		
	2009	**2008**	**2007**
Companies, directly or indirectly controlled by the Group owners	232 413	147 706	68 320
	232 413	**147 706**	**68 320**

	Liabilities of related parties		
	2009	**2008**	**2007**
Companies, directly or indirectly controlled by the Group owners	315 682	288 431	340 114
	315 682	**288 431**	**340 114**

Purchase of goods and services and liabilities to related parties
Accounts payable to related parties at each date are interest-free. Such liabilities arose due to machinery lease from related parties and purchased coal. Prices of such transactions are established according with market ones.
Proceeds from goods and services and liabilities of related parties
Accounts receivable from related parties at each date are interest-free. Prices of transactions with related parties are established according with market ones. Liabilities are repaid basically with cash. Provisions for impairment of accounts receivable from the related parties were not charged.

Remunerations of top management:

	2009	**2008**	**2007**
Wages and salaries	44 481	64 469	49 421
Contribution to the pension fund	14 768	21 404	16 408
Other contributions	2 099	7 511	5 409

	61 348	**93 384**	**71 238**

29. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group's operations. The Group has loans, other receivables, and cash.
The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks.

Market risk

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

Sensitivity analyses in the following sections relate to the positions as at 31 December 2009, 2008 and 2007.

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency). Financial instruments exposed to foreign currency risk comprise cash, trade and other accounts receivable

The following table demonstrates the sensitivity to a reasonably possible changes in the UAH exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in UAH rate	**Effect on profit before tax**
2009		
USD	+ 9%	2 689
	- 9%	(2 689)

	Change in UAH rate	**Effect on profit before tax**
2008		
USD	+ 9%	58 341
	- 9%	(58 341)
RUR	+ 9%	1 006
	- 9%	(1 006)

2007
In 2007 the Group was not exposed to foreign currency risk.

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

Liquidity risk

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

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

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

Year ended 31 December 2009	Less than 3months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	1 813 383	12 526	9 106 917	1 627	**10 934 453**
Trade and other payables	1 639 395	283 226	279 288	499 593	**2 701 502**
	3 452 778	**295 752**	**9 386 205**	**501 220**	**13 635 955**

Year ended 31 December 2008	Less than 3months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	12 979	12 990	9 102 824	41 904	**9 170 697**
Trade and other payables	1 439 727	297 570	96 310	793 297	**2 626 904**
	1 452 706	**310 560**	**9 199 134**	**835 201**	**11 797 601**

Year ended 31 December 2007	Less than 3months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	5 940	53 466	7 427 723	2 475 248	**9 962 377**
Trade and other payables	2 021 391	3 154 334	194 027	194 027	**5 563 779**
	2 027 331	**3 207 800**	**7 621 750**	**2 669 275**	**15 526 156**

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

No changes were made in the objectives, policies or processes during the years ending 31 December 2009, 2008,2007.

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

	2009	2008	2007
Loans and borrowings	10 934 453	9 170 697	9 962 377
Trade and other payables	2 885 890	2 668 081	5 591 131
Cash and short-term deposits	(39 678)	(1 405 124)	(1 210 212)
Net debt	13 780 665	10 433 654	14 343 296
Capital	26 396 689	35 355 284	9 789 723
Capital and net debt	**40 177 354**	**45 788 938**	**24 133 019**
Gearing ratio	0,33	0,23	0,59

30. Events after the reporting date

Current liability under the loan #5 of "Shahta Rassvet-1"LTD in UAH to "Credit-Dnepr" SB with maturity date 01 March 2010 was prolonged to 25 December 2010.

Negotiations about prolongation of loan #1and loan #2 are carrying, as at the statement signing date agreement with the bank was not achieved.

Loan #6 is overdue.

All the six Ukrainian companies, which joined the Group in October 2010 were purchased by Sadovaya LLC. Subsequently Sadovaya Group S.A. received payment-free all shares in Sadovaya LLC, with declared, but unpaid share capital in the amount of USD 215 000. After Sadovaya Group S.A. paid up the share capital of Sadovaya LLC. All shares of Sadovaya Group S.A. were purchased by Connectico LLC.
As a result of these transactions (the "Operations") as of October 2010
(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.

There were no other important events after the reporting date.

REVIEWED INTERIM COMBINED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED June 30, 2010

Group of companies “Shahta “Sadovaya”

Special Purpose Interim Combined Financial Statements

six months ended 30 June 2010

CONTENTS

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To the owners of: "Shahta "Sadovaya" LTD, "Shahta "Rassvet-1" LTD, "Volat Trans" PE, "Interinvest" LTD, "Interdon" PE, "Donvostok" LTD, which together comprise the Group of companies "Shahta "Sadovaya".

Special Purpose Interim Combined Financial Statements

Introduction

We have reviewed the special purpose interim combined financial statements of the Group of companies "Shahta "Sadovaya" (the Group hereinafter), which comprise the interim special purpose combined statement of financial position as at 30 June 2010, interim special purpose combined income statement and interim special purpose combined statement of comprehensive income, interim special purpose combined statement of changes in equity and interim special purpose combined statement of cash flows for the six months ended 30 June 2010, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these special purpose interim combined financial statements in accordance with the Basis of preparation described in p.2.1 of the accompanying special purpose interim combined financial statements. Our responsibility is to express a conclusion on these special purpose interim combined financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Statements performed by the Independent Auditor of the Entity". A review of special purpose interim combined financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

We have not received sufficient evidence concerning the nature and completeness of the transactions with certain counterparties in respect of the formation of cost of inventories, dividend distribution, trade and other accounts payable. As a result, we are not able to confirm in full the cost of sales in the Group's interim special purpose combined income statement, the amount of dividends in the interim special purpose combined statement of changes in equity for the six months ended 30 June 2010. We are also not able to confirm that trade and other accounts payable are recorded in full in the interim special purpose combined statements of financial position as at 30 June 2010.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying special purpose interim combined financial statements do not give a true and fair view of the financial position of the entity as at 30 June 2010, of its financial performance and cash flows for the years then ended in accordance with the Basis of preparation described in p.2.1 of the accompanying special purpose interim combined financial statements.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the following:

As indicated in Note 2.1. "Basis of preparation", the special purpose interim combined financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board, except for IFRS 3 "Business Combinations".

Interpretation of the transactions described in Note 11 "Provisions, contingent assets and liabilities" by the Ukrainian tax authorities may differ from their understanding by the Group, which may result in additional income tax and value added tax obligations. Ukrainian tax authorities did not make any additional charges in addition to the declared taxes in the submitted tax returns for the six months ended 30 June 2010. Based on this experience, the Group does not recognize any additional allowances or liabilities, and we are not able to estimate amounts of such additional allowances and liabilities, should they arise in future.

Limitation in use

This report is intended solely for the purpose of incorporation into the prospectus of Sadovaya Group S.A., the parent company of the Group incorporated in Luxembourg (the "Issuer"), which prospectus is to be submitted to the Luxembourg capital markets authority in connection with the proposed public offering of the Issuer's shares and listing at the Warsaw Stock Exchange. This report cannot be distributed to any other counterparty without our written consent.

Managing Partner

"BAKER TILLY UKRAINE" LLP

«БЕЙКЕР ТІЛЛІ УКРАЇНА» Ідентифікаційний код 30373906

Alexander Pochkun

22 October 2010

Kiev, Ukraine

Registration # 1607

Special purpose interim combined income statement
for the six months ended 30 June 2010

	The six months ended 30 June	
	2010 г.	**2009 г.**
Revenue	19 145 293	7 903 318
Cost of sales	(13 737 591)	(9 080 596)
Gross profit	**5 407 702**	**(1 177 278)**
Selling and distribution expenses	(102 319)	(67 829)
General administrative expenses	(402 231)	(265 675)
Other income/(expenses), net	(736 351)	(598 750)
Operating profit/(loss)	**4 166 801**	**(2 109 532)**
Finance expenses	(1 497 346)	(1 109 004)
Finance income	194 776	173 605
Profit/(loss) before tax	**2 864 231**	**(3 044 931)**
Income tax expense	373 230	293 375
Profit/(loss) for the period	**3 237 461**	**(2 751 556)**

Special purpose interim combined statement of comprehensive income

for the six months ended 30 June 2010

	The six months ended 30 June	
	2010 г.	**2009 г.**
Profit for the year	**3 237 461**	**(2 751 556)**
Other comprehensive income		
Exchange differences on translation in presentation currency	246 861	300 894
Other comprehensive income for the year	**246 861**	**300 894**
Total comprehensive income for the year	**3 484 322**	**(2 450 662)**

Special purpose interim combined statement of financial position

as at 30 June 2010

	Notes	As at 30 June 2010	As at 31 December 2009	As at 30 June 2009
Assets				
Non-current assets				
Property, plant and equipment	6	30 671 952	31 493 825	34 496 104
Intangible assets		449 256	463 469	504 423
Other financial assets	8	-	-	1 861 250
Deferred tax assets		959 970	718 521	542 278
		32 081 178	32 675 815	37 404 055
Current assets				
Inventories	7	8 754 257	7 144 660	7 584 438
Trade and other receivables		5 079 904	4 699 338	6 622 510
Prepayments and deferred expenses		3 588 580	2 747 764	2 233 343
Income tax prepayment		4 149	-	4 497
Other financial assets	8	2 155 339	1 940 259	-
Cash and cash equivalents		2 920	39 678	1 626
		19 585 149	16 571 699	16 446 414
Total assets		**51 666 327**	**49 247 514**	**53 850 469**
Equity and liabilities				
Equity				
Share capital		2 778 491	2 778 491	2 140 594
Retained earnings		12 258 588	13 517 875	18 382 976
Revaluation reserve		18 291 175	19 057 707	19 852 823
Effect of foreign currency translation		(8 842 302)	(9 089 163)	(7 721 055)
		24 485 952	26 264 910	32 655 338
Non-current liabilities				
Loans and borrowings	9	-	1 627	46 726
Employee benefit liability		1 568 016	1 264 114	1 082 881
Provisions	11	895 027	811 499	782 849
Deferred tax liability		6 980 843	7 085 674	7 776 960
		9 443 886	9 162 914	9 689 416
Current liabilities				
Trade and other payables		3 529 105	2 885 890	1 901 925
Loans and borrowings	9	14 186 304	10 932 826	9 603 790
Income tax payable		1 383	974	-
Provisions	11	19 697	-	-
		17 736 489	13 819 690	11 505 715
		27 180 375	22 982 604	21 195 131
Total equity and liabilities		**51 666 327**	**49 247 514**	**53 850 469**

Special purpose interim combined statement of changes in equity
for the six months ended 30 June 2010

	Share capital	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total capital
As at 31December 2008	**2 140 594**	**20 147 427**	**21 089 213**	**(8 021 949)**	**35 355 285**
Profit for the period	**-**	(2 751 556)	**-**	**-**	**(2 751 556)**
Other comprehensive income	**-**	-	**-**	300 894	**300 894**
Depreciation transfer	-	1 236 390	(1 236 390)	-	-
Total comprehensive income	**-**	**(1 515 166)**	**(1 236 390)**	**300 894**	**(2 450 662)**
Dividends	**-**	(249 285)	-	-	**(249 285)**
As at 30 June 2009	**2 140 594**	**18 382 976**	**19 852 823**	**(7 721 055)**	**32 655 338**
As at 31 December 2009	**2 778 491**	**13 517 875**	**19 057 707**	**(9 089 163)**	**26 264 910**
Profit for the period	**-**	3 237 461	**-**	**-**	**3 237 461**
Other comprehensive income	**-**	**-**	**-**	246 861	**246 861**
Depreciation transfer	**-**	766 532	(766 532)	**-**	**-**
Total comprehensive income	**-**	**4 003 993**	**(766 532)**	**246 861**	**3 484 322**
Dividends	**-**	(5 263 280)	-	**-**	**(5 263 280)**
As at 30 June 2010	**2 778 491**	**12 258 588**	**18 291 175**	**(8 842 303)**	**24 485 952**

Special purpose interim combined statement of cash flows

for the six months ended 30 June 2010

	The six months ended 30 June	
Operating activities	**2010 г.**	**2009** г.
Profit/(loss) before tax	2 864 231	(3 044 931)
Non-cash adjustment to reconcile profit before tax to net cash flows:		
Depreciation and amortization	2 028 523	1 930 059
(Profit)/loss on disposal of property, plant and equipment and intangible assets	(26 025)	340 273
Impairment of receivables	224	3 539
Shortages and losses from impairment of inventory	17 158	5 753
Net profit on exchange differences	349	(115 694)
Finance expenses	1 497 346	1 109 004
Finance income	(194 776)	(173 605)
Movements in provisions, pensions	309 525	267 005
Working capital adjustments:		
(Increase)/decrease in trade and other receivables and prepayments	(1 141 595)	999 104
(Increase)/decrease in inventories	(1 547 023)	1 281 299
Decrease/(increase) in trade and other payables	611 052	(780 300)
	4 418 989	**1 821 506**
Interest received	14	2
Income tax paid	(37 125)	(45 456)
Net cash flows from operating activities	**4 381 878**	**1 776 052**
Investing activities		
Proceeds from sale of property, plant, equipment and intangible assets	48 404	35 229
Purchase of property, plant, equipment and intangible assets	(906 483)	(2 315 934)
Net cash flows used in investing activities	**(858 079)**	**(2 280 705)**
Financing activities		
Proceeds from borrowings	3 126 729	393 643
Repayment of borrowings	(1 633)	-
Interest paid	(1 422 543)	(1 043 728)
Dividends paid	(5 263 281)	(249 285)
Net cash flows from/(used in) financing activities	**(3 560 728)**	**(899 370)**
Net increase in cash and cash equivalents	**(36 929)**	**(1 404 023)**
Net foreign exchange difference	171	525
Cash and cash equivalents at 1 January	39 678	1 405 124
Cash and cash equivalents at 30 June	**2 920**	**1 626**

Notes to the special purpose financial statements

1. General information

The Group of Companies "Shahta "Sadovaya" ("the Group") comprises 6 companies, operating in spheres indicated below. These special purpose combined financial statements include financial statements of the Group's Companies. Mr. Tolstoukhov A.Y. and Mr. Stetsurin S.N. are ultimate Group's owners.

Group's Company	Country of incorporation	Kind of activity
"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

"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. Today the Company has 7 coal beds, with general quantity of inventories equalling to– 33 mln. tonnes of coal. The Group employs more than 800 employees. Mining is carried out under the ground. There are 3 production and 8 development faces.

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

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

Issue of the Group's interim abbreviated special purpose combined financial statements for the six month ended 30 June 2010 was approved by the Decision of the Board of Directors dated 30 September 2010.

2.1 Basis of preparation

This report is intended solely for the purpose of incorporation into the prospectus of Sadovaya Group S.A., the parent company of the Group incorporated in Luxembourg (the "Issuer"), which prospectus is to be submitted to the Luxembourg capital markets authority in connection with the proposed public offering of the Issuer's shares and listing at the Warsaw Stock Exchange.

The special purpose interim abbreviated combined financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34"Interim Financial Reporting", except for IFRS 3 "Business combination".

The special purpose interim abbreviated combined financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2009.

Basis of combination

The Group comprises the Companies, which are under the common control of the majority ultimate owners, but are not connected by the formal structure and have no single parent company. The special purpose combined financial statements were prepared for the purpose of the presentation of combined balances and transactions results, which show that the Group is under the common control of the majority ultimate owners.

Business combination, which includes the Companies under the common control is not regulated by IFRS 3 "Business combination", therefore special purpose financial statements were prepared by means of summarising of the share capital, assets, liabilities, revenues and expenses of the Companies, which are under the common control of the majority ultimate owners. 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.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the special purpose interim abbreviated combined financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

3. Significant accounting judgments, estimates and assumptions

The significant accounting judgments, estimates and assumptions adopted in the preparation of the special purpose interim abbreviated combined financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

4. Operating segment information

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

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

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

1.Inter-segment revenues are eliminated on combination.

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.

The six months ended **30 June 2009**	**Trade activities**	**Mining and coal cleaning**	**Processing of waste dumps**	**Others**	**Adjustments and eliminations**	**Total**
Revenue						
External customer	2 047 363	5 758 854	-	97 101	-	7 903 318
Inter-segment	-	-	-	213 421	(213 421)	-
Revenue-total	2 047 363	5 758 854	-	310 522	(213 421)	7 903 318
Financial results						
Depreciation and amortisation	-	(1 764 211)	(42 150)	(107 733)	(15 965)	(1 930 059)
Segment profit	**(91 164)**	**(740 062)**	**-**	**(346 052)**	**(1 867 653)**	**(3 044 931)**
Operating assets	**2 082 456**	**38 717 145**	**584 939**	**1 111 426**	**11 354 503**	**53 850 469**
Operating liabilities	**-**	**1 865 730**	**-**	**-**	**19 329 401**	**21 195 131**
Other disclosures						
Capital expenditure	-	1 999 835	3 381	-	21 865	2 025 081

1. Inter-segment revenues are eliminated on combination.

2. Profit for each operating segment does not include finance income (173 605), finance expenses (1 109 004), selling and distribution expenses (67 829), administrative expenses (265 675), other income/(expenses), net (598 750), and profit from inter-segment sales

3. Segment assets do not include cash and cash equivalents (1 626) other finance assets (1 861 250), deferred tax assets (542 278), prepayments (2 184 318), trade and other receivables (6 622 510), property plant and equipment (142 521), as these assets are managed on a group basis

4. Segment liabilities do not include loans and borrowings (9 650 516), trade and other payables (1 901 925), deferred tax liabilities (7 776 960), as these liabilities are managed on a group basis .

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

5. Income tax

The major components of income tax expense for the six months ended 30 June are:

	The six months ended 30 June	
	2010 г.	**2009 г.**
Current income tax charge	(33 399)	(20 254)
Deferred income tax benefit/(loss) relating to origination and reversal of temporary differences	406 629	313 629
Income tax expense reported in the income statement	**373 230**	**293 375**

6. Property, plant and equipment

	Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in-progress	Total
Cost							
As at 31 December 2008	**27 227 785**	**13 150 942**	**665 332**	**92 578**	**125 145**	**611 484**	**41 873 266**
Additions	1 519 707	443 678	-	-	21 867	39 829	**2 025 081**
Disposals	-	(554 906)	-	(1 721)	(728)	-	**(557 355)**
Transfer	-	76 845	-	-	-	(76 845)	**-**
Effect of translation into presentation currency	257 899	119 912	6 098	835	1 271	5 367	**391 382**
As at 30 June 2009	**29 005 391**	**13 236 471**	**671 430**	**91 692**	**147 555**	**579 835**	**43 732 374**
As at 31 December 2009	**27 935 957**	**12 651 128**	**641 506**	**87 619**	**138 924**	**607 387**	**42 062 521**
Additions	287 735	217 493	-	1 168	10 710	387 986	**905 092**
Disposals	(1 791)	(35 222)	(13 183)	(550)	(1 155)	-	**(51 901)**
Effect of translation into presentation currency	277 162	125 969	6 209	868	1 429	8 344	**419 981**
As at 30 June 2010	**28 499 063**	**12 959 368**	**634 532**	**89 105**	**149 908**	**1 003 717**	**43 335 693**

Accumulated depreciation							
As at 31 December 2008	**(4 009 815)**	**(3 082 880)**	**(164 417)**	**(23 793)**	**(91 833)**	**-**	**(7 372 738)**
Additions	(830 702)	(1 000 615)	(60 040)	(6 969)	(20 913)	-	**(1 919 239)**
Disposals	-	133 136	-	107	639	-	**133 882**
Effect of translation into presentation currency	(41 616)	(33 468)	(1 869)	(259)	(963)	-	**(78 175)**
As at 30 June 2009	**(4 882 133)**	**(3 983 827)**	**(226 326)**	**(30 914)**	**(113 070)**	**-**	**(9 236 270)**
As at 31 December 2009	**(5 411 390)**	**(4 741 149)**	**(273 996)**	**(35 715)**	**(106 446)**	**-**	**(10 568 696)**
Additions	(1 001 173)	(914 806)	(50 487)	(6 189)	(35 801)	-	**(2 008 456)**
Disposals	1 285	13 652	13 183	442	1 155	-	**29 717**
Effect of translation into presentation currency	(59 504)	(52 227)	(2 928)	(388)	(1 259)	-	**(116 306)**
As at 30 June 2010	**(6 470 782)**	**(5 694 530)**	**(314 228)**	**(41 850)**	**(142 351)**	**-**	**(12 663 741)**
Net carrying amount							
As at 30 June 2009	**24 123 258**	**9 252 644**	**445 104**	**60 778**	**34 485**	**579 835**	**34 496 104**
As at 30 June 2010	**22 028 281**	**7 264 838**	**320 304**	**47 255**	**7 557**	**1 003 717**	**30 671 952**

7. Inventories

During the six months ended 30 June 2010, the Group wrote-off USD 17 158 of inventories that had been damaged (during the six months ended 30 June 2009, the Group wrote-off USD 5 753 of inventories that had been damaged). This expense is included in other expenses in the special purpose income statement.

8. Other financial assets

These comprise receivables of "Thermal Power Plant-2" ESHAR" SE which were acquired in "Atomenergokomplekt" OJSC and "Harimpecs" OJSK in December 2007. From the date of acquisition of this financial instrument and on the date of confirmation of these financial statements The Law of Ukraine "On measures aimed at safeguarding the stable functioning of the fuel and energy complex enterprises" №2711-IV dated 23.06.05 is effective, which relieves fuel and energy complex enterprises from discharge of obligations up to 01 January 2011. This obligation is accounted at amortized cost. Effective interest rate is 20%.

9. Loans and borrowings

	Currency	As at 30 June 2010		As at 31 December 2009		As at 30 June 2009	
		Interest rate, %	Residual debt	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	UAH	19%	8 617 517	19%	8 533 339	19%	8 930 017
Loan 2	UAH	30%	377 185	30%	172 809	30%	391 608
Loan 3	UAH	18%	27 823	18%	51 722	18%	82 113
Loan 4	UAH	25%	4 679 398	25%	1 502 818	-	-
Loan 5	UAH	20%	484 381	20%	548 527	20%	229 742
Non-interest borrowing	UAH	-	-	-	125 238	-	17 036
			14 186 304		**10 934 453**		**9 650 516**
Short-term			14 186 304		10 932 826		9 603 790
Long-term			-		1 627		46 726

Loan 1

Loan was received in July 2009 in "Credit-Dnepr" SB. The borrower is "Shahta Sadovaya" LTD. Initially, maturity date was identified as 05 September 2010, in 2009 it was prolonged to 5 October 2010. 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 "Credit-Dnepr" SB. Overdraft limit is equal to UAH 3 000 000. Initially, maturity date was determinated as 10 March 2010, but in March 2010 it was prolonged to 10 August 2010.

Loan 3

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

Loan 4

Loan was received in October 2009 in "Credit-Dnepr" SB. The borrower is "Shahta Rassvet-1" LTD. Initially, maturity date was identified as 01 March 2010, in March 2010 it was prolonged to 25 December 2010. Also in March 2010 additional agreement for amount of UAH 25 million extra costs was signed. 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 2008 from an individual. The borrower is "Shahta Sadovaya" LTD. Maturity date is identified as 01 October 2010. This loan is unsecured.

Non-interest borrowing

The non-interest borrowing received by the Group in Ukrainian hryvnas, are reimbursable, interest-free and unsecured.

10. Related parties

Residual debts and transactions between the Group's Companies were eliminated in combination, and information about them is not disclosed in this note. Information about transactions between the Group and its related parties are as follows:

	Purchase of goods and services for the six months ended 30 June	
	2010	**2009**
Companies, directly or indirectly controlled by the Group owners	140 131	75 714
	140 131	**75 714**

	Proceeds from goods and services for the six months ended 30 June	
	2010	**2009**
Companies, directly or indirectly controlled by the Group owners	8 575 646	21 143
	8 575 646	**21 143**

	Liabilities to related parties		
	As at 30 June 2010	**As at 31 December 2009**	**As at 30 June 2009**
Companies, directly or indirectly controlled by the Group owners	72 865	232 413	65 564
	72 865	**232 413**	**65 564**

	Liabilities of related parties		
	As at 30 June 2010	**As at 31 December 2009**	**As at 30 June 2009**
Companies, directly or indirectly controlled by the Group owners	583 669	315 682	298 198
	583 669	**315 682**	**298 198**

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. Such liabilities arose due to sale of coal. Prices of transactions with related parties are established according with market ones. Liabilities are repaid basically with cash. Provisions for impairment of accounts receivable from the related parties were not charged.

Remunerations of top management:

	the six months ended 30 June	
	2010	**2009**
Wages and salaries	39 086	22 089
Contribution to the pension fund	12 714	7 097
Other contributions	4 766	2 099
	56 566	**31 285**

11. Provisions, contingent assets and liabilities

Provisions

In June 2010 public enterprise "Shachtarskantracite" advanced a claim to the Group in amount USD 19 578. The plaintiff demanded compensation of value of installed in the mine linings, which were not paid on purchase of property complex in 2007. Owing to probability of outflow of economic benefits, required to settle this claim, is high in Group's opinion, provision on legal costs amounting to USD 19 697 was created. The Group had no other legal investigations.

At 30 June 2010 provision for land reclamation and abandoning of mines is charged in amount USD 895 027 (31 December 2009: USD 811 499; 30 June 2009: USD 782 849) due to mining activity of the Group in the result of which liabilities arise for mine closing and dismantling, and reclamation of land, balance of which was disrupt by underground works and waste dumps.

Contingent tax liabilities in Ukraine

Ukrainian tax system and legislation are fairly new and are characterized by a great number of taxes and frequent changes in the legislation which are often ambiguous, inconsistent and are subject to controversial interpretations by different executive and legislative power bodies entitled to impose significant fines and penalties. All listed creates a taxation risk exposure which considerably exceeds that of the countries with more advanced tax systems.

Tax consequences of business transactions for the purpose of Ukrainian statutory taxation are often determined by the form in which those transactions are documented and reflected based on the requirements stipulated by the Ukrainian Accounting Standards. Accordingly the Group carries out a number of operations aimed at effective taxation rate optimization. In the process of special purpose combined financial statements’ preparation, in order to render the economic essence of those operations, the Group’s financial position and performance, the Group’s management reflected actual revenue and costs receivables and payables.

The Management proceeding from their interpretation of the tax legislation official documents and court decisions think that keeping records of business transactions by the Group is sufficient for confirming its tax returns by the taxation authorities. In connection with the above at 30 June 2010, 2009 the Management did not create any provisions for the payment of potential tax liabilities. However should the controlling authorities classify such transactions as subject to taxation and apply such classification to the companies of the Group, actual taxes and penalties may differ from the Management assessment.

12. Events after the reporting date

Negotiations about prolongation of loan #1 and loan #2 are carrying, as at the statement signing date agreement with the bank was not achieved. Loan #5 is overdue.

All the six Ukrainian companies, which joined the Group in October 2010 were purchased by Sadovaya LLC. Subsequently Sadovaya Group S.A. received payment-free all shares in Sadovaya LLC, with declared, but unpaid share capital in the amount of USD 215 000. After Sadovaya Group S.A. paid up the share capital of Sadovaya LLC. All shares of Sadovaya Group S.A. were purchased by Connectico LLC.

As a result of these transactions (the "Operations") as of October 2010
(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.

There were no other important events after the reporting date.

ANNEX I
DEFINED TERMS

Admission	Admission of Shares to trading on the WSE
Allotment Date	The date on which the Offer Shares will be allocated to Investors and on which the Offer Price and the final number of the Offer Shares to be offered in the Offering are determined
AMC	The Antimonopoly Committee of Ukraine
Articles of Association	The articles of association of the Company
Beneficial Owners	Mr. Stetsurin and Mr. Tolstoukhov
Board of Directors	The Board of Directors of the Company
CIS	The Commonwealth of Independent States
Companies' Act 1915	The Luxembourg law of August 10, 1915, regarding commercial companies, as amended
Company, Issuer	Sadovaya Group S.A a public limited company (*société anonyme*), having its registered office at 412F, route d'Esch, L–2086 Luxembourg, Grand Duchy of Luxembourg and registered with *Registre de Commerce et des Sociétés* in Luxembourg under number B 153489
Combined Financial Statements	Audited combined financial statements of Group of companies Sadovaya Group S.A. and its subsidiaries for the financial years ending December 31, 2007, 2008 and 2009
CSSF	*Commission de Surveillance du Secteur Financier* – capital market regulatory authority in Luxembourg
Directors	Directors A and Directors B of the Company
EEA	European Economic Area
ESPI	The electronic public company reporting system in Poland
EU	The European Union
EUR, €, euro	The lawful currency of the European Economic and Monetary Union., of which Luxembourg is a member.
FSMA	The United Kingdom Financial Services and Markets Act 2000
General Meeting	The General Meeting of Shareholders of the Company
Group, Sadovaya Group	The Company together with its direct and indirect subsidiaries
Group Subsidiary	Any direct or indirect subsidiary of the Company
h	Hour
Hryvnia or UAH	The lawful currency of Ukraine
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS Financial Statements	Combined Financial Statements and Pro Forma Financial Information contained in the Prospectus
IMC	IMC-Montan Consulting GmbH, mineral expert who prepared the Technical Report

Institutional Investors	Selected corporate entities (legal persons) and non-corporate entities other than individuals, to whom the Offering is addressed
Listing Agent	Dom Maklerski BZWBK S.A. with its seat at Plac Wolnosci 15, 60-967 Poznan, Poland
Listing Date	First day of trading in Shares on the WSE
LLC	Limited liability company under Ukrainian law
Luxembourg Corporate Governance Code	Corporate governance code contained in "Ten principles of corporate governance of the Luxembourg stock exchange"
Managers	BG Capital, 77A Chervonoarmiyska, Kyiv 03150, Ukraine, and BG Trading Limited, Arch. Makariou III, 58 IRIS TOWER, 6th floor, office 602 P.C. 1075, Nicosia, Cyprus
Maximum Price	The maximum price at which the Offer Price will be set
Member State	A Member State of the European Economic Area
Mémorial C	Official gazette in Luxembourg - *Mémorial C, Recueil des Sociétés et Associations*.
MiFID	Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC
NBP	The National Bank of Poland
NBU	The National Bank of Ukraine
NDS	*Krajowy Depozyt Papierów Wartościowych S.A.* (*KDPW S.A*), *t*he National Depository for Securities – the clearing and settlement institution in Poland
NPV	Net present value
Offer Price	The offer price per Offer Share determined on the Allotment Date
Offer Shares	Up to 10,771,423 newly issued ordinary bearer shares in the corporate capital of the Issuer offered in the Offering
Offering	The offering of the Offer Shares, based on this Prospectus
Operating Companies	Ukrainian companies Shahta Sadovaya LLC, Shahta Rassvet-1 LLC, Donvostok STB LLC, Interinvest LLC, Interdon PC and Volat-Trans PC
PAP	The Polish Press Agency
PC	Private company under Ukrainian law
PFSA	The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), the capital market regulatory authority of the Republic of Poland.
PLN, Polish zloty	The lawful currency of the Republic of Poland.
Polish Manager	Bank Zachodni WBK SA., Rynek 9/11, 50-950 Wroclaw, Poland
Prospectus	This Prospectus constituting a prospectus in the meaning of the Prospectus Directive prepared for the purpose of the Offering and the Admission
Prospectus Act 2005	Luxembourg law dated July 10, 2005 relating to prospectuses for securities , implementing the Prospectus Directive into the Luxembourg law

Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of the European Union of 4 November, 2003, on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and any relevant implementing measures.
Public Offering Act	The Polish Act of 29 July, 2005, on Public Offerings and Conditions governing the Admission of Financial Instruments to Trading on Organized Markets, and on Listed Companies
Public Takeover Law	The Luxembourg law on public takeovers dated 19 May 2006
Regulation 809/2004, Prospectus Regulation	Commission Regulation (EC) no 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended.
Regulation S	Regulation S promulgated under the United States Securities Act of 1933, as amended, governing offers and sales made outside the United States without registration under the US Securities Act
Retail Investors	Individuals who intend to purchase Offer Shares in the Offering
Principal Shareholder	Connektico Ventures Limited with offices at 1 Lampousas, P.C. 1095, Nicosia, Cyprus
Settlement Date	The date of the settlement of the Offering
Shares	The ordinary shares of the Issuer with nominal value of USD 0.01 each
Stabilisation Regulation	The European Commission Regulation (EC) no. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments
Subscription Period	The period in which Investors may place orders to subscribe for or purchase the Offer Shares
Takeover Directive	Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, on takeover bids
Trading in Financial Instruments Act	The Polish Act of 29 July, 2005, on Trading in Financial Instruments
US Securities Act	The United States Securities Act of 1933, as amended
USD, US$, US Dollars	US dollar, the lawful currency of the United States of America
WSE	The Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*), a regulated market in Poland
WSE Corporate Governance Rules	Polish Principles of Corporate Governance contained in "Best Practices in Public Companies in 2010" approved by the WSE
WTO	The World Trade Organization

ANNEX II
GLOSSARY OF TECHNICAL TERMS

Best Practice		Operating procedures that are recognised in the international mining community which maximise productivity and return on investment commensurate with stewardship of the assets.
Billion		One thousand million.
Blending		Mixing two or more materials together to give a mixture of the desired quality.
Coal		A readily combustible rock containing more than 50% by weight and 70% by volume of carbonaceous material, including inherent moisture. It is formed from plant remains that have been compacted, indurated, chemically altered and metamorphosed by heat and pressure during geological time.
CO2		Carbon dioxide
Deposit, Deposits		An area of coal resources or reserves identified by surface mapping, drilling or development.
Development		(i) The initial stages of opening up a new mine, and/or (ii)Removal of overburden, or tunnelling to prove the location and value, and allow the extraction of ore.
Development		Excavations or tunnels required to access the coal or ore.
Dilution		The contamination during the mining process of excavated coal by non-coal material from the roof, floor or in-seam partings.
Disposal		Final placement or destruction of toxic, radioactive, or other wastes; surplus or banned pesticides or other chemicals; polluted soils; and drums containing hazardous materials from removal actions or accidental releases.
Dump		A site used to dispose of solid wastes without environmental controls.
Environment		The sum of all external conditions affecting the life, development, and survival of an organism.
Exploitation		Method of deriving benefit from a resource.
Exploration		Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.
Feasibility Study		A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the technical and economic viability of a project and to support the search for project financing.
Grade		The classification or value of coal. The relative quality.
JORC		The "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004 Edition) published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code").
km		Kilometre.
Lease		Contract between two parties enabling one to search for and/or produce minerals from the other's property.

Long wall mining		Form of underground coal mining, where a longwall of coal is mined in a single slice.
Mine		Any operation where mineral is extracted from the ground. This may be by opencast or underground mining methods.
Mineable		Capable of being mined under current mining technology and environmental and legal restrictions, rules and regulations.
Mineable		That portion of a resource for which extraction is technically and economically feasible.
Mining Licence		Permission to mine minerals.
Monitoring		Periodic or continuous surveillance or testing to determine the level of compliance with statutory requirements or pollutant levels in various media or in humans, animals, and other living things.
Permit		An authorisation, licence, or equivalent control document issued by an approved agency to implement the requirements of an environmental regulation; e.g., a permit to operate a wastewater treatment plant or to operate a facility that may generate harmful emissions.
Pit		A hole in the ground – an excavation below original ground level – a surface mine may comprise one or more pits.
Plant		Fixed or moveable equipment required in the process of winning or processing the ore.
Prevention		Measures taken to minimize the release of wastes to the environment.
Rehabilitation		Land restored to its former condition.
Reserve(s)		Resources to which modifying factors (mining, economic, marketing, legal, environmental, social and governmental) have been applied
Resource(s)		Geologically defined resource of coal, becomes a Reserve when the modifying factors (mining, economic, marketing, legal, environmental, social and governmental) are taken into account.
Seam		A layer or bed of coal or lignite. Correlated seams of coal are normally assigned a name, letter or number. A single seam can contain one or more non-coal partings resulting in a sub-division into leaves.
Settling tank/ponds/lagoons		A holding area for wastewater in which heavier particles sink to the bottom for removal and disposal.
Split		An in-seam parting which attains a thickness such that the resultant leaves of coal are considered as separate seams from a mining point of view.
t		Metric tonne
Waste		Rock or material of no commercial value residing within the seam, above the seam or below the seam.
Wastes		Unwanted materials left over from a manufacturing process. 2. Refuse from places of human or animal habitation.

ANNEX III
TECHNICAL REPORT

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Essen, 22nd October, 2010

IMC-Montan Consulting GmbH Am Technologiepark 1 D-45307 Essen Germany

The Directors and Management Board
Connektico Ventures Limited
Lampousas, 1
P.C. 1095
Nicosia
Cyprus

Dear Sirs,

Mineral Expert Report for the Ukrainian Coal Mining Assets held by Sadovaya Group S.A., Luxemburg

Purpose of Report

This report has been prepared by IMC-Montan Consulting GmbH ("IMC") for possible use as part of a financing initiative and or inclusion in a prospectus ("Prospectus") which could be published by Sadovaya Group S.A., Luxemburg (the "Company") in connection with an offer of ordinary shares in the Company to the Official Lists maintained by the Warsaw Stock Exchange.

IMC was instructed by the Directors of the Company to prepare a Mineral Expert Report for the coal assets of the Company. This report, which summarises the findings of IMC's review, has been prepared in order to satisfy the requirements of a Mineral Expert's Report as set out in the Prospectus Directive and the Prospectus Regulations 809/2004 in conjunction with the recommendations of the CESR and with the pre 1 July 2005 requirements of Chapter 19 of the Listing Rules of the UKLA.

IMC has reviewed the practice and estimation methods undertaken by the Company for reporting reserves and resources in accordance with the Former Soviet Union "Classification and Estimation Methods for Reserves and Resources", last revised in 1981, and submitted as is mandatory to the Ministry of Energy and Mineral Resources of Ukraine. This procedure establishes the nature of evidence required to ensure compliance with the Classification. Within this is a "Conditions for Estimation of Reserves and Resources" unique to each deposit. IMC has reviewed the reserves and resources statements of the individual units compiled by Company and has restated the reserves and resources in compliance with the Prospectus Directive in conjunction with Chapter 19 of the Listing Rules and in accordance with the criteria for internationally recognised reserve and resource categories of the "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004) published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code"). In this report, all reserves and resources estimates, initially prepared by the Company have been substantiated by evidence obtained from IMC's site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by the management of the Company.

In accordance with the Prospectus Directive and the Prospectus Regulations 809/2004 in conjunction with the recommendations of the CESR and with the pre 1 July 2005 requirements of Chapter 19 of the Listing Rules of the UKLA, only Proved and Probable Reserves have been valued. Other assets of the Company, which include resources, have not been included in the valuation.

Capability and Independence

This report was prepared by IMC, the signatory to this letter. Details of the qualifications and experience of the consultants who carried out the work are in Annex A to this report. IMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to clients. IMC has received, and will receive, professional fees for its preparation of this report. However, neither IMC nor any of its directors, staff or sub consultants who contributed to this report has any interest in:

- The Company or Client; or
- The mining assets reviewed; or
- The outcome of any potential financing initiative, including a share offering.

Drafts of this report were provided to Client, but only for the purpose of confirming both the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Scope of Work / Materiality / Limitations and Exclusions

IMC reviewed the assets in accordance with the scope of work and exclusions and limitations and on the basis of the materiality criteria set out in Annex B to this report.

IMC has independently assessed the coal assets of Company by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the life-of-mine ("LOM") plans relating to productivity, production, operating costs, capital expenditures and revenues.

All opinions, findings and conclusions expressed in this report are those of IMC and its sub consultants.

Inherent Mining Risk

Surface and underground mining is carried out in an environment where not all events are predictable.

Whilst an effective management team can, firstly, identify the known risks, and secondly, take measures to manage and mitigate these risks, there is still the possibility for unexpected and unpredictable events to occur. It is therefore not totally possible to remove all risks or state with certainty that an event that may have a material impact on the operation of a mine, will not occur.

Glossary of Terms

Defined and technical terms used in this report are set out in Annex D.

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1 OVERVIEW

The Sadovaya Group S.A. ("the Company or SMG") incorporated in Luxemburg is a holding company of coal mining and trading entities in the Donbass region in the Ukraine.

The Company through its affiliates currently has two underground coal mines, a number of coal waste deposits as well as coal tailings ponds to be processed and a coal trading and blending operations. Out of these different coal sources the Company is blending mainly steam coal for the use in power stations. A smaller amount of coking coal is being used in the steel industry.

The Donbass region is one of the most important coal basins in the world where there are many mines in a coalfield extracting all types, grades and ranks of coal. The Company`s two underground mines (Sadovaya Mine and Rassvet-1 Mine) are located in the Lugansk and Donetsk region. These mines are multiple seam underground operations with thin seam longwall mining at shallow depth.

1.1 GENERAL COMPANY OWNERSHIP STRUCTURE

Sadovaya Group S.A. is the wholly-owned subsidiary of Connektico Ventures Limited in Nicosia, Cyprus (Client). The Company is the owner of Sadovaya Limited in Nicosia, Cyprus, holding the majority of the corporate rights of several Ukrainian companies.

IMC understands the simplified structure of the Ukrainian legal entities of the Company after completion of the Company`s group reorganisation as follows:

1. Private Company Interdon (100 %)
2. Interinvest LLC (99 %)
3. Shahta Sadovaya LLC (99 %)
4. Donvostok STB LLC (99 %)
5. Shahta Rassvet-1 LLC (99 %)
6. Private Company Volat-Trans (100 %)

Figure 1.1-1 gives an overview of the Company`s final ownership structure. Connektico Ventures Limited holds 1 % of the shares in Interinvest LLC, Shahta Sadovaya LLC, Donvostok STB LLC and Shahta Rassvet-1 LLC. The ultimate parent company of Sadovaya Group S.A. is Connektico Ventures Limited, Cyprus. The Sadovaya Group S.A. will be floated on Warsaw stock exchange and is the subject of this MER. IMC understands that the corporate reorganization of the Company`s group will be completed by 15th November 2010.

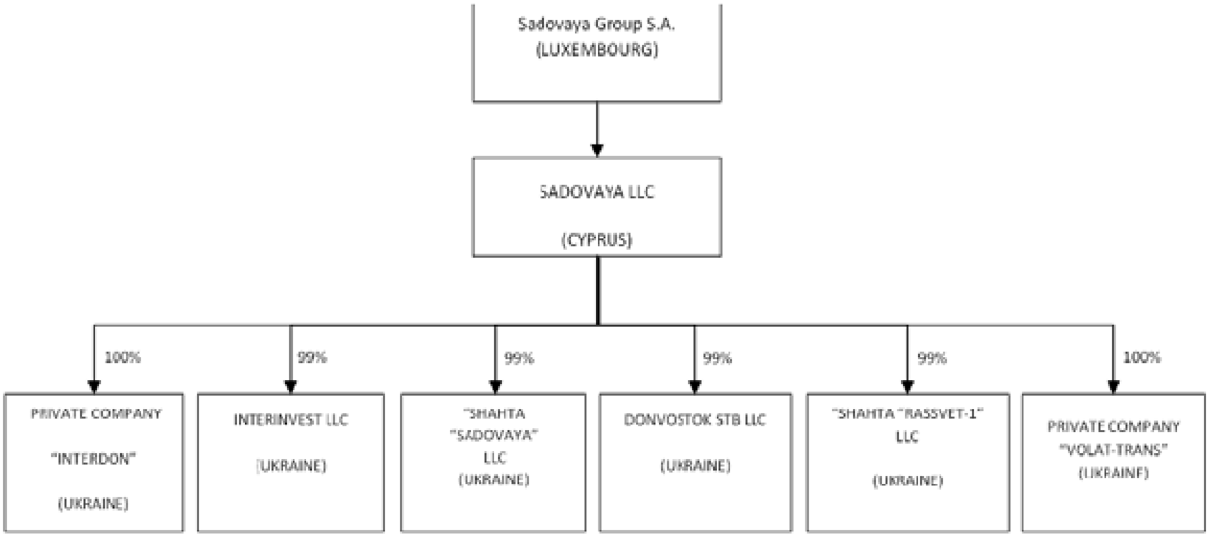

Figure 1.1-1 Future Company structure of Sadovaya Group S.A., Luxemburg

1.2 GENERAL DESCRIPTION OF ASSETS UNDER REVIEW

IMC reviewed the assets and projects listed in Table 1.2-1. The location of these assets and activities are shown in Plates 1 to 3 contained in Annex C.

Table 1.2-1 Reviewed operating assets

Asset	Status	Type	Product / output	Date of Commencement of Operation
Sadovaya Mine	operating	underground pit	coal	1959
Rassvet-1 Mine	operating	underground pit	coal	1956
Roskoshniy section of Sadovaya Mine	project	underground pit	coal	NA
Krasnoluchskaya-Severnaya Mine	project	underground pit	coal	NA
Processing plant of site № 5/7	operating	processing	coal	NA
Processing plant of site № 12	operating	processing	coal	NA
Yalizavetovskiy processing plant	operating	processing	coal	NA
Processing plant of site № 7	project	processing	coal	NA
Processing (preparation) plant Sukhpdolskiy	project	processing	coal	NA
Processing (preparation) plant of site № 5/7	project	processing	coal	NA
Preparation Complex of Sadovaya Mine	project	processing	coal	NA
Waste dumps from coal mining				
Dump №1 of Krasnokutskaya №5 Mine	project	waste dump	coal	NA
Dump №1 of Knyagininskaya Mine	project	waste dump	coal	NA
Dump №2 of Knyagininskaya Mine	project	waste dump	coal	NA
Dump of Ganozhenko Holing of Knyagininskaya Mine	project	waste dump	coal	NA

Asset	Status	Type	Product / output	Date of Commencement of Operation
Dump №26 of Miusinskaya Mine	project	waste dump	coal	NA
Dump №2 of Krasnokutskaya №5 Mine	project	waste dump	coal	NA
Dump of former Yelizavetovskaya Mine	project	waste dump	coal	NA
Dump №7 of former Yanovskaya Mine	project	waste dump	coal	NA
Dump of Sadovaya Mine	project	waste dump	coal	NA
Dump of former Imeni 50-letiya Sovetskoi Ukraini Mine	project	waste dump	coal	NA
Dump №5 (Mine № 12 Zapadnaya) of Almaznaya Mine	project	waste dump	coal	NA
Waste tailings ponds from coal preparation				
Tailings Pond of Izvestiy Mining Preparation Plant	project	tailings pond	coal	NA
Tailings Pond of Miusinskaya Mining Preparation Plant	project	tailings pond	coal	NA
Tailings Pond of former Sukhodolskaya Preparation Plant	project	tailings pond	coal	NA
Tailings Pond of Khrustalskaya Mine	project	tailings pond	coal	NA
Tailings Pond of Knyagininskaya Mine	project	tailings pond	coal	NA
Tailings Pond of former Samsonovskaya Preparation Plant	project	tailings pond	coal	NA

1.3 GEOLOGICAL OUTLINE

1.3.1 General Regional Geology

Donbass is one of the most important coal basins in the world where many mines are scattered around the coalfield extracting all types of grades and ranks of coal.

Stratigraphically the lowest coals in the area are found in the Kamenskaya C_2^5 Suit which is marine to brackish in origin. The upper part of the suite, developed in light gray, coarse-grained sandstones of alluvial origin, indicates that two cycles of sedimentation took place in the region: Lower - regressive, upper - transgressive. The total thickness for the suit can reach up to 630 m in places.

Suites C_2^5 - C_2^6 of middle Carboniferous is almost entirely covered everywhere by the Quaternary loams and clays. The Quaternary sediments are about 5-10 m in the lower lying areas and 0.3-0.5 m in the elevated parts. The Carboniferous deposits are represented by terrigenous sediments namely: sandstones, shales, sand, clay with thin layers of limestone and coal. Economic coals are confined to the sediments of C_2^5-C_2^6.

The lowest coals in the succession have the highest rank (anthracite, T), with ranks generally becoming lower, moving up through the coking coals (K) and then to D grade coals, in the topmost seams.

1.3.2 Summary of Reserves and Resources

1.3.2.1 International Resources and Reserves Systems

Several reporting codes exist in the international mining industry and the various regulatory authorities have now urged the conformity of codes and made reporting to code standards mandatory in any public documents issued by public companies. The chief Reporting Standards are:

• Australia	JORC Code
• UK and most part of Europe	PERC Code
• USA	USGS Circular 831
• Canada	OSC Instrument 43-101
• South Africa	SAIMM Reporting Code

CRIRSCO (Committee for Mineral Reserves International Reporting Standards) is the umbrella organisation founded in 1994 to coordinate the work of international minerals reporting code committees (including JORC, CIM, SAMREC, SME, and the IMM committee - now re-constituted as PERC: Pan European Resource and Reserve Committee). All the standards above or the similar ones around the world have common terminology and nomenclature and within the near future they will become part of an international reporting code standard. An important element within these codes is that they all recognise the difference between Mineral Resources and Reserves.

Conversion from a resource to a reserve requires the influence and application of "modifying factors". These include mining, economic, marketing, legal, environmental, social and governmental factors. A Resource is geologically defined; it becomes a Reserve when the modifying factors, especially technical and economic, are taken into account. Strict guidelines exist for data quality and reporting for different mining commodities.

However in the case of this study, the time schedule has precluded the full reworking of data along JORC compliant lines. Due to this, this document has attempted using the comparison factors described below to convert the existing Ukrainian Reserves Assessments into the equivalent JORC Categories.

1.3.2.2 Coal Resources under the JORC Code

The JORC Code states that: -
"*Coal resources are that part of a deposit in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a coal resource are known, estimated or interpreted from specific geological evidence and knowledge*."

Coal resources are sub-divided, in order of decreasing geological confidence into measured, (highest level), indicated and inferred (lowest level) categories.

Measured Resources Part of the total coal resource for which quantity and quality can be estimated with a high level of confidence, based on information gathered from points of observation that may be supported by interpretive data. The points of observation are spaced closely enough to confirm geological and/or quality continuity.

Indicated Resources Part of the total coal resource for which quantity and quality can be estimated with reasonable levels of confidence based on information gathered from points of observations that may be supported by interpretive data. The points of observation are sufficient for continuity to be assumed; but are too widely or inappropriately spaced to confirm.

Inferred Resources Part of the total coal resource estimate for which quantity and quality can only be estimated with low levels of confidence. The quantity and quality are inferred using points of observations that may be supported by interpretive data.

In general it is the task of the geologist to estimate the resource available to the deposit as the process of estimation of the resource involves no mining or economic evaluation.

1.3.2.3 Coal Reserves under the JORC Code

Coal reserves are stated as being "the economically mineable part of a measured or indicated resource". Coal reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined. Appropriate assessments, which may include feasibility studies, have been carried out. These assessments should include proper consideration of all relevant modifying factors such as: mining methods, and economic, marketing, legal, environmental, social and governmental factors.

These assessments should demonstrate that, at the time of reporting, economic extraction could reasonably be justified. Coal reserves are sub-divided, in order of decreasing confidence into proved coal reserves and probable coal reserves.

Proved Reserves The economically mineable part of a measured coal resource for which the modifying factors have been satisfied.

Probable Reserves The economically mineable part of an indicated coal resource. It can also be the economically mineable part of a measured coal resource if the modifying factors need to be further resolved before the estimator can confidently place the coal reserve in the proved category.

The process to estimate the reserve at a deposit usually involves not only the geologist, but other experts such as the mining and processing engineers, environmental scientists and financial experts. One of the key factors for any deposit to be evaluated under JORC is that the modifying factors have been satisfied in a recent assessment to give a realistic depiction of the deposit.

1.3.2.4 Former Soviet Union and Ukrainian Classification

The former Soviet Union and the current Ukrainian Code, which is primarily based on the deposit complexity (four classes) and state of knowledge (seven levels), is more prescriptive than CRIRSCO compliant Codes and uses of geological complexity classes and prescribed estimation methods to classify the deposits.

The deposit classes range from a simple geometry and uniform grade to complex geometry and/or unpredictable grades. State of knowledge is categorised at seven different level from "P3, P2, P1" (from Prognostic resources at regional reconnaissance level) to C2 (evaluated reserves or resources) to "C1, B, A" (fully explored resources at production level). The allocation to resource or reserve category is almost automatic and defined by such parameters as drill hole or trench grid spacings. Tonnage and grade estimation is undertaken by classical sectional or polygonal reserve block computation methods (allowing manual calculation).

Upgrade to C classes from P requires additional data (typical "modifying factors" such as geotechnical. economic. pit design. etc.) whilst C1, B, and A classes require completion of a prefeasibility/feasibility study which is generally called the TEO (technico-economicheskiye obosnovaniye =technical-economic characterisation) and the TER (technico-economicheskiye raschoti = technical- economic calculations). The publication of data in the above classes requires audit and registration by an independent organisation i.e. GKZ = State Commission on Reserves (national) or TKZ = Territorial Commission on Reserves (regional).

The TEO document is a very comprehensive and detailed document and covers the geological and technical/technological assessment and economical evaluation of the deposit in question for different cut-off parameters. The economical assessment typically investigates the different cut-off parameter options defined from the geological and technological perspectives under the headings of: analysis of market and economic environment and taxation issues, operational cost and production cost and product sales, capital costs, floating capital investments, profitability, discount rate, net cash flow and net present value, internal rate of return as well as indicators of the commercial effectiveness of the project.

It is important that any resource must be approved by GKZ or TKZ before any mining is allowed. Therefore, cut-off parameters document plays a crucial step on the finalisation of the approval of the reserves. GKZ/TKZ approval includes transfer of reserves to the Ukrainian national mineral inventory or the state "balance" of reserves. The Ukrainian system places all the available coal in the ground as a reserve and does not make any distinction between the resource and reserves. However the system does allow for a sub-division of the reserve into "Balanced", "Out-of-balance" and "Industrial Reserves" based on the criteria used and laid out in the reserves protocols.

Balanced Reserves Once a resource has been defined and approved, such that a mining licence has been issued, the resource must be fully extracted and is reduced each year according to the annual production from the mine. The defined resource is known as the "Balance Reserves".

Under this category, it is noted that the criteria and constraints such as minimum seam thickness and maximum ash content that have been used to define the Balance Reserves under the Ukrainian system are reasonable and compatible with those used internationally to classify coal resources.

Once the reserves are put under the balanced category, the company will be charged royalties (generally 6 % of production revenue) over the life of the mine. If this target is not achieved for some reason, penalties may be applicable, though in practice there are generally mitigating circumstances which can be argued to waive the penalties.

Out-of-Balance Reserves The Ukrainian system also provides for marginal or low-grade material known as “Out-of-Balance Reserves”. Out-of-Balance Reserves may become economic in the near future but may not be mineable at the moment because of mining, geological, legal, environmental or other circumstances.

These include resources in ground that are not currently held within a valid mining licence, resources that have to be left as pillars during mining due to safety and technical reasons, or any other resources that may be left for geological or mining reasons that may at some time in the future be available. Under international systems most of this coal would be classified as a resource.

A lower rate of royalty is usually paid on out-of-balance ore and if there is a shortfall on the balance ore it may be possible to offset some or all with “out-of-balance reserve” and so avoid the penalties for failing to meet the terms of the mining licence.

Stephen Henley commented in his article in Mining Journal dated August 20, 2004 that there was a natural tendency for the Soviet geologists to be conservative in their estimations due to the link between the estimated ore reserves to actual payments of royalties over a mine’s life.

Industrial Reserves These are “Balance Reserves” minus all operational losses and overall mine losses.

The TEO cut-off parameters document gives the reasoning for the areas where likely losses may occur due to geological, technical and economical constraints and GKZ committee delineates these areas on the basis of some compromise between the company and committee; and the final extractable amount is agreed upon as the approved industrial reserves.

They are realistically recoverable resources, which may be converted to reserves, in western terms, upon application of the appropriate economic parameters.

An agreed compromise cut-off grade does not automatically reflect a commercial cut-off. In addition. It must be stated that some of these industrial reserves may have been delineated long time ago in the Soviet times and may not represent the realistic extractable amounts from the mines in today’s conditions but they still have to be fully extracted by the companies even the economical parameters do not justify their full extraction in present conditions.

1.3.2.5 Reserve System Comparisons

The main sources of information for the review and reclassification of the coal resources and reserves of the mines has been the seam plans. tables listing the characteristics of the seam and the calculated “Balance Reserves” under the Ukrainian system, diagrammatic cross sections for the coal seams and discussions with geological staff.

Comparison between the Soviet/Ukrainian and JORC systems is not straight forward because each system is founded on differing principles and philosophies.

In particular the Soviet/Ukrainian system is essentially an inventory system allowing the State to know how much mineral is present and how much tax and royalties would be applicable to these reserves. The Ukrainian classification appears to be harder on more complex deposits and more lenient on simpler deposits than CRIRSCO compliant codes. The Soviet/Ukrainian system, which is fully integrated with mining law and taxation system, is intended for administration, management, and planning purposes, not for market financing.

The system defines the spacing of boreholes with reference to the degree of regularity of the deposit to categorise the reserve. However these categorisations, based on the original exploration, or altered by further exploration, only change by approval of the State. They do not change over time as the mining of the deposit progresses. For example, Category B coal is still Category B coal even though it may be, as a reserve block; partly extracted and further geological information was obtained and is still available from the current workings.

This lack of change in categorisation is one of the basic differences between the Soviet/Ukrainian and any International system. Under international systems reserve and resource categorisations are dynamic and fluid, and change with exploitation of the deposit as well as with further exploration and change of economics. Therefore proved reserves can be generated as mining progresses through time.

A simple system for converting Ukrainian estimates automatically to International equivalents can be a challenging task and it seems unlikely that a system can be agreed at present. Therefore, any conversion guideline will have to remain subjective rather than definitive, and will need formally to take account of geological complexity and other modifying factors.

However, PERC on behalf of CRIRSCO has recently undertaken a task to harmonise the Western and Ukrainian reporting system and compiled a consultation guideline book sometime in April 2010. Furthermore, an approximate correlation is set out in the table below by Henley in 2004. These categories are not exact matches and the transfer of one to the other must be based on a detailed examination of the borehole spacing and nature of the deposit.

For the reserve categorisation, it is concluded that the “Balance Reserves” under the Ukrainian system are very similar to resources under international systems such as the JORC Code. Depending on the modifying factors, these balance reserves can further classified into probable and proved reserves categories.

Table 1.3-1 Classification of Reserves / Resources and relationship of Ukrainian Categories with International Definitions

Ukrainian Reserve Category	Reserve blocks identified for extraction within Plans	Resources not allocated to detailed plans (may be scheduled in long-term strategic plans without cost support)
A	Proved reserve	Measured resource
B	Proved reserve	Measured resource
C1	Proved/probable reserve	Indicated resource
C2	Probable/possible reserve	Indicated resource
P1	-	Inferred resource
P2	-	Inferred resource

1.3.3 Reserves and Resources Statement

1.3.3.1 Methodology

There was a vast amount of information and data available from two mines (Sadovaya and Rassvet-1) and two new projects (Roskoshniy and Krasnoluchskaya-Severnaya) currently planned to be converted into mine through construction. The time schedule to complete this study has precluded the examination of the seams and structural information in detail. However, it has been possible to estimate the reserves based on the information available to the competent person. The reserve estimation calculations were based on the Company's future mine plans presented to the competent person. All the available mine plans from the prospective mineable seams along with the geological information and chosen mining methodology were examined and estimations were made on this basis.

The criteria and constraints such as minimum seam thickness and maximum ash content that have been used to define the Balance Reserves under the Soviet/Ukrainian system are reasonable and are compatible with those used internationally to classify coal resources. These resources, however, had to be classified on the basis of spacing of points of observation (primarily boreholes) into measured, indicated and inferred categories. The JORC system of classification allows for the extrapolation of data up to 500 m from point of observations, i.e. under favourable conditions points of observation can be up to 1000 m apart, for measured resources.

The IMC has concluded that the resource and reserve estimates prepared by the mine staff are considered reasonable and reliable for the following reasons:

- Mine production to date has shown that the major coal seams are consistent and of good quality and that the data used in the calculation of resources and reserves is of good quality.
- Disruptions to the seam continuity (such as wash-outs, oxidation zones and faults) are well defined and established.
- Through the years, the mine personnel has undertaken further exploration to increase the confidence level about the geological uncertainty where the data seem to be sparse; and also gained further information through the existing mine workings.

- Resources and reserves calculated by the mine must be submitted to a government ministry periodically for review and approval. This independent verification increases the confidence in the resources and reserves calculated by the mine.
- The Ukrainian system used to classify resources is somewhat more conservative than the international system.
- Mining recovery factors used in the calculation of industrial reserves (equivalent to Reserves) are based on previous experience gained in mining the deposit. These factors can be predicted reasonably accurately.

However, constraints on time have precluded the reworking of the data on the Balance sheet to include dilution to calculate the resources. The figures for resources given below are therefore derived directly from the mine Balance Sheet and no allowances have been made for dilution. Reserves for each seam, on the other hand, were directly estimated on the principles of JORC system by using available mine layouts for that seam, available thickness for mining including clastic bands and dilutions, ash content, seam specific gravity, seam structural continuity, borehole spacing, as well as taking into account other factors such as structural complexity, faults, unstable roof and floor conditions, poor coal quality, previous working conditions and other geological factors.

1.3.3.2 Nature of Evidence

All geological exploration reports are available in paper format in headquarters of the company in Alchevsk. The copies of these reports and some of the individual borehole information are also available in the mines. The headquarter office has the scanning facilities to convert any hard copy material into digital format. The data examined was in good order and some of the hard copies examined randomly were all readable and well preserved. All the relevant data was transmitted into the cross sections, plans, maps and reports which were prepared for the various State Committees.

1.3.3.3 Exploration

For each mine and deposit, the available data from the exploration campaigns had been reviewed and summaries of the key elements were documented.

Borehole core photographs from the boreholes were not available from the earlier and current years as the core photography is not considered part of the exploration practice.

The third party organisations for the exploration and tests works are selected on the basis of the merit, cost and reputation.

No surface geophysical exploration (seismic, gravity, magnetic, aeromagnetic etc) in the past has been carried out for the mines that were audited. However, borehole geophysical logging was undertaken in each borehole to determine the coal seam thickness and its continuity. Although this may not be the case for the majority of the boreholes in the early years, the borehole geophysical methods have been compulsorily employed in any exploration campaign since the early 1960s in all over the Soviet Union.

Over the decades, the results of the boreholes from the surface and underground have been accurately documented. The core recovery according to the company personnel in the majority of cases is more than 70 % although this may be much lower in coal sections especially in the earlier years. Geophysical investigation of the boreholes has been used to assess core loss and the lithological character. However, the original geophysical records or any other original borehole records were not available at the headquarters of the company.

According to the geological reports, the geophysical methods included at least natural gamma and gamma/gamma (density) logs.

The seam correlation was undertaken by considering the geological continuity of the seams through their borehole characteristic and geophysical signatures as well as their regional outcrop features and trends.

1.3.3.4 Survey Data

Survey data at the mines was obtained during the exploration of the deposits and is being obtained during the working of the mines. IMC were told that the workings were surveyed and updated on a regular basis. No confirmation of the survey data was undertaken during the audit visit.

There is no centralised electronic database for the boreholes and coal quality data collected over the years. All the available geological information is still kept in paper format in the company headquarters and individual mines.

It is the opinion of IMC that the paper base database is well managed, controlled and regulated to a reasonably good standard and that, within the constraints of time and the amount of data examined, the integrity and validity of the database is assured.

1.3.3.5 Validation and Verification

The resource evaluation at the mine is undertaken by both utilising a planimeter on the hard copy maps and plans.

Apparent density was accepted according to the geological reports, where for its calculation a consolidated graph of the volumetric weight depending on the ash content of coal was used as well as the graph for recalculation of the apparent density against current moisture content.

The block methodology is used for the calculations by using the appropriate formulae taking into account the level of mining, thickness distribution, protective pillars, tectonic zones, outcrop positions, and recognition of the deposit grade boundaries. Both the planimeter and AutoCAD applications are utilised in reserve calculations.

The resource estimations were examined by IMC on their visit and IMC saw no reasons in the calculations to assume these were not correct. All areas are measured in each block, which is delineated on the basis of natural boundaries and coal quality parameters, and the coal thickness and density are also calculated for the blocks based on the input data. IMC is of the opinion that this is reasonable and that the methods used to calculate the tonnages are valid.

Randomly selected geological areas, where the original resource estimations and resource categories were assigned, were compared against the estimated figures by the IMC team and the results were found reasonably comparable to each other. In addition, the schedule plans were re-checked by using AutoCAD plans and appropriate Excel spreadsheets. Therefore it was concluded that the seam thickness and the coal density used to calculate tonnages are considered reasonable and compare well with the raw data. The reported recoverable tonnages have taken into account geological and mining losses in the planned exploitation of the blocks.

1.3.3.6 Losses and Dilutions

The actual production of the mine and the yearly changes of the resources and reserves are documented in annual reports to the State Authorities. Losses are taken into account in the calculation of the industrial resources at the mine. These losses include coal that is not considered to be workable that are termed Non-Industrial Resources and include balanced and non-balanced resources that fall into this category.

In general these losses are forecast originally at the start of the project and are refined as exploitation proceeds. The resources reported to the state authorities do not include the dilutions.
A summary table of the resources and reserves is given in Table 1.3-2 and Table 1.3-3.

Table 1.3-2 Summary of resources and reserves at Sadovaya Group Operations, 1st July 2010

Mine	Resources (Tonnes)					Reserves under JORC (Tonnes)		
	Ukrainian Classification	JORC Classification						
	Total Resources (A+B+C1)	Measured mineral resources (A+B)	Indicated mineral resources (C1)	Inferred mineral resources (C2)	Total Resources (Measured+Indicated)	Proven Reserve	Probable Reserve	Total Reserves for Mine
Sadovaya	9,929,000	263,000	9,666,000	-	9,929,000	2,109,000	10,271,000	12,380,000
Roskoshniy	17,617,000	871,000	16,746,000	5,743,000	17,617,000	-	9,051,000	9,051,000
Rassvet – 1	13,200,470	12,947,470	253,000	-	13,200,470	5,473,000	-	5,473,000
Krasnoluchskaya-Severnaya Mine	81,448,000	57,166,000	24,282,000	-	81,448,000	11,052,000	3,415,000	14,467,000

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Table 1.3-3 Summary of resources and reserves under JORC at Sadovaya Group Waste Dumps and Tailings Ponds, 1st July 2010

Asset Type	Resources (Tonnes)		Reserves (Tonnes)	
	Measured	Indicated	Proven	Probable
Waste Dumps	1,389,090	-	1,250,181	-
Tailings Ponds	6,541,645	-	5,494,981	-
Total	**7,930,735**	**-**	**6,745,162**	**-**

1.4 MINING OPERATIONS AND FACILITIES

1.4.1 Sadovaya Mine

Mine production by Sadovaya Group was resumed after a five year shutdown period and comprises of four advanced longwall faces (three mechanised and one manual) supported by nine development headings.

The mine presently employs 680 workers with planned extension into Roskoshniy coal resources.
The recent production history of Sadovaya Mine under the management of Sadovaya Group S.A. is shown in the Table 1.4-1.

Sadovaya Mine is located near the town of Krasnyi Luch one of the important coal mining centers of the Donetsk Basin. Mine Sadovaya – Hrustalskaya was initially commissioned in 1959 with a production capacity of 300,000 tonnes of anthracite a year. In 1985, it ceased to exist and the remaining reserves, including the seam ℓ_1, were transferred to mine Almazniya № 12 "Main", which continued to extract until 1997. The mine later became part of the State Enterprise "Luganskuglestroyrestrukturizatsiya" as a structural unit on the basis of the Order of the Minister of Coal Industry № 85 dated 6 March 1997 and was subject to liquidation on the grounds of the order of the Ministry of Fuel and Power of Ukraine on October 31, 2000. As part of liquidation, the pit was later developed to Seam ℓ_3 on the horizon of 168 metres and transferred to Alvin-Trade on the grounds of the order number of 52a of 04.07.2001 SE Luganskuglestroyrestrukturizatsiya and the mine was re-named as Mine Sadovaya in 2007.

Table 1.4-1 Historical operational figures at Sadovaya Mine

Year	Roadway Development (m)	ROM Production (Tonnes)	Longwall Equipment
2007	2,529	153,300	pneumatic-pick/ shearer KZTG, single props
2008	2,913	207,800	pneumatic-pick/ shearer KZTG, single props
2009	867	102,400	pneumatic-pick/ shearer KZTG, single props
2010 (Jan. to June)	592	53,000	pneumatic-pick/ shearer KZTG, single props

1.4.2 Rassvet-1 Mine

Rassvet-1 Mine is located 27 km southwest of Sadovaya Mine in the administrative district of Donetsk region of Ukraine, within the well established Chistyakova - Snezhnoye geological-industrial area. It is about 5 km in its length and 3.7 km in its width which occupies an area of 13.43 km^2. The nearest towns to the mine are Kirovskoe Shakhtersk, Torez, Enakievo and Khartsizk. The largest steel and coke factories are also located in Donetsk and Makeevka at 35-40 km to the southwest. 5-7 km to the east, Debalcevo – Ilovaisk railway passes. Also, the nearest town, Kirov, 3 km to the north-east, has a railway station. The area is serviced by a network of paved roads and highways. The source of electricity is Zuivs'ka Power Plant, located 7 kilometers southwest of the mine field. The water is obtained from Olkhovskoye reservoir through the Seversky Donets – Donbass canal. Rassvet -1 Mine was founded on the basis of the mines № 1 "bis", № 2 "bis" Davydovskii Northern № 3,4,5,6,7 Davydovskii Western, which were commissioned in 1955-1956. The current coal seams in the mine are m_3, ℓ_6, ℓ_4, ℓ_3 with a thickness range from 0.65 m to 1.2 m. The average dipping angle for the strata is 8 - 18º.

The recent production history of Rassvet-1 Mine under the management of Sadovaya Group S.A. is shown in the Table 1.4-2.

Table 1.4-2 Historical operational figures at Rassvet-1 Mine

Year	ROM Production (Tonnes)	Longwall Equipment	Comments
2007	36,994	pneumatic-pick/ shearer 1K101, shield support KD80	Owned by Sadovaya Group S.A. since March 2007 but full mining licence was submitted not earlier than Sept. 2009. During that period the mine was operated by changing private and state owned companies without any investments. Due to low coal demand during financial crisis Sadovaya Group S.A. started mining after February 2010.
2008	40,589	pneumatic-pick/ shearer 1K101, shield support KD80	
2009	229	pneumatic-pick/ shearer 1K101, shield support KD80	
2010 (Jan. to June)	57,530	pneumatic-pick/ shearer 1K101, shield support KD80	

1.4.3 Coal Waste Dumps and Tailings Ponds

Sadovaya Group S.A. through its affiliates currently owns a number of waste dumps and tailings ponds to re-process and reclaim any coal left in these resources from the past coal mining operations.

In addition, the Group has purchased a number of old mine waste dumps and tailings ponds in the government auctions in the recent years as part of the company's growth strategy. All these assets are geographically spread out in the region.

1.5 PROJECTS AND PROSPECTS

1.5.1 Roskoshniy Project of Sadovaya Mine

Roskoshniy Project is the extension of Sadovaya Mine located west of the Sadovaya faults Roskoshniy and Nr. 1. According to the Final Business Plan - approved by the Company and submitted to IMC on 12th October, 2010 ("Business Plan") - the Roskoshniy Project shows longwall mining in seam ℓ_7^B only. Two retreating longwall operations in ℓ_7^B seam are scheduled with a maximum total production of 580,000 t/y from the year 2019.

1.5.2 Krasnoluchskaya-Severnaya Mine Project

Krasnoluchskaya-Severnaya Mine Project is located 9 km from the existing Sadovaya Mine near the settlement of Krasniy Kut. Sadovaya Group S.A. through its affiliates is currently

investing in previous part developed drift mine comprising of two dog leg declined drifts which have been filled but can be easily accessed from their previous surface location.
The re-excavation and drift portal construction is planned for commenced in early 2013 with an initial 400,000 t/y employing 600 workers from one coal face. Planned production of 1.07 mt/y coal in 2016 will be achieved by employing 1,800 workers and three long wall retreat faces and associate nine roadway developments.

1.6 MANAGEMENT AND MANPOWER

IMC's personnel were in regular contact and held numerous discussions with Company management at various levels. IMC is satisfied that Sadovaya management is capable of implementing the proposed production plans based on this contact and on direct observations of operational management, subject to appropriate enhancement of the team as the plans develop. The Company operates its management and financial programmes in accordance with International Financial Reporting Standards (IFRS) as part of a standardised electronic reporting system for health and safety, production and financial performance.

Administrative facilities and a headquarters are located at Alchevsk, centrally located for its operating mines and trading facilities.

IMC understands that the Company is about to establish an operations directorate under the control of the Owner's mining representative supported by health and safety, surveying and engineering senior staff who will have an independent auditing responsibility.

1.7 HEALTH AND SAFETY

Sadovaya works to the Health and Safety Laws enacted in Ukraine from the 1950's during the Soviet era progressively revised every 5 years. This legislation is comprehensive and prescriptive but does not comply with internationally recognised systems. The current approach is based on Soviet era values and a change in culture is required to bring the Health and Safety management to Western Standards.

IMC understands that the Company is in the process of establishing an operations directorate which will include a Health and Safety audit function independent of the operations reporting to the Owner's Representative.

There is Deputy Director (Safety) at each mine responsible for a health and safety programme for operational and technical issues which are updated and re-issued at the end of each year. The Health and Safety committee which meets on a regular basis has recently increased its presence and meeting frequency to address some the unacceptable standards prevailing at the mines during IMC's July visits.

Government safety inspections are carried out on an approximately monthly basis action being implemented directly with the mine senior management as appropriate.

The Lost Time Injury Frequency Rate is one of the parameters used to monitor safety performance in industry and is usually measured per 100,000 manshifts or one million manhours. Sadovaya use a rate that is not comparable to other figures based on 1,000 employees. Using international standards the Company LTIFR has averaged 6.56 over the last 3 complete years which slightly higher than the Industry average of 6.26 for comparable operations. It should however be noted that the Sadovaya mines are not yet in full production and consequently the index is likely to rise.

Table 1.7-1 below shows the Company health and safety statistics for the past three years plus the first six months to June 2010.

Table 1.7-1 Health and Safety Statistics

Sadovaya	Fatals	Serious Accidents	Total LTI	LTIFR	Operatives
2007	1	0	7	6.2	627
2008	1	1	10	7.6	730
2009	2	0	6	5.9	566
2010 (6m)	0	0	3	3.0	546

The fatality rate is higher than comparable similar mining operations and could be a cause for concern as the Company develops if left unchecked.

The fatalities during the review period can be categorised as follows:

2007 Two workers were involved in a car accident not on the mine curtilage where one was fatal. This would not normally be included in the mine statistics.

2008 A repair worker illegally riding a skip on the coal drift was trapped by the moving skip.

2009 A fall on ground on the face side of a longwall face whilst working alone. IMC understands no one is now permitted to work alone.

2009 An electrician was electrocuted whilst working on a coal cutter with the switches open and power still on.

It should be noted that the majority of these fatalities resulted from illegal or basic unacceptable working practices which needs to be addressed by the management.

During the first visits underground in July IMC expressed its deep concern about the operational standards observed citing a number of specific issues requiring urgent attention. The Company responded by indicating that the health and safety management procedures and standards would be immediately addressed.

During a second visit in October IMC observed positive progress by the Company not just with the specific issues but with the general approach to Health and Safety management at the Sadovaya Mine. Clearly, the management is adopting a proactive approach to move away from the Soviet style. With the changes in attitude observed and the establishment of the operations directorate IMC is confident that these improvements will soon be extended to the all the operations within the Company.

1.8 REGIONAL INFRASTRUCTURE

1.8.1 General

Donetsk Basin, also known as Donbass is a historical, economic and cultural region of eastern Ukraine. It combines three oblasts in the east, west and south of the country. The city of Donetsk is considered the unofficial capital of Donbass. The name of the region originates from the coal-field discovered in late 19th century which was named after the Donets River which flows across the region.

Donetsk area is a centre of industry and as such is well served by road, rail and air links both nationally and internationally. Donetsk and Mariupol' are the nearest airports with international status and offer the complete spectrum services which are serviced by seven international airlines.

1.8.2 Roads

The Ukraine comprises large number major highways; some built to European standards with future ambitious plans to upgrade many existing roads with new construction of national motorway links.

Sixty percent of Ukraine's national roads are in need of a complete refurbishment. Local and state roads in Ukraine have been increasingly damaged due to severe winter weather.

1.8.3 Airports

Donetsk International Airport was built in the 1940s-1950s and rebuilt in 1973 and is located few km from the centre of Donetsk. Its asphalt runway is located 241m above sea level and is 2484 m long by 48 m wide and can accommodate cargo and passenger planes. A new passenger airport terminal is presently under construction and should be available for use in late 2010.

1.8.4 Rail

The state-owned railway company Ukrainian Railways controls all railways in the country with a combined total length of track of over 23,000 km. The company was established following separation from the Soviet Union consequently the majority of the current railway structure was inherited from the Soviet Union.

The Donetsk Oblast is an important transportation hub in Ukraine, with Donetsk Railways being one of the largest railway divisions in the country. It serves the farming and industrial businesses areas and the populations of the Donetsk, Luhansk, and part of the Dnipropetrovs'k, Zaporizhia and Kharkiv oblasts.

1.8.5 Ports

The port of Mariupol is one of the largest ports in the Ukraine. The extensive railway network provides direct access to all major enterprises of the region. Deep sheltered approaches (12.0 m in average) allow ships of up to 16,000 tons freight-carrying capacity to berth.

1.8.6 Power

Electricity generation is mainly by the nuclear power plants and thermal power plants.

Owned and operated by Energoatom. The Ukrainian electricity market is currently organized under a single-buyer model. A competitive wholesale electricity market (WEM) was established in 1996, with the state enterprise Energorynok functioning as market administrator.

The present total installed capacity amounts to some 52.2 GW with around 66 % being installed in thermal power plants, 26 % in nuclear power plans and 9 % in hydro power plants. Nuclear plants account for the largest share in electricity generation with 47 % of the total electricity production of around 192 TWh.

1.8.7 Transmission

Transmission is organized within NEC Ukrenergo, which owns and operates the high voltage transmission network and cross-border power lines of the Ukraine.

Distribution is carried out via 27 regional distributions and supply companies (so-called Oblenergos) and are responsible for electricity distribution and retail supply. There are 24 regional companies, 2 companies in the cities of Kiev and Sevastopol and 1 company in the autonomous republic of Crimea. Oblenergos distribute and supply electricity to retail customers at regulated tariff.

Ukraine's power grid has interconnections with its neighbouring countries, including Russia, Moldova, Belarus, Poland, Slovakia, Hungary and Romania. As a net exporter of electricity Ukraine sold 7.7 TWh, in 2008.

1.8.8 Health, Educational and Social Amenities

The mine location areas have a number of health, educational and social amenities whose capacity depend upon location and activity in each mine area.

Originally some of the surrounding housing was owned by the mine and local government but has progressively been sold and transferred to the occupiers. Local council, private companies and housing association are now responsible for providing houses, apartments and flats for the mine employees via the housing market. Mineworkers have can obtain mortgage loans of up to 100 % of the cost of the house with repayment terms varying between 10-20 years.

The mines have a medical centres with part time attendants and mine rescue teams with associated facilities backed by three full time national rescue brigades with one national rescue brigade is based a Krasniy Luch.

The mine location area has a number of health, educational and social amenities whose capacity depends upon location. The majority of the medical provision is provided by the state with diagnostic and treatment services, preventive health care programmes which include includes doctors, dentist, poly clinics, general hospitals, women's health, department of health, mental health, private health care and health farms.

Community Services - Maternity and Child Welfare clinics, health visitors, midwives, health education, vaccination & immunisation and ambulance services together with environmental health services were the responsibility of local authorities.

1.9 STATUTORY AUTHORISATIONS

1.9.1 Mining Licenses

Sadovaya Group currently owns two operating mines and will be constructing two more new mine in the Donbass region of Ukraine. The group also reclaims coal from the waste dumps and tailings ponds from the old mines. Details of the licences are given in Table 1.9-1.

Table 1.9-1 Details of Mining Licences

Mine	Licence No.	Issue date	Expiry date	Issued to
Sadovaya	4488	08/11/2007	08/11/2026	Sadovaya Mine LLC
	Active mine, part of the current evaluation			
Roskoshniy	Protocol № 1630	-	-	Sadovaya Mine LLC
	The license will be issued in the next 12 months subject to additional exploration and approval.			
Rassvet-1	4982	11/06/2009	11/06/2029	Rassvet-1 Mine LLC
	Active mine, part of the current evaluation			
Krasnoluchskaya-Severnaya	Document from the First Deputy to Minister of Coal Mining Industry of Ukraine dated 26 December, 2008.	-	-	Sadovaya Mine LLC
	Provisionally approved on 26 December 2008. The license will be issued in the next 12 months subject to the additional exploration and approval			

1.10 ENVIRONMENTAL ISSUES

Sadovaya Group operations are predominantly located an intensive industrial area characterized by previous heavy mining and industrial activity.

Some of Sadovaya Group enterprises are located near the settlements of Vakhrushevo and Krasniy Luch, with some adjacent to residential areas.

Waste disposal facilities are predominantly located on a watershed, distance to the nearest watercourses is 1.2 – 2.2 km, except the tailings pond of Khrustalskaya Mine which is located 250 m from a watercourse.

There are reservoirs established on the watercourses used as a source of central water supply for settlements. Minimum distances from the Company activities to the reservoirs are 1.1 km to Shtergresovskoe, of 0.5 km to Yanovskoe, of 2 km to Grabovskoe tailings ponds.

Ground water mainly is not used as a source of central domestic water supply.

1.10.1 Ukrainian Environmental Legislation

1.10.2 Permitting Status

The following permitting issues were identified in relation to the requirements of Ukrainian environmental legislation.

Sadovaya

- Solid waste dump for Sadovaya Mine, EASS 2006, was registered to Olvin-Trade and needs re-assigning.
- No permit for pollutant emissions.
- No license for ground water abstraction.

Rassvet-1

- Solid waste dump #11 for Rassvet-1 Mine, code 220-904-107-PZ dated to 2010 requires renewal.
- No permit for pollutant emissions.
- No permits or prescribed areas for industrial waste.
- No permits confirming the right of disposal for industrial waste on the registered waste dump.
- No permits for water discharge to the of Olkhovka and Klenovaya rivers or abstraction from the Bugaeva river.

Private Company Interdon

- No permit for water abstraction from the Miusik river for the waste dump process plant at Yelizavetovskaya Mine.

1.10.3 Operational Status

Sadovaya

- Corn and sunflower growing in the buffer area surrounding the mine.
- Industrial water being used for employees household needs.
- Ground water abstraction exceeded the prescribed limits by a factor of two.

Rassvet-1

- Water discharge without treatment of household sewage into settling pond.

Common Issues

- Absence of surface, rain and melted snow water collection and treatment.
- Lack of environmental monitoring.
- Absence of an environmental protection program and monitoring of its effectiveness.

1.10.4 International Standards

The Company environment management system specifies the general supervision, impact assessment, and environmental specialists responsible for implementation of production control of emissions and discharges sources, monitoring in the buffer area, waste management, and regular reporting.

The Company also understands the importance of effective environmental risk management and is ready to work in to this end. The following issues were identified in relation to compliance with the following international standards.

- Standard 1, Social and Environmental Assessment and Management Systems: Social and Environmental Assessment, Organizational capacity, Training, Reporting.
- Performance Standard 3, Pollution Prevention and Abatement, Pollution prevention, resources conservation and energy efficiency, Wastes, Hazardous material, Ambient considerations.
- Performance Standard 4, Community Health, Safety and Security.
- Performance Standard 6, Biodiversity Conservation and Sustainable Natural Resource Management, Protection and Conservation of Biodiversity.

1.10.5 Status

- Identification and assessment of environmental impact risk is not assessed.
- There are no accident prevention or response plans for the waste dumps, pumping systems are not defined.
- Monitoring is not implemented.
- There are no environmental protection plans and programs for each enterprise and no assessment of effectiveness.
- There are limited resources, responsible for ensuring of environmental management the Company has two environmental specialists, dealing with permitting and reporting.
- There is no public reporting of environmental protection issues

1.10.6 Significant Environmental Impacts

1.10.7 Operating Enterprises

Significant social and environmental impacts are.

- Temporary land requisitioning;
- Systematic planning of waste dump construction;
- Impact on the quality, structure and integrity of the subsoil;
- Pollution of surface water courses by sewage discharge at Rassvet-1 Mine;
- Atmospheric pollution by dust emissions;
- Impact on the surrounding of population due to the proximity of residential areas and use of agricultural land in the buffer area.

1.10.8 Projects

Impact of the Roskoshniy Mine Project, Krasnoluchskaya-Severnaya Mine Project and Private Company Interdon is assessed on the basis of the Project documentation.

The most significant is impact on the surface and ground water, caused by sewage and mine water discharge.

1.10.9 Costs

1.10.9.1 Current Operations

Current costs of consist protection measures and fees which are assessed on the basis of the data from 2009 for presented in the

Table 1.10-1.

Table 1.10-1 Current environmental costs

Type of fees	Shahta Sadovaya LLC, (mln UAH)	Shahta Rassvet-1 LLC, (mln UAH)	Private Company Interdon, (mln UAH)	Private Company Volat-Trans, (mln UAH)
Current environmental fees	0.024	0.085	0.015	0.006
Current costs on environmental protection	0.228	0.064	0.282	
TOTAL	**0.252**	**0.149**	**0.297**	**0.006**

Analysis of costs structure, presented by enterprises reports, showed that the primary components of environmental costs are fees from waste location and rent for land use.

IMC considers that the actual costs exceed the amounts presented in the Company reports and is likely to reach 1-2 mln hryvnias (UAH).

Actual costs of without restoration are significantly lower than those provided in the Company Business Plan.

1.10.9.2 Future Operations

The Business Plan is without detailed costs but IMC considers the global costs to be acceptable.

Non-observance of environmental requirements according to Part 7 of Ukrainian Administrative Offense Code can entail punitive measures of juridical persons – from 27 thousands UAH to 45 thousand UAH.

Absence of permit documents on mineral resources can be a reason for temporary stop order.

Absence of a dewatering system at Sadovaya Mine and the flow of underground water into mined-out voids of closed Almaznaya Mine carries a risk of flooding.

Discharge of not adequately treated sewage from settling pond at Rassvet-1 Mine into the tailings pond has a risk of water supply contamination.

The water treatment costs can be about 13-25 mln UAH and Company costs can be decreased due to a sharing of discharged sewage into the settling ponds.

Incursion into the buffer area carries a risk of land's users entitlement payments, which can amount to 1.5 mln UAH.

1.10.9.3 Rehabilitation

Restoration of disturbed lands is provided for in two steps:

- technical and biological restoration covering with soil and planting;
- restoration of new dumps during the operation period.

Consecutive conversion of waste and tailings with use common infrastructure provides the possibility for lands restoration during the operation period.

It is planned to restore areas of re-formed dumps (new dumps will be formed after existed dumps conversion), which areas are conditionally accepted as a half of total dumps area. Other dump area where it is planned to transport of dump material to preparation plants are not restored as it is not the Company property.

IMC estimated costs for restoration in the period of operation and closure are presented in Table 1.10-2.

Table 1.10-2 Restoration cost

Nr.	Name of enterprise	Total area (hectares)	Volume of waste (1,000 m^3)	Cost (mln UAH)
Land restoration in the period of enterprise operation				
1	Private Company Interdon: restoration of re-formed dumps	24.93	1,404,706	13.98
2	Shahta Sadovaya LLC: current waste dump restoration	5.0		0.25
3	Shahta Rassvet-1 LLC: current waste dump restoration	8.9		0.45
TOTAL during operation:		***39***		**14.68**
Land restoration in the period of enterprise liquidation				
1	Shahta Rassvet-1 LLC (Rassvet-1 Mine)	38.1		**11.19**
2	Shahta Sadovaya LLC (Sadovaya Mine)	21.35		**5.45**
	Roskoshniy Mine			**11.19**
	Krasnoluchskaya-Severnaya Mine Project			**11.19**
3	Private Company Interdon: waste disposal facility from tailings conversion	5.00	1,708,197	**5.03**
TOTAL during liquidation:				**44.05**

1.10.10 Conclusions Environmental Issues

As a result of previous coal mining activity current operations are located in the area of disturbed areas and non-operating waste dumps near residential areas.

The most significant social and environmental impacts are:

- Pollution of surface and ground water by sewage discharge;
- Negative impact on the local inhabitants.

Non-compliances to the requirements of legislation:

- No permits for emission, industrial waste location, surface and ground water abstraction;
- No planning for waste dumps construction;
- Non-compliance of buffer area procedure;
- Using non-drinking water for the household needs of employees;
- Ground water abstraction exceeded permitted levels;
- Discharge of household sewage into water courses without treatment.

Environmental compliance to international standards:

- No emergency plans for the waste dumps, pumping facilities are not defined;
- Monitoring is not implemented in full;
- No non of the operations have environmental action plans/programs and there is no assessment their effectiveness;
- No community information reporting is undertaken.

Non-compliance to the requirements during to the operation can entail the punitive measures for responsible persons – from 27 thousand UAH to 45 thousand UAH, also can lead to prohibition notices.

Costs for bringing the activity in line with the environmental legislation are estimated to total 1.12 mln UAH, including:

- Sadovaya Mine – 0.23 mln UAH,
- Rassvet-1 Mine – 0.59 mln UAH,
- CHP PKF – 0.3 mln UAH.

Costs for statistic reporting:

- Factual, 2009, by the current enterprises reporting – 0.7 mln UAH;
- Planned on 2010-2030, by expert assessment – 1.8 ÷ 7.2 mln UAH;
- Provided for 2010-2030 by Business Plan of Sadovaya Group – 4.4 ÷ 18.4 mln UAH.

Current costs of environmental purchase (without taking into account restoration costs) are not significant as compared with costs, provided by Business Plan.

Risks of non-compliances to the requirements of environmental legislation were determined by IMC to range from 19.5 to 38 mln UAH.

Costs for restoration were determined to:

- In the period of operation – 14.68 mln UAH.

1.11 SALES AND MARKETING

1.11.1 Marketing Strategy

The Company's current marketing strategy is to supply a mixture of domestic and International customers and markets in the approximate proportions indicated below.

Domestic

70 – 80 % - Ukrainian energy generating companies:

- DTEK
- Centrenergo
- Donbassenergo

10 % - Ukrainian iron and steel works:

- Nikopol Ferroalloy Plant
- Zaporozhye Ferro Alloys Plant
- ArcelorMittal Kryvoy Rog

Export

- 10 – 20 % - export of coal (Bulgaria, Turkey, Moldova, Poland).

Currently all the supply contracts are of a short term nature but IMC understands that this strategy is in the process of being secured by long-term agreements with a variety of companies including DTEK, Centrenergo, ArcelorMittal Kryvoy Rog and Solvey Soddi AD of Bulgaria.

The Company's long term marketing strategy envisages further expansion of its market share by means of increasing production volumes at the existing mines, as well the introduction of modern coal preparation facilities and re-processing waste dumps and tailings ponds.

1.12 COSTS

1.12.1 Coal Mine Costs

1.12.1.1 Operating Costs – Mines

IMC examined the forecasts of operating costs for all operations as prepared by the management of SMG. The forecasts were compared with actual costs in previous years and the forward projections were compared with changes in the projected physical activity at the mines. Following this appraisal IMC have not identified any significant issues where it would be considered appropriate to modify the projected operating cost levels. IMC considers the production plans and budgets to be attainable.

The historic cash operating costs per tonne of coal produced, net of income credits for by-product sales and other income, for the years 2007 to 2009 and the first half of 2010 are summarised in Table 1.12-1 below.

Table 1.12-1 Net Cash Cost per Tonne of Coal Produced

Net cash cost per tonne	Unit	2007	2008	2009	2010 (6 mth)
Coal Mines	UAH/t	323	410	581	543
Waste Reclamation – Tips and Tailings ponds	UAH/t	36	45	116	83
Coal Trading	UAH/t	323	396	622	565
Total Sadovaya Mining Group	**UAH/t**	**305**	**397**	**588**	**544**

1.12.2 Capital Costs - Mines

Similarly, IMC examined capital cost estimates prepared by management for the period 2010-2030.

The forward financial projections for SMG include significant capital expenditure, some UAH 4.142 billion (at nominal price levels but excluding VAT) over the period 2010 to 2030 inclusive. This expenditure includes for the development of the existing Sadovaya and Rassvet-1 mines and the construction of the new Roskoshniy and Krasnoluchskaya-Severnaya Mines plus new coal preparation facilities to support the coal from waste reclamation schemes and the routine sustaining capital normally associated with this kind of operation. IMC considers the budgets associated with the production plans to be attainable.

Following this appraisal IMC have not identified any significant issues where it would be considered appropriate to modify the projected capital investment levels. IMC considers the production plans and capital budgets to be compatible and attainable.

1.13 VALUATION

1.13.1 Methodology and Assumptions

Sadovaya Group has provided a financial model which projects future pre-tax cashflows. This is based upon basic inputs of production, revenues and costs and the related capital expenditure for mine construction and subsequent sustaining expenditure for each mine, tip and tailings ponds reclamation and the continuing coal trading operation. Calculations of Company taxation and working capital have been included in their financial model only at the Company/Group aggregation level. The valuations presented below are all at the pre tax and working capital level.

No further adjustments to the Business Plan to those agreed with the Company and incorporated in a revised financial model were considered necessary by IMC.

1.13.1.1 Operating Revenues and Costs

Income has been based on a coal price forecasts provided by the Company. These prices are based broadly on expected realisations for the period 2010 to 2014 and then plus annual inflation of between 7.0 % in 2015 reducing each year to 4.0 % in 2025 and 4.0 % pa thereafter.

Operating costs and outputs were based on the current Business Plan without modification.

All coal, other than that used to supply miners negotiated entitlements, is deemed to be sold after mining and processing losses. Coal stocks are deemed to remain constant after 2010.

1.13.1.2 Key Parameters

Other key valuation parameters used in the valuation include the following:

The valuation is as at 30th June 2010;

Cash flows are expressed at nominal price levels and have been discounted according to end of year convention;

Inflation has been provided in the financial model using a number of differing indices and estimates. A summary of the main inflation and escalation factors used in the financial model are summarised below in Table 1.13-1. Factors from 2025 onwards are all taken at 4 % pa.

Table 1.13-1 Summary of price and cost Inflation factors

	Year on Year Inflation Factor Applied (%)														
	2010 (actual)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales Revenue per Tonne	0.0	6.5	10.5	10.3	8.6	7.0	6.4	5.9	5.6	5.2	5.0	4.7	4.5	4.3	4.1
Salary, Wages and Charges	0.0	11.0	11.0	11.0	10.0	10.0	9.0	8.0	7.0	6.0	6.0	5.0	5.0	4.0	4.0
Materials - Production related	0.0	9.0	8.0	7.0	6.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Electricity - Production related	0.0	4.0	7.0	10.0	9.0	7.0	6.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Production-related Service costs	0.0	8.0	7.0	7.0	6.0	6.0	6.0	5.0	5.0	5.0	4.0	4.0	4.0	4.0	4.0
Environmental charges	0.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Gen Materials Repairs and Services	0.0	6.0	6.0	6.0	5.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Fixed Electricity	0.0	4.0	7.0	9.0	8.0	7.0	6.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Administration and General Costs	0.0	10.0	7.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	4.0	4.0

A constant exchange rate of UAH 7.9:US$ 1.0 has been assumed throughout.

Cash flows are forecasted for the mine/activity lives based on available reserves or until 2030 with a terminal value being calculated where coal resources allow.

The base case NPV was calculated using a real discount rate of 18 % for the coal mines and Waste Reclamation and 20 % for the Coal Trading until 2019 and 16 % thereafter.

1.13.1.3 Valuation Results

On the basis of the financial projections detailed above, SMG is projected to generate positive net present values when discounted at a range of discount factors between 14 % and 22 %. As can be seen from the summary below in Table 1.13-2 and Table 1.13-3, the NPV for the SMG base case is UAH 2,747 million (US$ 347.7 million).

Table 1.13-2 Valuation results – by activity

Activity	2010 to 2030	Terminal value	Total Valuation
	NPV (UAH Million)	**NPV (UAH Million)**	**NPV (UAH Million)**
Coal Mines	609	471	1,080
Waste Reclamation – Tips and Tailings ponds	1,307	0	1,307
Coal Trading	333	27	360
Total Sadovaya Mining Group	**2,249**	**498**	**2,747**
	US$ Million	**US$ Million**	**US$ Million**
Total Sadovaya Mining Group	**284.7**	**63.0**	**347.7**

Table 1.13-3 Valuation results – Discount Factor Sensitivity

Discount Factor	Base Case	Base Case
	NPV (UAH Million)	**NPV (US$ Million)**
-4 %	4,912	621.7
-2 %	3,599	455.6
Base Case	2,747	347.7
+2 %	2,153	272.6
+4 %	1,719	217.5

1.14 SENSITIVITY

A sensitivity analysis for cash flow and net present value (NPV) has been undertaken with respect to variation in sales prices, operating and capital investment costs. Mining and marketing of coal contain variables that are not always predictable. Potential variables include those directly associated with the mining and processing operations, such as cost levels, as well as those that are external to the mining and processing operations, such as market prices.

While IMC concludes that the NPV of the SMG operations, as presented above, is realistic relative to the life of mine/activity plans (based on reserves but not resources), a sensitivity analysis has been prepared for the following variables.

1.14.1 Operating Cost

This could vary as a result of changes in component costs, such as labour or supplies, or from variances in productivity. IMC has calculated a sensitivity of plus 10 % in operating cost.

1.14.2 Capital Cost

Variances in capital costs could result from quantity or market prices of capital items. IMC has calculated a sensitivity of plus 10 % in capital costs.

1.14.3 Production

Variances in the level of annual production would result in lower sales revenues offset in part by variable cost savings. IMC has calculated a sensitivity of minus 10 % in production levels.

1.14.4 Selling Price

Variances in the level of coal sales prices would result in lower sales revenues. IMC has calculated a sensitivity of minus 10 % in sales price levels.

A summary of the effect of sensitivity of the valuation of reserves to these variables is given in Table 1.14-1.

Table 1.14-1 Sensitivity analysis of reserve valuation

NPV		Base Case	Operating Cost (+10 %)	Capital Cost (+10 %)	Production (-10 %)	Selling Price (-10 %)
Based on pre tax results	UAH million	2,747	2,220	2,518	1,875	1,647
	US$ million	347.7	281.0	318.8	237.4	208.5

1.15 SPECIAL FACTORS

Risks likely to impact on the Company forecast production, capital and operating costs by less than 10 % are not considered significant. Any significant risks not adequately addressed in Company production plans are considered to be “material” and are listed below.

There was, reportedly, a country-wide increase in the minimum wage in excess of 30 % in the course of the last 12 months. Whereas IMC believes that there is adequate provision within the Business Plan for this current increase additional unexpected rises of such a nature would impact on the business of over and above the standard inflationary increases provided.

1.16 CONCLUSIONS

IMC concludes from the independent technical review that:

- management’s geological and geotechnical knowledge and understanding is of a satisfactory level to support short, medium and long term planning as appropriate and operations are well managed at an operating level;
- the mine plans appropriately consider geological and geotechnical factors to minimise mining hazards although IMC has reservations about the viability of the underground

designs in the final years of operation but any impact of a failure on production will be small;

- Sadovaya mining equipment (either in place or planned in the capital forecasts) not the most modern for the current operations but is suited to its mine plans and is adequate, with minor adjustments, for the production plans;
- processing plants and other infrastructure planned are capable of supplying appropriate quality products to the markets at the forecast production plans;
- IMC is unable to compare the LTIFR but believe this to be similar other comparable operations. The fatality rate is higher than similar comparable operations and could rise as manpower numbers increase;
- health and safety standards have been based on a Soviet approach which is not acceptable but the Company has demonstrated an intent to move away from this approach at the Sadovaya Mine
- environmental issues are basically managed and there are a number issues that need to address to achieve national and international standards;
- the assumptions used in estimating both capital and operating costs are appropriate and reasonable;
- capital and operating costs used in the financial models incorporating minor adjustments by IMC reflect the mine plans, development and construction schedules and the forecast production levels;
- special factors identified by IMC are well understood by management and appropriate action to mitigate these risks is being taken; and
- management operates a management accounting system and are able to monitor and forecast production and cost parameters which complies with IFRS management accounting systems.

IMC has estimated the value of the Sadovaya coal assets at an operating level as US $347.7 million including Terminal Value assuming a real discount rate of 18 %, an exchange rate of UAH/US$ 7.9, and product prices, capital and operating costs and production forecasts which are soundly based.

2 SADOVAYA MINE AND ROSKOSHNIY FIELD

2.1 MAPS AND PLANS

Plate 4: Mine Plan, Sadovaya Mine, Seam ℓ_7^B
Plate 5: Mine Plan, Sadovaya Mine, Seam ℓ_6^H
Plate 6: Mine Plan, Sadovaya Mine, Seam ℓ_2^H
Plate 7: Mine Plan, Sadovaya Mine, Seam ℓ_1
Plate 8: Mine Plan, Sadovaya Mine, Seam k_7^H
Plate 9: Mine Plan, Roskoshniy Mine, Seam ℓ_7^B

2.2 MINE GEOLOGY

In the following sections, a short outline of the geological conditions present in each mine will be given. In addition, the natural threats or risks that can potentially affect the mining operations will be highlighted.

Sadovaya Mine and Roskoshniy Mine Project are located in Hrustalskom geological and industrial region of Donbass. Both the mine and Roskoshniy are administratively situated within the Lugansk Oblast. The nearest towns to the mine are Sadovaya Hrustalnensky; Vahrushevo and Krasniy Luch. The mine is located in an area containing the transportation network and existing roads have access to the surrounding highways. The terrain is of the steppe, slightly wavy, with the presence of trees, covered with forest. The maximum absolute elevations are confined to the watershed areas and can range from +250 m to +150 m.

The mine consists of Carboniferous deposits represented by terrigenous sediments: sandstones, shales, sand, clay with thin layers of limestone and coal seams. The seams are confined to Suite C_2^5-C_2^6. The productive coal seams include $\ell_7^в$, $\ell_6^н$, $\ell_4^в$, ℓ_3, $\ell_2^н$, ℓ_1, $k_7^н$. The Roskoshniy Mine Project also contains the rocks of C_2^5-C_2^6 since it is merely the extension of Sadovaya Mine to the north and to the west. Therefore the description of the geological characteristics is applicable to the both sites.

2.2.1 Stratigraphy

Both the Sadovaya Mine and Roskoshniy Mine Project consist of the rocks of C_2^5-C_2^6 of Carboniferous.

Suite C_2^5 is characteristically represented by sandstone (56.2 %) and sandy shale (30.3 %). Shales (8.3 %) and limestone layers (2.0 %) are also found in places. There are about 34 coal seams layers of which only 12 are of economic interest (k_8, $k_7^{1н}$, k_7^1, k_5, k_4, $k_3^{1в}$, $k_3^{1н}$, $k_3^в$, k_2^2, k_2, $k_2^в$, $k_2^н$). The main marker horizons are limestone layers: K_1, K_2, K_3, K_3^1, K_4, K_5, K_6^3, K_7, K_8, K_9; and sandstones: $K_1S\ k_1^1$, $K_3\ S\ k_3$, $k_7^н\ S\ K_9$.

Suite C_2^6 – Almaznaia is about 380 m thick with distinct cycles and very sharp facies change in the sequence. As in C_2^5 , the suit is typically characterised by sandstone (48.7 %) and sandy shale (37.4 %). Both the limestone (4 %) and shales (6.6 %) are also found in this suit. There are seventeen coal seams of which seven are of economic interest. These seams are $\ell_7^в$, ℓ_6+ $\ell_6^н$, $\ell_5^в$, $\ell_4^н$, ℓ_3, $\ell_2^н$, ℓ_1.

The main marker horizons are limestones layers: L_1, L_4, L_5, L_6, L_7; and sandstones: ℓ_1S ℓ_2^{H}, L_5S ℓ_5, L_6 S ℓ_6, L_7 S ℓ_7^{H}, ℓ_7^{B}S ℓ_8.

2.2.2 Structure

In terms of geological structure, the Sadovaya Mine field is classified as Group 2 under the Ukrainian classification. The deposit is structurally located in the western part of the large regional structure Bokovo-Hrustalskoy Basin, which is part of the bigger Donbass Syncline. A dramatic change of dipping angle occurs in rocks towards the hinge of the syncline. The structural complexity in the area is simple and complicated tectonics are only observed in the central part of Roskoshniy Project area i.e. Thrust of the Roskoshniy and Thrust № 1-2.

Thrust № 1 on the surface can be traced to a shift of limestone: M, M_3, M_4, M_5, M_6, M_6^1, M_7, M_7^1 and is further confirmed especially in Boreholes 1580,1578,1579,1581. The strike of the thrust plane is north-east with a north-west dip of 30°. The vertical displacement ranges from 0 to 30 m. The amplitude of Thrust № 2 is 10 m on the surface with a gradual fading with depth. These structural - tectonic zones are further accompanied by folding disorders, increased fracturing of rocks and smaller scale micro-tectonics.

During the excavation of the former Sadovo-Hrustalskaya Mine as well as the current Sadovaya Mine, a number of tectonic disturbances with an amplitude of 0.30 m to 4-6 m were encountered at ℓ_3 and ℓ_2^H level. The seam flexures and rollings with displacement amplitude of 0.80-3.0 m as well as local erosional structures in ℓ_1 were also commonly met which resulted the introduction of the roof rocks into the operations. The erosion of the coal seams is expressed in the form of a partial breach of the coal seam. These structural/tectonic zones are also accompanied by increased fracturing of rocks. The development of breaks and folded tectonics can also cause complications during extraction.

2.2.3 Coal Seams

Carboniferous is represented by the coal seams of ℓ_7^{B}, ℓ_6^{H}, ℓ_4^{B}, ℓ_3, ℓ_2^{H}, ℓ_1 of Suite C_2^6 and k_7^{H} of Suite C_2^5, which are of industrial interest in the region.

The coal seams are categorised as thin and very thin with a complex morphology according to their coal thickness and morphology. Average thickness of the seams varies from 0.51 m to 1.37 m. The layers are predominantly simple to complex with two to three plies.

Coal ℓ_7^{B} - It is observed in 40 exploration boreholes. It maintains a simple structure and working capacity. The clean coal package thickness ranges from 0.58 to 0.99 m with an average thickness of 0.73 m. It is a bright to semi bright, banded anthracite. Inclusions of fusains and thin lenses of lamination, with imprints of charred plant detritus and pyrite nodules can be found within the seam. Thin layers of matte and semi bright anthracite, with a touch of quartz can also be found as a marker in the middle of the seam.

Coal ℓ_6 splits into two plies ℓ_6^{B} and ℓ_6^{H} with an interburden thickness of 0.20-16.30 m, where only ℓ_6^{H} reaches operating thickness. Ply ℓ_6^{H} structure is generally simple in most of the area but can also be complex in places. Thickness varies from 0.58 to 0.90 m with an average of 0.68 m. The carbonaceous shale partings can range from 0.05 to 0.30 m in thickness.

Coal ℓ_4^B is simple to complex in structure. Its general thickness varies from 0.45 to 0.88 m. The shale parting can range from 0.05 m to 0.10 m. The minimum thickness is fixed at the eastern boundary of the site where the seam is allocated to the off-balance reserves.

Coal ℓ_3 has a complex structure and is composed mainly of three packs of coal. The thickness varies from 0.75 to 1.05 m. Partings can be either interlaminated shales or carbonaceous shales ranging from 0.04-0.15 m in the east to 0.15-0.19 m in the west.

Coal ℓ_2^H generally occurs 35-40 m below Seam ℓ_3. It is one of the major seams developed and extracted in a number of mines. It is characterized by both simple and complex structure. The thickness ranges from 0.54 to 1.10 m with an average of 0.73 m. Partings mainly consist of clay, and carbonaceous shales ranging in thickness from 0.03 to 0.16 m.

Coal ℓ_1 lies directly above a sandstone at 24-27m below Seam ℓ_2^H. The seam structure is generally complex, but can be simple on a limited land area. A 0.05-0.19 m thick carbonaceous shale can be found on its floor and can be present everywhere. The shales partings within the seam range from 0.05 to 0.27 m with a steady increase in the western direction.

Coal k_7^H is simple to complex in structure. The thickness ranges from 0.75 m to 1.42 m where the clean coal is from 0.67 to 1.37 m. Towards the western boundary, the seam tends to split which results in high ash content. The upper ply is composed of shiny coal with thin, brittle, fractures filled with calcite. The partings are composed of shales and coaly-clay, with slicken-sides. The bottom part of the seam is characterised by bright, dense bands filled with minor calcite fillings and fusain streaks.

2.2.4 Coal Quality

Coal quality characteristics were initially determined from the borehole core samples during the exploration campaign, and the findings were confirmed from the samples obtained from the mine workings later on. The major coal quality characteristics such as vitrinite reflectance (R_o), total lean components (ΣOK, %), volatile matter (Vdaf) and thickness of plastic layer were determined in accordance with the Soviet Standards (GOST 25543-88).

The coal results indicate that the coal seams are of Anthracite grade. The reflectance values range from 2.3 % to 5.1 %. They are all high energy coals with relatively high sulphur content. The sulphur content can go up to 5.0 to 5.5 % in places. The ash fusion temperatures are also relatively low ranging from 1025°C to 1320°C.

The presence of toxic elements Hg, Fl, Pb, Cr, As, Cl in the coals and surrounding rocks from the exploration boreholes were also studied. The results indicate that these elements are below the maximum allowable concentration and will not account for a real threat for the environment.

Average contents of other elements (antimony, cadmium, cesium, gold etc.) were also investigated and the values are found to be well below for any commercial interest.

The natural radioactivity of the coals was also studied during execution of explorations in all wells from the gamma logging. Background gamma values from lithological types are as follows: limestone - 6 mkR / h, shale clay - to 20 mkR / h, sandy shale - up to 13 mkR / h, coal - up to 5 mkR / h. No radiation anomalies in the context of coal-bearing strata have been discovered. Trace elements in concentrations of industrial interest generating radioactivity are not detected in the coal and surrounding rocks. Radioactivity of coals and surrounding rocks is almost 2 times lower than that on the surface and 3 times lower boundary of the background values for class 1 (ie 40 mkR / h).

The coal quality characteristics from the site are given in Table 2.2-1, and Table 2.2-2.

The coal quality parameters are regularly controlled by the internal company laboratory by collecting channel samples from the workings at every three months. In addition, the external laboratories at national and international level are used for quality control purpose. The laboratories are certified to the national standards and monthly and quarterly samples as well three yearly sampling programme is conducted as part of the renewal of the national quality certification. A visit to the internal laboratory indicated that the laboratory was meticulously tidy and clean; and the personnel were very professional.

Table 2.2-1 Coal quality characteristics of the coal seams at Sadovaya Mine and Roskoshniy Mine Project

Seam	Moisture W^a, %	Ash		Sulphur S_o^d,%	Volatile Matter V^{daf}, %	Energy Qbg MJ/kg		Reflectance R_o, %	Phosphorus P^d, %	Ash Fusion Temperatures (°C)	Coal Grade
		Clean Coal Package, A_y^d,%	Inclusive of partings, A_p^d, %			By bomb	Lower				
$ℓ_7^в$	0.4-2.8 1.5	4.4-26.0 15.0	4.4-26.0 15.0	2.0 – 6.4 3.5	1.6-4.6	31.3-35.2	22.4-24.6	2.4-4.9	0.024	1076-1220	A
$ℓ_6^н$	0.4-2.4 1.6	5.2-22.7 12.5	14.9-34.3 21.7	2.0 – 6.4 3.5	4.0	33.3-34.4	21.3-23.4	2.4-4.9	0.010	1025-1320	A
$ℓ_4^в$	0.4-5.4 1.3	4.1-24.6 12.0	6.8-26.0 14.8	1.1 –4.6 3.5	4.2	30.0-35.1	21.5-22.7	3.8	-	1070-1300	A
$ℓ_3$	0.6-4.7 1.3	3.3-24.2 11.4	12.0-33.2 24.9	– 4.2 2.7	4.3	30.0-35.1	22.3-23.37	2.3-5.0	0.019	1070-1300	A
$ℓ_2^н$	4.7-6.1 5.6	4.4-10.0 7.0	14.0-34.9 22.8	0.98 – 2.23 1.38	3.5	30.0-35.1	21.5-22.5	3.6	0.054	1090-1320	A
$ℓ_1$	0.7-5.7 1.8	10.8-23.0 11.9	12.0-24.9 21.4	1.06 – 4.9 2.36	3.11	34.3	22.3-23.4	2.35	0.0336	1070-1300	A
$k_7^н$	0.5-2.9 1.7	11.2-34.8 17.0	15.8-45.0 29.5	1.0 – 4.2 1.8	3.6	30.0-35.1	20.9	2.3-5.1	0.019	1080-1300	A

Table 2.2-2 Ultimate analysis results for the coal seams at Sadovaya Mine and Roskoshniy Mine Project

Seam	$C_o$daf. %	$H_o$daf. %	$N+O_2$	Qбг. MJ/kg	Qнр. MJ/kg
$ℓ_7^в$	92	2.6	1.7	35.2	22.4-24.6
$ℓ_6^н$	92.6	2.7	0.9	34.4	21.3-23.4
$ℓ_4^в$	92.1	2.6	1.8	35.1	21.5-22.7
$ℓ_3$	93.3	2.5	1	34.2	22.3-23.37
$ℓ_2^н$	92.3	2.4	0.9	35.2	21.5-22.5
$ℓ_1$	92.5	2.36	1	34.2	22.3-23.37

2.2.5 Hydrogeology

The mine is geomorphologically located on the southern slope of the Donetsk drainage network which provides a good runoff for the surface waters. The hydrographic network consists of Miusyk River and its numerous ravines. The main source of recharge is through precipitation whilst the discharge is observed in the lower parts of the topography in the form of springs. The groundwater is generally found in the Quaternary and Carboniferous age rocks.

The water in the Quaternary sediments is contained mainly in the layers of sandy loam in the form of individual lenses. The water input into the mine workings mainly takes place from limestone and sandstone of Carboniferous sediments in the weathering zone aquifers whilst the input from the Quaternary sediments is negligible. The largest volume of water is confined to the weathered zone, where the cracks in the rocks can accumulate large amounts of water.

In developing the reserves in shallow depths near the border of the license area, the inflow into the mine workings especially during the periods of flooding is expected to be substantial (50 %). There are four main aquifers at the mine area which may contribute into the inflow at the levels of $\ell_7^{в}$, $\ell_6^{н}$, $\ell_4^{в}$.

Water inflow from the roof of Seam $\ell_7^{в}$ will occur due to water-bearing sandstone ℓ 7vSM1 with a thickness of 3-10 m, and limestone M1 with a thickness of 1-7 m. The water from the floor layer will be out of fractured, water-containing sandstone L7S $\ell_7^{в}$ whose thickness ranges is from 2 to 40 m. Expected inflow to the mine workings will be from 7 to 12 m^3/hour, with the full development of mining operations to 25 m^3/hour.

At $\ell_6^{н}$ level, the water in the mine workings will come from the roof by sandstone L7 S ℓ7в and from the floor - due to seepage from the heavily fissured sandstone L61S L7 with a thickness ranging from 2 to 39 m, and limestone L61.

At $\ell_4^{в}$ level, the water will be expected out from the roof of the aquifer L7SL61 containing a fine-grained sandstone with a thickness ranging from 1.0 to 47.0 m.

At k_7^{H} level, the inflow is expected from a 3.0-47.0 m thick fractured sandstone k7n S k71n at the roof and sandstone lying at the floor K7 S k_7^{H}, with a thickness of 1.0 to 48.0 m.

The chemical composition of water sulphate-bicarbonate soda-lime with neutral to alkaline characteristics (pH=7.0-9.0), with mineralization of 2.4-3.2 g/l. Under the Ukrainian classification, the water is considered as medium corrosive to steel and non-corrosive to slightly corrosive towards concrete.

According to the mine personnel, the mine does not have any major water issue since the natural underground water movement is towards north where Mine No. 12 and old Mine No.5 are located and where water naturally accumulates. However, IMC personnel was also cited that the water may accumulate in the workings if it is not dealt immediately which may create operational difficulties for the personnel and machinery.

2.2.6 Geotechnics

The geotechnical parameters at the Sadovaya Mine and Roskoshniy Mine Project were studied in detail during exploration campaigns.

The immediate roof above Seam $\ell_7^{в}$ consists of a shale whose thickness ranges from 0.9 m to 6.6 m whilst the main roof is composed of fine-grained sandstone up to 20.9 m with the interbedded sandstone and shale layers. The immediate floor consists of predominantly sandy shale ranging from 0.4 m to 13.0 m.

A 2-12 m thick sandy shale immediately overlies Seam $\ell_6^{н}$ on the prevailing part of the area. The main roof is mainly shale with alternating sequence of clay, sand and sandstone. The immediate floor is almost universally sandy shale whose thickness ranges from 1.0 to 44.0 m.

The immediate roof above Seam ℓ4в is composed of sandy shale (1.5-14.0 m), and shaley clay (4.0-15.0 m). The main roof also consists of shale, sandstone and shaley clay. The floor lithology below Seam $\ell_4^{в}$ is sandy shale with a thickness of 0.5 m to 13.0 m.

The immediate roof of Seam ℓ_3 consists of layered and fractured shale clay with a large number of prints of fauna, plant debris, pyrite and siderite nodules in the vast majority of the area. Its thickness ranges from 0.20 m up to 5 m. The compressive strength according to testing in mines varies from 221 to 665 kg/cm^2 in locations where shale did not exceed 0.5 m. This type of roof can easily cave after the excavation of coal forming a "false" roof. Shales and to some extent sandy layers in the immediate roof are very limited and can be observed in isolated areas in the central part of the mine. Their thickness is about 18.5 m. The main roof is slate clayey, sandy shale and sandstone. Sandstone is massive and fine to medium grained and can sometimes be flaky with high strength properties. The direct floor layer consists mainly of sandy shale with a thickness of 4.0-10 m,

The immediate and main roof above $\ell_2^{н}$ at the unfinished part of the area is clay overlain by shale, sandy shale, rare sandstone. Shale ranges from 0.20 m to 9.0 m in thickness with an abundance of flora prints in the upper part of the layer with thin layers of coal, pyrite lenses, mirrors, slicken sides. The compressive strength varies from 238 kg/cm^2 to 876 kg/cm^2. Direct floor layer is composed of almost everywhere laminated shale clay up to 1.0 m thick with thin veins of coal and lenses, sometimes interspersed with pyrite. The main floor is sandstone, with sandy shale. In general terms, mining Seam $\ell_2^{н}$ is anticipated to be difficult because of the extensive development of its roof with very unstable shales which are prone to form a false roof to collapse.

The immediate and main roof of Seam ℓ_1 consists medium to coarse grained sandstone with a thickness of 16 m to 45 m whilst the immediate floor layer is carbonaceous shale, which applies to limited areas of data exploration wells with a thickness of 0.55 to 20.75 m. The compressive strength in the roof ranges from 605 kg/cm^2 to 2040 kg/cm^2.

The immediate roof of Seam k_7^H consists of a slate clay with thickness of 2.0 to 11.0 m. The slate clay upwards in the sequence is replaced by a thick (11.0-26.0 m) sandstone. The main roof is similar to the rocks observed in the intermediate roof. The immediate floor layer is composed of mainly sandy shale, with a thickness of 0.5 m to 17.6 m

2.2.7 Outburst

Outburst issues in the area were investigated during exploration and extraction stages. According to these results, the mine is classified as “safe” for rock bursts characteristics. But all seams reviewed in IMC`s resource and reserve calculation are gas outbursts endangered from depth below 150 m and above a methane content of 15 m^3/t of dry ash free solids.

2.2.8 Wash-outs

There is no complete wash out in the seams although the seam rolling is quite common at the mine. When this happens, the seam thickness is not reduced but its dipping angle changes rapidly and the roof lithology becomes more prominent and subsequently creating some operational difficulties.

2.2.9 Seam Splitting and Merging

The coal seams more or less display a continuous structure although the clastic partings may separate the seams into two to three plies in places. For example, ℓ_1 displays a distinctive separation in the east with a 10-35 cm clastic parting. More pronounced seam splitting is also observed in k_7^H especially towards west. When this happens, the seam is split into two plies.

2.2.10 Gas

The gas content of the area was investigated during the exploration stages. According to the test results obtained from the boreholes, the gas mode of the mine area fully meets the conditions of high gas content in anthracite mining. Based on these results, the seams within C_2^6 suite are the most gas-saturated, and dangerous due to gas-dynamics, whilst the seams within C_2^5 suite are less gassy. The gas depth zone based on the seams: $\ell_7^В$, ℓ_6+$\ell_6^Н$, ℓ_3 occurs at a depth of 100-120 m (absolute marker +150 +130 m) from the surface; $\ell_4^В$, $\ell_2^Н$, ℓ_1, $k_7^Н$ - 150-180m (absolute marker + 100 +130 m). With the depth, the gas-bearing-capacity increases to 30-35 m^3/t of dry ash-free solids at the lower technical boundaries of the section.

Absolute methane producing capacity of the mine in 2009 amounted to 5.02 m^3/min, the carbon dioxide content amounted to 3.5 m^3/min. The gas-bearing capacity of the surrounding rock was defined by its porosity properties. The sandstones are defined by very low granular porosity. The estimated total porosity of sandstones within the depths of mining seams in the boundaries of the Roskoshniy area are about 5.5 %, the open porosity predictive value ranges from 2.4 to 3.3 %. The sandstones have low permeability. According to the KVI-65, they are rated as impermeable. Gas content of host rocks is assessed as low.

Although the anthracites coal seams are usually known for their low methane content, Sadovaya Mine is still referred to as "over-category" based on the total gas content and its complex gas conditions obtained from the exploration borehole gas samples. Therefore, the mine is categorized as "dangerous" according to the Ukrainian Standards.

2.2.11 Dust

According to the current coal safety regulations, the coal dust with the volatiles above 10 % is regarded as explosion hazardous. Based on the analytical results, the coal seams at Sadovaya and Roskoshniy have about 5 % volatile matter; hence their dust is not explosion hazardous.

According to the safety rules in the Ukrainian mining sector, the rocks with the content of free SiO_2 above 10 % are regarded as silicosis hazardous. Concentration of silicate dust formed from such rocks exceeds the permissible concentration –2 mg/m^3 air. Based on the measurements undertaken during the exploration studies, the content of the free SiO_2 in rocks embedding coal seams is considerably in excess of the permissible level, hence they are classified as silicosis hazardous.

2.2.12 Spontaneous Combustion

The coal seams at the mine are not prone to spontaneous combustion according to the mine design document.

2.3 RESOURCES AND RESERVES

The mining in the region goes back to the early 20th century therefore the geological information in the area is well established. Latterly, the exploration standards of the former Soviet Union, which is a well organised and prescriptive system, have been applied to the exploration and development of the current mines. Thus the coalfield in the area has a high standard of exploration.

The first geological survey in the area included a detailed map of the Donetsk Basin from the former Geological Committee in scale 1:42000 (1906-1907). Between 1932 and 1938, the surveying department of the "Donbassuglerazvedka" Trust undertook the topographic and geological survey of the area at the scale of 1:5000.

The detailed exploration was conducted between 1953 and 1954 in several phases, with the purpose of exploration of the Middle Carboniferous formations C_2^6, C_2^5, C_2^4, S_2^3.

The geophysical methods prior to 1958 included the electrical surveys but later encompassed the combination of electrical methods with the radioactive surveys such as natural gamma and gamma-gamma methods as well as temperature and calliper tools.

IMC considers the exploration standard to be reasonable. The mine has drilled more than 60 surface boreholes to investigate the area as well as many in seam drillings for gas, water and quality. However, the available gridding space may not be sufficient to delineate the structurally complex zones. In addition to these boreholes, data from mining and developments has supplemented the geological database and IMC consider that the geology and coal resources down to Seam ℓ_7 are reasonably defined. The geology department also collects detailed information from ongoing development work and working faces. Average drilling space between the exploration lines ranges from 150 m to 350 m and it varies from 60 m to 150 m in the exploration lines. However, considering the sedimentological complexity of the site, it is still possible that there might be many undetected small erosional wash-outs and large scale seam rolls which may adversely affect the operations.

Borehole core photographs from the boreholes are not available from the earlier and current years as the core photography is not considered part of the exploration practice.

The third party organisations for the exploration and tests works are selected on the basis of the merit, cost and reputation.

Over the decades, the results of the boreholes from surface and underground have been accurately documented. The core recovery according to the mine personnel in the majority of cases is more than 70 % although this may be much lower in coal sections. Geophysical investigation of the boreholes has been used to assess core loss and the lithological character. However, the original geophysical records or any other original borehole records were not available at the mine site. According to the State Reports, the geophysical methods included natural gamma and gamma/gamma (density) logs.

In addition, geological and coal quality information gathered during mining and mine development is used to continually assess geological and mining conditions.

The losses was estimated to be about 11 % but it is currently around 5-6 % depending on the panels. The dilutions are currently estimated to be around 17-18 %.

2.3.1 Resources under Ukrainian System

2.3.1.1 Sadovaya Mine

The resources at Sadovaya Mine were initially approved by GKZ of the USSR in Protocol № 10474 dated 09.08.1988 based on “Geological Report on the Preliminary Exploration of Anthracite in the Area Faschevsky Nizhniy within Bokovo-Hrustalsky Geological and Industrial Region of Donbass, Lutugino GRE PGO” and “Voroshilovgradgeologiya” reports that met the conditions for grade-A coals, as per Protocol of GKZ of Ukraine № 460 dated 08.04.1998. The balance reserves were finally approved by the State Committee for Reserves (The Central Committee on Reserves, The Scientific Technical Council on Reserves) in its Protocol №995 dated 12 December, 2005.

According to the license agreement only the coal resources from Seams $\ell_7^{\text{В}}$, $\ell_6^{\text{Н}}$, $\ell_4^{\text{В}}$, ℓ_3, $\ell_2^{\text{Н}}$, ℓ_1, $k_7^{\text{Н}}$ were estimated under the Ukrainian System by separating the coal “reserves” into balance and out-of-balance categories by taking into account of the total mine losses in safety pillars under the existing surface waterworks and other infrastructure.

The following conditions were accepted in calculating the balance reserves:

- minimum thickness of coal seam (simple and complex structure), including all coal beds and dirt partings – 0.6 m;
- the maximum ash content of coal including dilution by dirt partings – 40 %.
- For splitting seams, top ply minimum thickness is 0.50 m and the lower ply thickness (while the upper leaf considered as non-productive) - 1,0 m.
- reserves of oxidized coal were not estimated

Whilst the following conditions were accepted in calculating the out-of-balance reserves:

- a minimum general seam thickness - 0.45 m;
- the maximum seam ash content including impurities - 45 %.

Apparent density was accepted according to 1988 geological report, where for its calculation a consolidated graph of the volumetric weight depending on the ash content of coal was used as well as the graph for recalculation of the apparent density against current moisture content.

The block methodology is used for the calculations by using the appropriate formulae taking into account the level of mining, thickness distribution, protective pillars, tectonic zones, outcrop positions, and recognition of the deposit grade boundaries. Both the planimeter and software applications are utilised in reserve calculations.

IMC have examined the resources updated to 31st December, 2009 and discounted the production tonnages (53,000) up to 1 July 2010 which is the Audit application date.

2.3.1.2 Roskoshniy Field

In a recent Ukrainian Government auction, Sadovaya Group has obtained the right to extract coal from the Roskoshniy Mine Project which is the north-northwest extension of Sadovaya Mine. Mine field area is 1625 ha, with maximum length of 10.8 km and width of 2 km. Maximum depth is 725 m.

According to Protocol №1630 dated 24/10 -13/11/2008, the boundaries of the field were defined as

- In the north: Seam ℓ_7^{B} contour at -300 m in the western part and -200 m east, Seams ℓ_6^{n}, ℓ_4^{B} – contour at -300 m; Seam k_7^{H} - contour at -500 m;
- In the south: Seam ℓ_7^{B} – outcrop and the boundary of Mine Industria (License No. 3243) and -50 m in the west; Seams ℓ_6^{H}, ℓ_4^{B} – seam exposure at the surface; Seam k_7^{H} – at contour -100 m from mine boundary "Voenna" (license number 4512) in the western part and at contour -250 m in the east;
- In the east: Seam ℓ_7^{B} - the notional line passing by 30 m east of Hole D2534 and 180 m east of Hole D2021; in layers ℓ_6^{H}, ℓ_4^{B} – Roskoshniy Thrust, by k_7^{H} layer – split line;
- In the west: ℓ_7^{B} - a joint plot with Miuska № 1-2; in layer ℓ_6^{H} – split line; Seam ℓ_4^{B} - limit Mine No. 2 "Alchevsk (License No. 3365); Seam k_7^{H} – split line.

According to Protocol № 1630 agreement, only the coal resources from Seams ℓ_7^{B}, ℓ_6^{H}, ℓ_4^{B}, ℓ_3, ℓ_2^{H}, ℓ_1, k_7^{H} were estimated under the Ukrainian System by separating the coal “reserves” into balance and out-of-balance categories by taking into account of the total mine losses in safety pillars under the existing surface waterworks and other infrastructure.

The following conditions were accepted in calculating the balance reserves:

- Minimum thickness of coal seam (simple and complex structure), including all coal beds and dirt partings – 0.6 m.
- Maximum ash content of coal including dilution by dirt partings – 30 %.
- Reserves of oxidized coal were not estimated.

Whilst the following conditions were accepted in calculating the out-of-balance reserves:

- A minimum general seam thickness - 0.45 m.
- Maximum seam ash content including impurities - 45 %.

As part of the protocol conditions, which is considered addendum to Protocol № 10474 of GKZ of the USSR dated 09.08.1988, the following conditions were imposed on the deposit. According to these conditions, the owners at time of the operation must

- Undertake additional exploration to find out details of the tectonics, the morphology of the coal seams and coal quality characteristics.
- Make arrangements against possible water breakout from old mining workings and regular monitoring of the gas conditions in extraction production areas of the mine to be performed.

- Perform advanced preliminary exploration during development of preparatory roadways and drifts.
- Leave safety pillars under the pond that is located within Roskoshniy Mine Project, and under Mius River at time of the mining operations planning.
- Co-ordinate the mining plans with the neighbouring users of subsoil resources, specifically on seams: ℓ_7^{B}, ℓ_4^{B} and k_7^{H}.
- Submit the materials of geological-economic evaluation of coal reserves in seams ℓ_7^{B}, ℓ_6^{H}, ℓ_4^{B}, k_7^{H} and mining methane of Roskoshniy section of Shahta Sadovaya LLC being part of "Fashivska Pivdenna Mine" field shall be submitted to GKZ of Ukraine within 3 years after receiving the special permit for subsoil resources utilization.

Following is a breakdown of the resources available from these areas highlighted in Protocol № 1630.

2.3.1.3 Reserves and Resources Statement under JORC

To evaluate the resources at Sadovaya Mine and Roskoshniy Mine Project under JORC system, certain criteria must be in place to demonstrate that these resources are economic and meet the modifying factors. These are:

- There is a costed Business Plan that covers mining in these fields until the year 2030.
- Production plans with the available mining layouts are available for the projected seams. These are ℓ_7^{B}, ℓ_6^{H}, ℓ_4^{B} and ℓ_7^{H} for Sadovaya Mine; and ℓ_7^{B} for Roskoshniy Mine Project.
- Evaluation of the reserve has only been done for the period of the mining plan as it is determined that these are demonstrated as being economic.
- It is assumed that proved reserves will be worked first in the course of depletion and that the balance of the plan if required will then come from the probable reserve if any.
- It is assumed that the reassessment of the resources in the field both at Sadovaya and Roshkoshniy will be approved as there is a very reasonable expectation that this will happen.
- The mine license will expire in 2026. It assumed that there is a reasonable expectation that the license will be renewed by the authorities.

The Business Plan for the Sadovaya Mine shows that about 12.3 million tonnes will be worked from this field as well as 9.0 Million tonnes from the Roskoshniy Mine Project. As the mine will be joined to the newly developed Roskoshniy Mine Project whose official "reserves" 17.6 million tonnes in B and C1 Category, the joint site will be inclusive of the resources from the latter site. The official industrial resources prepared for the State Authorities (9.9 Million Tonnes) for Sadovaya (Table 2.3-1) and (17.6 million Tonnes) for Roskoshniy Mine Project (Table 2.3-2) are sufficient to cover this planned production. IMC considers that there is a reasonable expectation that the revised assessment of balanced resources will be approved by the authorities and have shown the revised figures as a measured resource.

However, IMC have only assessed those tonnages that are shown in the current Business Plan as reserves.

The distinction between proved and probable reserves is based on the ratio of A+B category coal to C1 category coal. In this case, however, it is the opinion of IMC that all resources categorised as Category A and B assigned to the mining plan can be designated as proved reserves due to the nature of the coal and the degree of exploration. In addition, some of C1 block coal was assigned to Proven Category if the local geological conditions are known through the earlier production in the nearby areas.

Therefore based on the present Company forward plans the Reserves and Resources Statement is given below:

Table 2.3-1 JORC Compliant Resources Statement for Sadovaya Mine as at 1/7/2010

	Total Balance Reserves Approved in GR5 Form by GKZ (Tonnes)	**JORC Equivalent Resources (Tonnes)**		
Seam		**Measured (A+B)**	**Indicated (C_1)**	**Inferred (C_2)**
ℓ_7^{B}		263,000	2,818,000	-
ℓ_6^{H}			1,289,000	-
ℓ_4^{B}			826,000	-
ℓ_3			735,000	-
ℓ_2^{H}			515,000	-
ℓ_1			1,824,000	-
k_7^{H}			1,659,000	-
Total		263,000	9,666,000	-
∑Mine (A+B1+C1)	**9,929,000**			
∑Mine (Meas. + Ind.)		**9,929,000**		

Table 2.3-2 JORC Compliant Resources Statement for Roskoshniy Mine Project as at 1/7/2010

	Total Balance Reserves Approved in GR5 Form by GKZ (Tonnes)	**JORC Equivalent Resources (Tonnes)**		
Seam		**Measured (A+B)**	**Indicated (C_1)**	**Inferred (C_2)**
ℓ_7^{B}		871,000	9,891,000	798,000
ℓ_6^{H}		-	-	3,286,000
ℓ_4^{B}		-	2,051,000	-
k_7^{H}		-	4,804,000	1,659,000
TOTAL		**871,000**	**16,746,000**	**5,743,000**
∑Mine (A+B1+C1)	**17,617,000**			
∑Mine (Meas. + Ind.)		**17,617,000**		

Table 2.3-3 JORC Compliant Reserves for Sadovaya Mine as at 1/7/2010

Seam	Reserve (Tonnes)*		Total Seam Reserves (Tonnes)
	Proven	Probable	
ℓ_7^B	-	2,047,000	2,047,000
ℓ_6^H	-	826,000	826,000
ℓ_2^H	28,000	-	28,000
ℓ_1	1,735,000	-	1,735,000
k_7^H	346,000	7,398,000	7,744,000
Total Mine Reserves (Tonnes)	**2,109,700**	**10,271,000**	**12,380,000**
*Numbers are rounded to the nearest thousand			

Table 2.3-4 JORC Compliant Reserves for Roskoshniy Mine Project as at 1/7/2010

Seam	Reserves (Tonnes)*		Total Seam Reserves (Tonnes)
	Proven	Probable	
ℓ_7^B	-	9,051,000	9,051,000
Total Mine Reserves (Tonnes)	**-**	**9,051,000**	**9,051,000**
*Numbers are rounded to the nearest thousand			

2.4 MINING OPERATIONS AND FACILITIES

2.4.1 Mine Operations

At present two seams ℓ_2^H and ℓ_1 are in operation. There is one pneumatic-pick face in operation in seam ℓ_2^H with a daily production rate about 60 t/d. Another three longwalls are operated in the seam ℓ_1 with the average daily production about 200 t/d. These three faces are equipped with an out of date Ukrainian shearer (KZTG) and individual steel and timber props. The extraction equipment is simple to maintain and replace but high productivity rates cannot be achieved.

All of the longwalls at the mine are operated as advance units. Mains are headed in advance of the face with drilling, blasting and mechanised loading, whilst tail gates are manually ripped behind the faceline. Due to low face advance current development and ripping rates are sufficient to assure stable production.

The mine is exhaust ventilated which allows the current production rates without the gas limitation under Ukrainian mine safety regulations (gas category IV). All of the operated longwalls are above the gas outburst hazard seam areas (due to Ukrainian classification). Therefore additional measures to gas outbursts prevention are not required.

2.4.2 Mine Planning

Long term mine planning has been developed up to 2030 and used as base for the Company Business Plan.

Remained reserves in the seam ℓ_2^H are limited in the operated 2nd east panel. Further mining of these reserves is scheduled without significant changes of extraction equipment or mining method with an average production rate about 60 t/d.

Remained reserves in the seam ℓ_1 will be mined using the proved machinery and technologies for this seam. By means of technical modification of second hand shearers the Company plans to increase average production rates in ℓ_1 up to 250 – 300 t/d. Despite increasing the mining depth up to about 300 m planed production rates will not be limited by ventilation, gas outburst or roadway stability.

All the main roadways which are necessary for mining of the seams ℓ_2^H and ℓ_1 are already existing. Additional main roadway development as well as significant infrastructure extension for these seams would be not required for the planned production.

Additional reserves of the Sadovaya Mine in the seam k_2^H will be aligned in 2011 – 2012. The required main roadways as well as main and tail gates will be headed mostly with Ukrainian roadheader (KSP). Average planned heading rates are between 60 – 100 m/month. Due to IMC experience in the Ukrainian underground mining these roadway development rates are achievable in the gas outburst prone seams.

The first longwall operation in k_2^H will start in 2012 in advanced mining. Due to seam inclination above 20° the first longwall face will be equipped with a Ukrainian shearer for steep seams mining and individual timber props, which is common technology for such condition in Ukrainian coal mining. The planned average daily production rates of 300 t/d are realistically achievable. The further mining of the seam k_2^H is planned by the Company with Ukrainian longwall packages MKD90, which is the mostly common and proved face equipment for thin seam underground mining in Ukraine. IMC considers the planned production rates of about 950 t/d per longwall are realistically achievable with the geological conditions of Sadovaya Mine. A degasification system will be established to avoid production limitation from gas emission from the beginning of 2015. The planned production rates are shown in Table 2.4-1.

IMC understands that a gas drainage system will be installed for future mining operations. This would increase the mining safety, reduce external energy consumption as well as bring additional profits from electricity and CO_2 certificates trading.

Table 2.4-1 Planned Production Rates

Seam	Roadway Development (m/d)	ROM Production (Tonnes/d)	Longwall Equipment	Ventilation	Comments
ℓ_7^B	2.3 – 3.5	950	shearer UKD 200, shield support KD90	U - shape	Degassing system proposed
ℓ_6^H	1.7 – 2.7	950	shearer UKD 200, shield support KD90	U - shape	Degassing system proposed
ℓ_2^H	0.6 – 0.8	60	pneumatic-pick single props	U - shape	
ℓ_1	0.8 – 1.6	250 – 300	shearer KZTG, single props	U - shape	
k_7^H	2 – 3.5	300 / 950	shearer Temp, single props / shearer UKD 200, shield support KD90	U - shape	Degassing system proposed

2.4.3 Blending and Coal Washing

No processing is undertaken at the mine. The coal is discharged from the inclined drift onto Run of Mine (ROM) stock pile. Trucks transport the coal for treatment to the site N°12.

There is a new Coal Preparation Plant (CPP) with a feed rate 200 t/h together with loading facilities are planned on the site. The design of the CPP is raised on dense medium and spiral separation. A detailed flow sheet is still not available, the budget costs for the process equipment are assumed at 8 mln USD.

The preparation facilities are currently concentrated at the site N°12, about 8 km away from the mine. The main preparation processes are screening and a dry sorting process with an FGX Separator. Two screening plants (N°1 and N°2) with a capacity of each 90 t/h are operational. The FGX separator complex includes the separator and a screening plant with a capacity of about 60 t/h.

The principle of the FGX separator is the sorting in a constant air flow on a specially designed vibrating screen plate.

In addition to the processed ROM from Sadovaya Mine externally purchased coal is delivered to this site and after screening it is blended to customer's specifications. The external purchased coal has sulphur content less than 1 % with an ash content in the range of 15 – 22 % and the moisture content between 6 – 8 %.

The main coal fractions which will be produced are sized 0 – 6 mm, 6 – 13 mm, 13 – 25 mm and 25 – 100 mm.

The average quality of these anthracite products are shown in the Table 2.4-2.

Table 2.4-2 Products from Sadovaya mine

Grain size (mm)	Ash content (%)	Moisture content (%)	Sulphur content (%)	Main use
0 - 6	18 – 22	7 – 9	3	Power industry
6 – 13	12	6	1.5 - 2	Metal steel industry
13 – 25	9.4	5.5	1.5 - 2	Metallurgical industry
25 - 100	8	5	1.3 - 2	Metal steel industry

The sulphur content for the products listed is in the range of 1.3 up to 3 %. Additional to the main products above other customer specific products can be provided.

Power station products with an ash content of about 20 %, and 10 % moisture are screened coal from the waste dumps at Krasnokutskaja and Yelizavetovskaya and are be added at a rate of 5 – 10 %.

The transport between the storage areas and the blending activities at the site are by trucks and wheel loaders. The product shipping to the customer is done by railcars with an average capacity between 63 t and 69 t. Alternatively, customers can be supplied by truck. This will also be used for domestic fuel customers. The overall shipping capacity of the site N° 12 is about 85,000 t/month.

There are two well equipped laboratories to determine the quality parameters of the raw coal and the final products. One laboratory is at N° 12. The main parameters determined periodically are ash content, moisture content, sulphur, volatile matters and the caloric value. The staff analyzed up to 200 samples per day to assure a constant product quality. The laboratory is certificated by the Ukrainian Technical Standardization Committee for Coal and Coal Products valid up to the 23.06.2011.

2.5 PROJECTS AND PROSPECTS

2.5.1 Roskoshniy Mine Project

The mine planning for Roskochniy Mine Project was developed by the Company based on TEO (Pre-Feasibility level) prepared by Donetskgeologia up to 2030 and used as base for the Company's Business Plan.

The mine planning includes new drifts and roadways with Ukrainian roadheaders as well as drilling and blasting methods.

In parallel two longwall operations in ℓ_7^B coal seam are scheduled with a maximum production of 580,000 t/y from the year 2019.

The mine will work with exhaust ventilation which allows the planned production rates with a proposed degassing system under the Ukrainian mine safety regulations (gas category IV). Despite increasing of mining depth up to about 250 m planned production rates will not be limited by ventilation, gas outburst or roadway stability reasons.

The planned production rates are shown in Table 2.5-1. IMC considerers that with established Ukrainian longwall equipment the planned production rates are achievable.

Table 2.5-1 Planned operational figures at Roskoshniy Mine Project

Seam	Roadway Development (m/d)	ROM Production (Tonnes/d)	Longwall Equipment	Ventilation	Comments
ℓ_7^B	3.0 – 4.3	850 – 950	shearer UKD 200, shield support KD90	U - shape	Degassing system proposed

2.5.2 Infrastructure

2.5.2.1 Surface Infrastructure

Sadovaya Mine presently has an aged infrastructure located over 9 hectare area with future plans for underground mine extension into Roskoshniy Mine Project.

Some of the old colliery buildings have been demolished and the main administration block is partially refurbished together with existing mine drift haulages, main mine fans, surface compressors and welfare facilities.

Future expansion plans include refurbishment of plant and replacement of major infrastructure buildings and equipment including replacement of the existing equipment which is presently is in a very poor state of repair.

The mine employs Lugansk technical centre (civil engineering consultant) to oversee and asses the infrastructure with replacement / repair programme which keeps the building structure infrastructure facilities serviceable. Programmed inspections are made on annual basis with major structural surveys conducted five years.

2.5.2.2 Power Supply

The two incoming 35kV overhead line power supplies feed the grid source substation which is located in the Grabovo grid utility (PS35/6) located 3.5 km from the mine site. The utility substation is owned and operated by Yenakievo Power Supply Company.

The Grabovo transmission and distribution substation comprises of two 33 kV incoming overhead power line supplies, with associated switchgear and two 33/6 kV step-down supply transformers each rated with a 20 MVA electrical capacity which is more than sufficient for the mine’s present demand.

Two 6 kV overhead power lines outgoing feeds from each step down supply transformer is fed overland to the mine site intake substation which is also owned and operated by Yenakievo Power Supply Company. This equipment is of Soviet manufacture and design and requires replacement but is regularly serviced and maintained by the power supply company.

The incoming overhead feeder lines have a rating of maximum rating of 258 amperes (1.25 MVA) and supply the present mine demand.

This present capacity is not sufficient for the mines future expansion and will have to be greatly increased. IMC where informed by senior group staff that future plans include for the removal and replacement of the 6 kV substation with new infrastructure buildings, new 35/6 kV substation equipment and supply cables.

The transmission and distribution network comprises two transmission and distribution substation systems:

- 6 kV 3 phase 50 Hz,
- 400 V 3 phase 50 Hz (derived from the 11 kV system).

The 6 kV transmission is utilised to feed surface and underground equipment which is transformed down to 660 V and 400 V all of which is utilised in and around the mine complex as network distribution voltages.

Presently there is adequate installed capacity to deal with the mines present maximum demand of 2 MW operating with lagging power factor correction of 0.865. The mine presently has no stand-by power generation supplies.

Future mine plans include for a replacement intake substation with a new facility; owned and operated by Yenakievo Power Supply Company with incoming supply of 35 kV operating 3 phase 50 Hz supply system.

2.5.2.3 Underground Infrastructure

Underground equipment supplies comprising of pumps, bunkers tipplers, conveyors and mine ancillary apparatus operate on a 6/0.63 kV 3 phase 50 Hz. Systems. Underground face coal/rock clearance systems comprise of spot loading winches which assist in the discharge and loading of face coal into the receptacle 2 ton coal wagons. The wagons are assembled into 10-12 train sets and hauled by one 8 ton battery locomotives (2 x 13 kW DC drive motors) to the skip loading tippler.

Each wagon is separately discharge into bunker and fed by conveyors into the skip loading systems. Two underground vertical bunkers of 75 t and 30 t capacity are employed for surge and storage purposes, two 10 ton coal loading skip weighing flasks collate the coal for delivery into 10 ton skip conveyances. The skips are wound to the surface loading discharge surge storage pocket and discharged into the coal delivery haulage trucks and transported to the coal benefaction plant.

2.5.2.4 Rock Disposal

Rock transport is segregated and drawn on the 3rd shift via the same clearance system with the skips and weighing systems down rated to accommodate increased rock loads.

2.5.2.5 Mine Dewatering

The mines water make is presently discharges into abandoned mine workings but future plans are for recirculation and re use of mine water. This process will involve the collection and management of mine water makes with the establishment of underground pumping stations. The collected mine water will be contained in a main sump and pumped to surface holding settlement tanks suitable treated and recycled for mine technical water process and fire fighting systems.

The stated tank sump capacity of 20 m^3 is inadequate and must be increased to comply with mine regulations and should be a minimum of 1,800 m^3.

It is proposed that the above pump station equipment and associated systems will operate on 6kV 3phase 50 Hz system with derived sourced of 660/27 V systems with manual control and monitoring.

2.5.2.6 Surface Equipment

Sadovaya Mine has two decline shaft/drift systems almost 800 metres deep:

- No 1 down-cast shaft (767 m) is used for the conveyance of men and materials,
- No 2 up-cast shaft (741 m) is used for men and material.

Access to underground working for men and material is via a 25 degree declined shaft. Men and materials transport is provided by a surface located direct shaft haulage system, powered by 380 kW 6 kV 50 Hz winder motor with two transport cars and employing Ukraine braking systems.

The existing drift/shafts systems and associated facilities are in need of refurbishment or replacement with new equipment with increased speed and capacity to meet future service demands.

Run of Mine (ROM) coal is discharged at the surface unloading head from the No. 1 intake declined shaft comprising of two 10 ton skips into small capacity surge bunker/discharge chutes into 12 ton coal haul transport trucks. The coal is then transported 8km via on poorly maintained asphalt road to the dry coal benefaction plant stocking and blending yards, the coal is screened crushed and graded and bucket loaded from the coal stock piles into rail wagons and dispatched by rail to domestic customers.

Each Coal Handling and Coal Benefaction Plant has comprehensive rail sidings for the storage and loading of coal and is connected to the national rail network. The haulage locomotives and wagons are contracted to the mine and are owned and operated by the regional rail company.

2.5.2.7 Surface Mine Fans

The mine fans are located in close proximity to No. 2 Up-cast Man and Material shaft with a fan installation comprising of two exhausting fans of Russian manufacture (one operating and the other on standby).

The fan motor sets and electrical distribution equipment are of an old design and require major refurbishment and are over 50 years of age.

Future mine extension plans should include improvements to the main ventilation systems to increase efficiencies and increase capacity of the main and standby fans inline with mine ventilation requirements.

2.5.2.8 Compressed Air

Compressed air is derived from the surface located compressor house and comprises of three Ukrainian positive-displacement air piston compressors manufactured in 2000.

The compressors operate with two running and one standby and are manually controlled by a 24 hour attendant with manual operation and supervision.

2.5.2.9 Mine Control Room

Presently close circuit television is employed at surface critical locations to aid visual observations and aid coal mine security services.

2.5.2.10 Mine Heating

Mine heating is supplied from the mine boiler which comprises of four 45 kW (180 KW total) electric steam boilers for hot water/steam boiler raising plants for heating, bathing and laundry facilities.

2.5.2.11 Workshops

The Mine has surface mechanical, electrical and fabrication infrastructure workshops situated in vicinity to the shaft/drift systems appear to be well equipped with machine tools but with minimal lighting and working space. New workshops are being constructed by the mine but no definite completion date could be confirmed.

The surface workshops maintain and repair both surface and underground electrical equipment including general repairs to switchgear electrical power equipment motors and transformers.

Specialist major and overhauls and repairs are sent to the specialist workshops or to the manufacture for assessment of repair and costs prior to authorisation.

2.5.2.12 Planned Maintenance

The mine plant equipment maintenance schedule is stipulated by Ukraine Mining Legislation with the specified type of examination and examination periods with all equipment examinations being recorded and stored at each mine site. The Mine complex equipment is maintained on a timed maintenance programme.

2.5.2.13 Mine Water Supplies

Potable Water is supplied via the local municipal water company to the mine site.

The process and fire fighting water is obtained from the underground borehole pump systems and is delivered into surface storage tank which is then distributed to surface and underground process applications; future plans is to utilise pumped mine water which will be filtered and treated.

2.5.2.14 Mine Sewage

Mine site sewage disposal is via a septic tank which is emptied at regular by the municipal sewage company which is then delivered to the sewage collector network then pass to water.

3 RASSVET–1 MINE

3.1 MAPS AND PLANS

Plate 10: Mine Plan, Rassvet-1 Mine, Seam ℓ_7
Plate 11: Mine Plan, Rassvet-1 Mine, Seam ℓ_6
Plate 12: Mine Plan, Rassvet-1 Mine, Seam ℓ_4
Plate 13: Mine Plan, Rassvet-1 Mine, Seam ℓ_3

3.2 MINE GEOLOGY

3.2.1 Stratigraphy

Rassvet-1 Mine is located in the western part of the Chistyakovskoy syncline complex and folded sedimentary rocks of the middle and upper part of the Carboniferous. Suits C_2^6 and C_2^7 are the main rocks within the mine and surrounding areas. Carboniferous age rocks are overlain by Neogene and Quaternary sediments everywhere. Lithologically coal deposits are represented by alternating layers of sandstone, siltstone, mudstone, coal seams, and limestones.

3.2.2 Structure

The seams are located within the Chistyakovskoy syncline which runs in east-west direction. The strike of the rocks is close to the meridian and dip to the north. The dipping angle varies between 2-21º with depth.

The deposit was initially classified as Group I under the old Soviet Classification in the early assessments in the 1950s; however, it was later upgraded to Group II as part of the reserves re-evaluation process in 2008. This was due to complex sedimentological processes that complicated the prediction of the seam continuity in the mine.

However, no major tectonic disturbances have been detected in the area. Only, seam ℓ_3 revealed difficult working conditions due to a tectonic disturbance with an amplitude of 1.8 m. In addition, seam ℓ_7 mining operations had revealed some complicated fault structure with an amplitude of 3.8 m. In the underground workings some seam rolls and erosional structures ranging from 0.10 to 1.45 m are also encountered within m_3, ℓ_7, ℓ_4, and ℓ_3.

3.2.3 Coal seams

The mine has five coal seams in its reserve balance sheets. These are m_3, m_2, ℓ_7, ℓ_6, ℓ_4, and ℓ_3.

Seam m_3: It is mainly observed in the south and slightly oxidised in places. Its thickness ranges from 0.6 m to 1.0 m with an average thickness of 0.79 m. It is also observed under the sediment cover in the north along the -400m contour line.

Seam ℓ_7 mainly occurs in the south but it also observed under the sediment cover in the north and east along the -400m contour line. Its thickness ranges from 0.8 m to 1.2 m. It generally displays a simple structure.

Seam ℓ_6 is mainly observed in the south but it also exists under the sediment cover in the north around -350m contour line. It is a relatively thin seam (0.45-0.93 m) and its structure is simple.

Seam ℓ_4 is mainly observed in the south but it also exists under the sediment cover in the east and north around -350 m contour line. It is relatively thicker compared to the other seams (0.55-2.02 m), but its structure can be quite complex in places.

Seam ℓ_3 is mainly observed in the south but it also exists under the sediment cover in the east and north around -350 m contour line. Its thickness varies from 0.69 m to 1.25 m, but its structure can be quite complex in places.

The seam characteristics are given in Table 3.2-1.

3.2.4 Coal quality

The coal seams in Rassvet-1 Mine are classified as T under the Ukrainian system. The average volatile matter ranges from 5.6 % to 10.7 % whilst the random reflectance is between 2.1 % and 2.7 % which indicates a semi-anthracite rank.

The ash content varies from 3 % to 35.5 % depending on the presence of clastic partings. In addition, during exploration campaign and subsequent mining practice, a correlation was established between the ash content and relative density of the coal seams to predict the corresponding ash-density changes. The regression formula was also used in coal resource estimations.

The sulphur content in the seams is still high (up to 3.3 % in average) but much lower than that of Sadovaya Mine.

The ash fusion temperature range is in the lower end of the spectrum.

The coal quality characteristics of the seams are given in Table 3.2-1.

3.2.5 Hydrogeology

According to the design documents and current mining practices, the hydrogeological conditions in the mine field are favourable. Hence, the mine is classified as Class I under the Ukrainian System, which is an easy category for the coal production. The water input generally occurs through the overlying aquifers by percolation from the surface precipitation and some gushes in the tectonically weak zones. Inflow to the mine workings generally is influenced by the properties of aquifer hosting sandstones and limestones of the Carboniferous.

The chemical composition of the water is characterised by the hydro carbonate compounds with salt amounting up to 2.4 g/l. Its acidity is neutral to weakly alkaline (pH-8.0) and it is slightly corrosive to the metals and aggressive to cement structure.

Table 3.2-1 Seam characteristic and summary of coal quality parameters at Rassvet-1 Mine

Seam	Thickness From-to (m) Average (No.)		Structure	Consistency	Grade	Ash (%) From-to Average	S (%) From-to Average	Volatile Matter (%)	Ash Fusion Temperature	Reflectance R_o, (%)
	Clean plies	Total								
m_3	0.6-1.0 0.79	0.6-1.0 0.79	Simple	Consistent	T	3-21.3 8.3	1.0-4.5 2.3	6.0-10.2	Fusible (+900˚ - +940˚)	2.1-2.5
ℓ_7	0.84-1.2 1.03	0.84-1.2 1.03	Simple	Consistent	T	3.8-11.3 7.8	1.0-4.5 1.7	5.6-10.6	Fusible (+870˚ - +1280˚)	2.2 -2.6
ℓ_6	0.45-0.93 0.78	0.45-0.93 0.78	Simple	Relatively consistent	T	3.6-15.3 8.9	1.0-5.9 2.1	5.8-10.4	Fusible (+990˚ - +1170˚)	2.3 -2.5
ℓ_4	0.55-1.77 0.97	0.55-2.02 1.03	Simple to complex	Inconsistent	T	5.2-35.5 13.3	1.4-6.5 3.3	5.7-9.9	Fusible (+990˚ - +1090˚)	2.4 -2.7
ℓ_3	0.69-1.25 0.96	0.69-1.25. 1.05	Simple to complex	Relatively consistent	T	3.9-31.3 18.5	1.0-3.6 2.0	5.7 -10.6	Fusible (+910˚ - +1090˚)	2.4- 2.7

3.2.6 Geotechnics

Geotechnical conditions of the deposit are relatively favourable for the operations. Complications can be expected especially when a "false" and unstable roof is present. Other complications include the erosion of the seams by replacement of sandstone or sandy units with the coal. In addition, some structural complications are observed in the central portion of the mine.

The immediate roof of Seam m^3 consists of layered sandstone with Protodyakonov Index (PI) of 6 which is a hardness scale number in the Soviet System which is approximately equals to tenth of Compressional Strength (MPa) according to M.M. Protodyakonov. The main roof includes another sandstone with PI of 9. The immediate floor consists of sandstone with PI Index of 8.

The immediate roof of Seam ℓ_7 consists of 3.6 m thick siltstone unit with PI of 6 whilst the main roof is about 14 m thick sandstone with PI of 8. The immediate floor consists of 3.3 m thick silty sandstone unit with PI of 6.

The immediate and main roof of Seam ℓ_6 consists of 8 m-thick massive sandstone whilst the immediate floor includes a 2.5 m thick sandy silty unit.

The immediate and main roof of Seam ℓ_4 also has a 9-10 m-thick sandstone. The immediate floor, however, includes a 9-10 m thick sandy silty unit.

The immediate and main roof of Seam ℓ_3 consists of 12.5 m thick sandstone unit whilst the immediate floor consists of 15.1 m thick sandstone unit.

3.2.7 Outburst

According to documents issued by Donetsk Territorial Administration Gosgorpromtekhnadzor Ukraine dated from 26.10.2009 and 06.01.2010, ℓ_7 layer at -250m and ℓ_3 at -200 were referred to the outburst prone. These documents also indicated that ℓ_6, ℓ_4 at the depth of 150 m and m^3 at the 230 m were referred to dangerous category.

According to the design documents and exploration results, Rassvet-1 is related to the sudden release of methane gas-outburst and is considered under the hazardous category.

3.2.8 Seismicity and Subsidence

No seismic or subsidence related event was encountered in the mine operations.

3.2.9 Wash-outs

A number of partial erosional wash-outs are observed almost in all seams in the mine. These vary in size from 1-2 m to 1.2 km in length. When the overlying sandstones erode the seam, the sandstone unit replaces the coal and the seam thickness is reduced to 10 cm in places. This issue particularly poses additional operational difficulties and results in very high ash content product from the face. Partial wash-outs are especially observed in Seam ℓ_7.

3.2.10 Seam Splitting and Merging

Seam splitting is not common, however, local sandstone channels may cause the seams split into two or three plies due their sudden introduction into the mine field at the time of the deposition.

3.2.11 Gas

The mine is grouped under dangerous category due to high gas content present in the seams.

The natural methane content in coal seams show high amount of gases in the mine. Natural gas content of coal seams is more than 30 m^3/t daf.

The methane content is regularly measured by the mine personnel at various measurement points. Randomly checked results from July 2010 by IMC team indicated that the gas measurements were well below the permissible limits.

3.2.12 Dust

According to the Ukrainian mining industry safety rules, coal dust with the volatile matter content exceeding 10 % is classified as explosive.

As the volatile matter content is between 5-9 % for majority of the seam, the coal dust is regarded within the non-explosive category. Mine personnel take the recommended measures to reduce dust formation such as coal wetting in situ, stone dusting and dust cleaning, face watering in the course of shearer operation, etc.

According to the Ukrainian safety rules in mining industry, rocks with the content of free SiO_2 over 10 % are classified as silicosis hazardous. The results from the design documents indicate that the content of free SiO_2 in rocks exceeds the benchmark value times, and actions for prevention of silicosis should be taken in the course of drivage of stone development headings or roadways in coal with surrounding rocks.

3.2.13 Spontaneous Combustion

The tests conducted on the samples obtained from the exploration boreholes and mine workings indicate that the seams are not liable to spontaneous combustion.

3.3 RESOURCES AND RESERVES

The earliest exploration work in the area is from around 1930s. In the following years, the area was subject to more systematic investigations, and a number of campaigns were undertaken either directly in the mine area or surrounding vicinity. Therefore the geological information in the area is well established. Latterly, the exploration standards of the former Soviet Union, which is a well organised and prescriptive system, have been applied to the exploration and development of the current mines. Thus the coalfield in the area has a good standard of exploration. IMC considers the exploration standard to be reasonable. The mine has drilled more than 200 surface boreholes to investigate the area as well as more than many in seam drillings for gas, water and quality.

In addition to these boreholes, data from mining and developments has supplemented the geological database and IMC consider that the geology and coal resources down to Seam ℓ_1 are reasonably defined. The geology department regularly collects detailed information from the on-going development work and working faces. Average drilling space between the exploration lines ranges from 350 m to 750 m and it varies from 250 m to 400 m in the exploration lines.

Over the decades, the results of the boreholes from surface and underground have been accurately documented. The core recovery according to the mine personnel in the majority of cases is more than 70 % although this may be much lower in coal sections. Geophysical investigation of the boreholes has been used to assess core loss and the lithological character.

Borehole core photographs from the boreholes are not available and core photography is not considered as part of the exploration practice.

In addition, geological and coal quality information gathered during mining and mine development is used to continually assess geological and mining conditions.

3.3.1 Resources under Ukrainian System

According to the license agreement 4982 and approved protocol DKZ Ukrainy № 1510 of 23 May 2008, the coal resources from Rassvet-1 Mine were estimated under the Ukrainian System by separating the coal “reserves” into balance and out-of-balance categories by taking into account of the total mine losses in safety pillars under the existing surface waterworks and other infrastructure as well as the following boundary conditions:

- m_3: in the south – incrop under the deposits; in the north - conditional line, which passes on the contour of -400 m, further along the outline of the mining operations of the mine “Zhdanovkaugol”, and on the outline of the mining operations of 9-(Oy) eastern part of Rassvet-1 and at a distance 110 m to the south from Borehole S -281; in the east - the conditional line passing on the office of Rassvet-1 and general with the acting mine “Donprombiznes”; further at a distance 60 m and 290 m east of Borehole S-642, №977; in the West - conditional line passing transversely from the boundary of protective pillar of the technical boundary Rassvet-1 Mine to the contour of -400 m.
- ℓ_7: in the south – incrop under the deposits; in the north - contour of -350 m; in the east - the conditional broken line passing at a distance 310 m to the east from Borehole S-589, further boundary passing on workings of Rassvet-1 and general with the acting mine “Donprombiznes”; further passing on the contour of -160 m, further at a distance of 452 m from Borehole S-3784. In the west - conditional line passing transversely to the West from Boreholes S-636, №542, S-634, №1694 and №1599 at a distance of 40 m, 75 m, 130 m, 255 m, and the boundary of barrier pillar Rassvet-1 Mine to the contour of -350 m.
- ℓ_6: in the south – incrop under the deposits; in the north - contour of -350 m; in the east - the conditional line passing on mine workings of Rassvet-1 Mine and acting mine “Donprombiznes”; further transversely stretching at a distance of 30 m and 295 m to the east from Boreholes S-624 and U-3796; in the west - conditional line passing transversely to the West from Boreholes №224, №356, S-320 at a distance of 30 m, 270 m and 240 m.
- ℓ_4: in the south – incrop under the deposits; in the north - contour of -350 m; in the east - the conditional line passing on mine workings of Rassvet-1 Mine and acting mine “Donprombiznes”; further transversely the stretching at a distance of 375 m to the east from Boreholes S-169; in the West - conditional line passing transversely to the West from Boreholes №946, S-224, №965 at a distance of 190 m, 195 m and 210 m.
- ℓ_3: in the south - incrop under the deposits; on the north - contour of -350 m; in the east - the conditional broken line passing on Rassvet-1 Mine and “Donprombiznes” workings; further transversely stretching at a distance of 90 m and 340 m to the east from Boreholes S-621 and S-169; in the West - conditional line passing transversely

stretching to the West from Boreholes S-224, S-679, №965 at a distance of 200 m, 335 m and 225 m to the contour of -350 m.

According to the protocol for calculating the reserves the following standards were followed:

- Minimum thickness of a seam with simple and complex structure (total thickness of coal slices and dirt partings) is 0.6 m (0.45 m for out-of-balance).
- Maximum ash content at the seam intersection or within the seam part accepted for estimation with account for 100 % dilution with dirt partings is 40 % (0.45 % for out-of-balance).
- Reserves of oxidized coal were not estimated.

IMC was told that the Company invested into repairs of equipment and preparation for exploration of new longwalls since the acquisition of Rassvet-1 Mine. However, the mine was not able to start the production due to absence of permits and licenses for production at the time as the Ukrainian law prevents the different commercial entities to hold licenses and permits to explore the same reserves. Therefore to preserve and remodel the Rassvet-1 mining complex and to support the efforts of the beneficiaries of Rassvet-1 Mine, a decision was made – that for the period of reissuing of the license and permits for exploration of Rassvet-1 reserves from State company Mine Rassvet to private Company Rassvet-1 Mine, financing and production assets were given to “Mine Rassvet” to produce coal and sell it all to Rassvet-1 Mine. Finally, In June 2009 Rassvet-1 Mine received the special permit for exploration works at Rassvet-1 Mine, and in September 2009 other permitting documents and exploration license were officially obtained. However, due to financial and industry crisis in Ukraine between 2008 and 2009, Rassvet-1 Mine could not proceed with production. As both the financial and political conditions have improved in 2010, the active development and production started during 2010.

About 57,500 tonnes were produced in the first six months of 2010 and this was deducted from the figures reported to the State on 31 December, 2009.

3.3.2 Reserves and Resources Statement under JORC

To evaluate the resources at Rassvet-1 under an international system such as JORC certain criteria must be in place to demonstrate that these resources are economic and meet the modifying factors. These are:

- There is a costed Business Plan that covers mining in this field until the year 2023.
- Production plans with the available mining layouts are available for the projected seams: ℓ_7^{B}, ℓ_6^{H}, ℓ_4, ℓ^3.
- Evaluation of the reserve has only been done for the period of the mining plan as it is determined that these are demonstrated as being economic.
- It is assumed that proved reserves will be worked first in the course of depletion and that the balance of the plan if required will then come from the probable reserve if any.
- It is assumed that the reassessment of the resources at the field will be approved as there is a very reasonable expectation that this will happen.
- The mine license will expire in 2029.

The Business Plan for the Rassvet-1 Mine shows that about 5.4 million tonnes will be worked from this field. The official resources prepared for the State Authorities (13.2 Million Tonnes) shown in Table 3.3-1 are sufficient to cover this planned production. IMC considers that there is a reasonable expectation that the revised assessment of balanced resources will be approved by the authorities and have shown the revised figures as a measured resource. However IMC have only assessed those tonnages that are shown in the current Business Plan as reserves and these are shown in Table 3.3-2 below.

The distinction between proved and probable reserves is based on the ratio of A+B category coal to C1 category coal. In this case, however, it is the opinion of IMC that all resources categorised as Category A and B assigned to the mining plan can be designated as proved reserves due to the nature of the coal and the degree of exploration. In addition, some of the C1 category blocks have already been mined in places and the geological conditions are well determined by the mine personnel. Therefore, some of these C1 categories have been allocated into Measured Category under JORC.

Therefore based on the present Company forward plans the Reserves and Resources Statement is given below.

Table 3.3-1 JORC Compliant Resources Statement as at 1/7/2010

	Total Balance Reserves Approved in GR5 Form by GKZ (Tonnes)	**JORC Equivalent Resources (Tonnes)**		
Seam		**Measured (A+B)**	**Indicated (C_1)**	**Inferred (C_2)**
m_3		970,000	-	-
ℓ_7		2,066,840	253,000	-
ℓ_6		2,058,000	-	-
ℓ_4		5,977,000	-	-
ℓ_3		1,875,630	-	-
TOTAL		**12,947,470**	**253,000**	**-**
∑Mine (A+B1+C1)	**13,200,470**	**13,200,470**		
∑Mine (Meas. + Ind.)				

Table 3.3-2 JORC Compliant Reserves as at 1/7/2010

Seam	**Reserves (Tonnes)***		**Total Seam Reserves (Tonnes)**
	Proven	**Probable**	
ℓ_7	914,000	-	914,000
ℓ_6	1,479,000	-	1,479,000
ℓ_4	2,025,000	-	2,025,000
ℓ_3	1,055,000	-	1,055,000
Total Mine Reserves (Tonnes)	**5,473,000**	**-**	**5,473,000**
*: Numbers are rounded to the nearest thousand			

3.4 MINING OPERATIONS AND FACILITIES

3.4.1 Mine Operations

During the IMC site visit no longwall operation was working. The existing longwall equipment needs to be replaced.

Very little coal production is being achieved with roadway developments by drilling and blasting methods only.

3.4.2 Mine Planning

Mine planning has been developed up to the mine closure in 2023 and used as base for the Company Business Plan.

The mine planning includes new roadways with drilling and blasting method in ℓ_3, ℓ_4, ℓ_6 and ℓ_7 coal seams. In parallel four longwall operations are scheduled in each of the listed seams. Therefore the production will increase up to 601,000 Mt/y.

The mine works with exhaust ventilation which allows the planned production rates without the gas limitation under the Ukrainian mine safety regulations (gas category IV). Despite increasing of mining depth up to about 600 m planned production rates will not be limited by ventilation, gas outburst or roadway stability reasons.

The planned operational figures are shown in Table 3.4-1. IMC considers that with established Ukrainian longwall equipment the planned production rates are achievable.

Table 3.4-1: Planned production

Seam	Roadway Development (m/d)	ROM Production (Tonnes/d)	Longwall Equipment	Ventilation
ℓ_7	2.0 – 2.9	640 / 715	plow CO75, shield support MK98 / shearer UKD 200, shield support KD90	U - shape
ℓ_6	1.6 – 3.3	400 / 700	plow CO75, shield support MK98	U - shape
ℓ_4	0.8 – 3.2	500	shearer UKD 200, shield support KD90	U – shape / Y - shape
ℓ_3	0.7 – 2.8	300 /630	shearer 1K101, shield support KD80 / shearer UKD 200, shield support KD90	U - shape

3.4.3 Blending and Coal Washing

On site screening and crushing equipment is available for use. The ROM coal has an ash content of about 26 % with moisture content of 4.4 %.

The products for shipping are mainly the following listed in Table 3.4-2.

Table 3.4-2 Products

Product class (mm)	Ash content (%)	Moisture content (%)	Sulphur content (%)	Main use
0 - 100	18 - 24	10	1.5 - 2	Power
0 - 200	18 - 24	10	1.5 - 2	

The shipping of the products to the customer undertaken by railway with an overall capacity up to 60,000 t/month.

The second laboratory is located at the mine for the continuous analysis of the ROM coal and the products. The following properties are evaluated, ash content, moisture content, sulphur content, volatile matters and the caloric value.

The laboratory is certificated by the Ukrainian Technical Standardization Committee for Coal and Coal Products and is valid up to the 13.02.2012.

A new Coal Preparation Plant with a feed rate of 50 t/h together with loading facilities are planned. The design of the planed CPP consider in main dense medium and spiral separation. A detailed flow sheet is still not available, the budget costs for the process equipment is estimated at 2,500,000 USD.

3.4.4 Infrastructure

3.4.4.1 Surface Infrastructure

Rassvet-1 Mine presently has infrastructure located over a 15.8 km² area with plans for underground mine extension to new coal reserves. The mine re-opened after a shutdown period when purchased by the Sadovaya Group. Parts of the old colliery buildings have been demolished but the main administration block undergoing partial refurbished together with existing mine drift haulages, main mine fans, surface compressors and welfare facilities. A new boiler house and new workshops are under construction and should be completed in 2011.

Presently there are no plans for programmed independent survey or inspections of major structural construction works.

3.4.4.2 Power Supply

The 35 kV mine intake substation is owned and operated by the Donbass Energo and is located 4 km from the mine site.

Three 6 kV overhead lines of 120 mm^2 steel core / aluminium cross section emanate from this 35/6 kV transmission and distribution substation which feed three separate 6 kV primary substations.

The supply transmission and distribution network comprises two transmission and distribution substation systems:

- 6 kV 3 phase 50 Hz network systems,
- 400 V 3 phase 50 Hz systems.

Presently there is adequate installed capacity to deal with the mines present maximum demand of 2 MW (2239 MVA) operating with lagging power factor corrected to 0.9.

The mine presently has no stand-by power generation supplies in the event of total power loss.

3.4.4.3 Underground Infrastructure

Underground equipment supplies comprising of, pumps, bunkers, tipplers, conveyors and mine ancillary equipment operating on a 6/0.66 kV 3phase 50 Hz Underground coal/rock face clearance systems comprising of spot loading winches assist in the loading of discharge face coal into 1.6 tonne coal wagons.

Two types of locomotives (8 tonnes and 16 tonnes battery) are employed for the transport of coal / rock and materials.

The loaded wagons are assembled into 25/50 train sets hauled by locomotive to the main bunker tippler which discharge the coal load into storage 1000 tonnes bunker system.

The coal is discharged via vibrating plate feeder onto the main drift conveyors to the surface unloading point. The mines underground coal clearance comprises of 3 mine and drift conveyors.

The drift conveyor delivers ROM product into a small surface surge bunker and then fed onto a coal sizing screening plant. The product is sized and then delivered onto two inline bunker feed conveyor belts coal and is finally delivered into two 1500 tonnes rail bunkers.

The bunkered coal is loaded and transferred into rail wagons of 60 tons capacity, the train wagon sets with varying wagon numbers depending upon product demand, and size, maximum train sets comprising of twenty 60 tonnes coal wagons are hauled by diesel powered locomotives. The mine rail track sidings, rolling stock wagons and haulage locomotive are contracted from the Ukrainian Regional National Rail Company.

3.4.4.4 Pump Stations

Underground mine water is gravitated to two underground collection sumps from associated ancillary inseam dewatering stations. The two major pump stations are located near the declined shafts at varying mine depths called Level 7 and Level 9.

Each of the pump stations has a designed sump capacity of 2000 m^3 which is of adequate proportions for the present mine water make. The pumps operate at off peak electrical tariff times to achieve most advantaged economic rates.

3.4.4.5 Surface Equipment

Access to underground working for men and material is via an 17 degree declined drift surface located Direct Haulage system, powered by 200 kW 6kV 50 Hz shaft/haulage winder motor with three transport cars and Ukraine braking systems with a 30 man carrying capacity (10 men per car) with a 6 ton material load; maximum speed of 1 m/s. The parallel drum of 3 m diameter carries a 1350 m of 32.5 mm steel wire rope lapped several over and around the drum.

- Rassvet-1 has two decline shaft/drift systems almost 800 m deep:
- No 1 down-cast shaft (767 m) is used for the conveyance of men and materials,

- No 2 up-cast shaft (741 m) is used for men and material.

The existing drift/shafts systems and associated facilities are in need of refurbishment or updated replacement with new employing modern energy efficient control technology with associated equipment.

3.4.4.6 Surface Mine Fans

There are three separate main mine ventilation systems employed to supply mine ventilation.

Each system location employing two mine fans, one operational and one stand-by.

3.4.4.7 Compressed Air

The Underground Compressed Air is supplied by six mobile screw type compressor units with a capacity 5-7 m^3/m operating at a pressure 6-10 bar. Compressed air is utilised for most underground pneumatic mining operations including rock/coal drilling and operation of pneumatic equipment. One compressor is utilised for surface facilities.

3.4.4.8 Mine Heating

Mine heating is supplied from the mine boiler which comprises of the six electric steam boilers which raises hot water and steam for heating, bathing and laundry facilities.

3.4.4.9 Workshops

The Mine has surfaced mechanical, electrical and fabrication infrastructure workshops situated in the vicinity to the shaft systems which appear to be well equipped with machine tools but with minimal lighting and working space. Much of the overhaul of equipment is performed cramped untidy locations with stripped down equipment scattered over the workshop.

New workshops are being planned located to the mines proposed new infrastructure but no completion date has been decided. The surface workshops maintain and repair both surface and underground electrical equipment including general repairs to switchgear electrical power equipment motors and transformers. Specialist major and overhauls and repairs are sent to the specialist workshops or to the manufacture for assessment of repair and costs prior to authorisation. The infrastructure workshop maintains all the surface service and civil structures utilised at the mine.

3.4.4.10 Planned Maintenance

No planned maintenance schemes are in existence at the present time due lack of skilled manpower and necessary funding.

3.4.4.11 Mine Water Supplies

Potable water is supplied from the local Gorvodokanal Municipal Water Company and is distributed around the mine site facilities.
The process and fire fighting water is obtained from the underground pumped water which is stored in surface settling ponds filtered and treated prior to re-use.

3.4.4.12 Mine Sewage

Mine site sewage disposal is via a septic tank which is emptied at regular by the Kirovskoe Municipal Sewage Company which is then delivered to the sewage collector network then pass to water treatment plant, and treated prior to discharge.

4 KRASNOLUCHSKAYA-SEVERNAYA MINE PROJECT

4.1 MAPS AND PLANS

Plate 14: Mine Plan, Krasnoluchskaya-Severnaya Mine, Seam h_{11}^{1}
Plate 15: Mine Plan, Krasnoluchskaya-Severnaya Mine, Seam $h_{10}+h_{10}^{H}$
Plate 16: Mine Plan, Krasnoluchskaya-Severnaya Mine, Seam $h_6+h_6^{H}$

4.2 MINE GEOLOGY

The mining block, which is also called Krasnoluchskaya-Severnaya 1, is located within the Bokovo-Khrustalsky geological-industrial region of Donbass (Donets Basin) 12.5 km north of Sadovaya Mine. It is administratively situated within the territory of the Perevalsky and Atratsitovsky regions of Lugansk oblast. It is divided into three mining zone Zone I (West), Zone II (Central) and Zone III (East).

The largest locality nearby is Petrovskoye township. All localities are linked with highway system. Railway lines run in the vicinity of the block and directly through it. The electric energy supply for industrial and household use is provided by power transmission facilities of "Luganskoye Energeticheskoye Obyedinenie" (Lugansk Energy Group). Water is supplied through a water conduits network, as well as from wells and springs.

The area is linked to the dividing range of Seversky Donets and Mius river basins. The drainage system is represented by rivers Belaya and Miusik, their tributaries, small creeks that are often dry in summer time. The topography is of steppe-type, slightly hilly, divided by a system of small rivers and ravines (Krivaya, Dolzhik, Rassipnaya and others). In general, the topography is inclined towards south. The topographic elevation varies from between +210 m to +349 m. The climate in the area is moderately continental. Yearly precipitation averages ranges from 465 mm to 766 mm.

4.2.1 Stratigraphy

The stratigraphic section of the studied area is represented by about 1400 m thick Middle Carboniferous sedimentary rocks (Suites C_2^5, C_2^4) that are overlain by thin Cretaceous strata. The Cretaceous sediments are represented by loess loams, clays, alluvial deposits of rivers and ravines. Total thickness of these sediments does not exceed 20 m.

4.2.2 Structure

Structurally, the area is attributed to Northern Part of the Bokovo-Khrustalska syncline. The main structure is disturbed by plicative dislocations, represented by a number of folds. These are namely: Paramonov Anticline, Timiryazev Syncline, Timiryazev Anticline, Pentrovenkov Anticline, Pentrovenkov Syncline, Afonin Anticline.

In addition, the Northern part of the structure is disturbed by monocline folds as well as Krasnoselsky Thrust (H-6-12m) and Skilev Fault. Krasnoselsky Thrust has an amplitude of 6-10 m whilst Skilev Fault has a drop angle of 65°-80°.

There are no major complications detected during the exploration studies. However, it is still possible that low-amplitude structures can be present although they are not detected by drilling as they are hard to trace by the existing borehole spacing.

In general, the dipping of the strata in the area varies from 3° to 57°.

Based on complexity of its geological structure, the block is classified under Complexity Group 2.

4.2.3 Coal Seams

Seam h_{11}^1 is characterized by mainly plain structure and relatively regular reliable thickness with prevailing thickness of 0.65-0.70 m. Clastic partings are rare, but can be present in the lower part of the seam and characterised by carbonaceous shale with thickness of 0.01 m-0.19 m. Seam thinning (of thickness below 0.60 m) have been found locally in small sections.

Seam $h_{10}^{н}$ is also characterized by mainly plain and regular structure (average useful thickness-0.94 m, mining thickness - 0.99 m). A mudstone parting appears within individual locations, and rarely layers of carbonaceous shale with thickness of 0.03 m-0.29 m can also be observed. The seam shows thickness variation ±0.30 m. As a general tendency of the seam, thinning eastwards was detected from the boreholes where average thickness is reduced to 0.50-0.56 m.

Seam h_6+$h_6^{н}$ is split by one or two partings within the majority of the field. The partings are represented by carbonaceous shale with thickness of 0.07-0.60 m, but in general the thickness falls within 0.30 m-0.40 m band. The effective seam thickness varies from 0.92 m to 1.78 m (average 1.58 m) whilst the extractable thickness ranges from 0.92 m to 2.43 m (average 2.03m).

Seam $h_4^{в}$ is characterized by predominantly simple structure, but can also be irregular. The seam thinning is observed in the western part of the area. The seam upper layer is wedged or replaced by carbonaceous shale or mudstone. The overall thickness across most of the surface averages to 0.48-0.75 m. Within the eastern part of the block, the seam thickness increases to 1.10-1.30 m. The structure is mainly split into two layers with an interlayer of carbonaceous shale or mudstone of 0.05-0.30m.

Seam h_3 is spread throughout the western half of the block, the seam splitting line is near N-S direction 50 m eastwards from borehole D1988. Overall thickness of Seam h_3 varies between 0.53 m and 1.72 m at average thickness of 1.04 m-1.15 m. The split seam $h_3^{в}$ varies between 0.60 m and 1.28 m with average thickness of 0.68 m-0.75 m. The seam is irregular and is of simple structure for the most part.

Seam $h_3^{н}$ appears in the eastern part of the evaluated block with irregular pattern. The seam structure is mainly simple with thickness varying from 0.45 m to 0.84 m.

4.2.4 Coal Quality

The coal quality assessment of the seams has been determined from the coal samples obtained from borehole cores.

Grading analysis was performed according to DSTU 3472-96 Standard. According to this classification, all the seams fall into Anthracite category. Liptinite content is about 2-7 % whilst the inertinite components are about 10-12 %. The mineral impurities range from 10 % to 22 %.

Carbon content in the coal seams between 92.6 and 94.1 %, whilst the hydrogen content is about 2.2 %.

Coal moisture content for the seams is 1.5 to 2.0 %. The average ash content in coal bands range from 13.3 to 19 % whilst the ash content varies from 16 to 34 % in the parts associated with the clastic partings.

The sulphur content is medium (1.1 - 1.4 %) to high (>1.4 %) for the seams.

The chemical composition of the ash, its fusibility and viscosity properties show that these parameters are primarily defined by silica oxide and iron oxide proportion in the ash. In case of small amounts of calcium oxide in ash, the iron oxide becomes the principal fusible agent in SiO_2-Al_2O_3-Fe_2O_3 system which affects the fusible properties of ash. The design document indicated that that the melting of the ash from the anthracite forms acid slag with weak crystallization ability that cools down to glassy solid state. The anthracites ash is determined to be medium fusible.

According to the test results described in the design documents, the washability of coal is ranges from easily-washed to difficult-to-wash category.

Content of the toxic and potentially toxic elements (mercury, fluoride, arsenic, lead, chromium etc.) in coal, roof and floor rocks as well as the host rocks are investigated. They are below the threshold limit value. According to these analytical results, producing coal from this field will not be of harm for the environment and human health. Other trace elements (antimony, cadmium, caesium, gold, etc.) have ordinary values and have no commercial significance.

The radioactivity of the area was also investigated. According to the test results, the radioactivity of the coal and coal bearing rocks is basically 2 times less than that of the surface.

4.2.5 Hydrogeology

The developed ravine and river system provides for good runoff and drainage of underground water. In Petrovenska, Rassipnaya, Vasiukova, Dolzhik, Shirikaya, Maryinka ravines and Belaya River there are water reservoirs and settling ponds with capacity ranging between 5,000-50,000 m^3. The settling ponds located on Belaya River in the north-eastern part of the block, will affect the water inflow to the mining workings along seams h101, h10н due to hydraulic connection with the underground water. For this reason, in the course of mine design, protection pillars were implemented in order to prevent water outbreak.

In view of the geological structure, the mining block can be attributed to the northern part of the Bokovo-Khrustalska syncline. The hydrogeological conditions are determined by the geomorphologic and geological-structural features of the area, as well as by climatic factors. The large dimension of the syncline, good exposure of the coal deposits, and high degree coalification create favourable conditions for underground water circulation.

The subsurface water is confined to Quaternary and Carboniferous formations. The water in Quaternary formations is distributed locally (along river valleys and large ravines watercourse) and is contained in small lenses of alluvial pebble bed, gravel, sand and siltstone that vary in thickness from 0.5 m to 20 m. The aquifer is fed on account of atmospheric water, floodwater and through overflow from Carboniferous aquifers. The water is free-flow. The water bearing capacity of the formations is insignificant, water point rates fall between 0.1-0.5 l/sec, therefore and does not add to mining operations water ingress.

The ground water of Carboniferous formations is confined to sandstone and limestone strata (less frequently - shale) of suite C23. Complete suite structure is adds to mining operations water intrusions. Principal aquifers (for mining water ingress) are mainly fractured sandstone layers: h111Sl1 , h10HSh11 , H6Sh10H , h8HSH51 , H50Sh8H , H5SH6 , h6SH5 , H4Sh6 , h41Sh5 , H3Sh4B , h3SH3 , H2Sh3 where small but stable inflow is expected. Limestone layers are thin, but due to their intensive fractured state substantial peak inflows may be produced.

The rock water abundance in the Carboniferous aquifers is related to fracturing that is irregularly developed both vertically and horizontally. The formations in the upper oxidation zone up to depth of 70-100 m are most water-abundant; almost all lithological rock varieties are water-bearing and thus form a common aquifer system. The water here is usually free-flow form.

Deeper down, the fracturing is reduced and connections between strata and feeding conditions decrease. The water acquires sub-artesian character, but the aquifer reduces its permeability, and is classified as interbedding-fractured type. The head of water forced by the formation pressure varies widely within 0.5-1000 m, and spring discharge rate varies between 0.2 to 160 m^3/h. Discharge from pumping-tested boreholes makes 0.3-9.0 m^3/h; transmission constants: 0.005-0.532 m/day.

In case of tectonic disturbances, water outbreaks up to 1000 m^3/h are possible. Therefore, the geological structure of the area has to be considered, and preventive actions should be foreseen.

In terms of chemical composition, the water within oxidation zone is mainly of hydro-carbonate-calcium-sulphate type with total dissolved compounds of 0.3-1.0 g/l. General water hardness is measured within 3.27 to 14.89 mmole/l. Water may be mildly alkaline and alkaline (pH 7.05-8.6) and classified as non-aggressive and slightly aggressive in relation to concrete and predominantly non-corrosive, foamy, semi-foamy and non-foamy water.

Mining water that would be formed within mining workings of Bokovo-Khrustalska syncline is classified as sulphate-hydro-carbonate-sodium-magnesium type with dry solid residue of 1.3-4.1 g/l. In terms of hardness, it varies from moderately hard to very hard, with hardness value varying from 4.7 to 15.5 mmole/l. The water is neutral, mildly alkaline and alkaline (pH 7.0-8.5). The water is considered aggressive against concretes of normal density based on non sulphate-resistant cements, and corrosive and non-corrosive in relation to metals.

According to the Decree of the Cabinet of Ministers of Ukraine dated 18 December 1998 №2024 "On the Legal Status of Source Water Protection", within zone II of the Source Water Protection, mining development is prohibited. Therefore, the mining operation shall be limited by the Source Water Protection (ZSO) Zone II boundaries.

Based on the calculations obtained from similar mines in the area, the expected water inflow into the mine is given in the Table 4.2-1.

Table 4.2-1 Expected water flow into the Krasnoluchskaya-Severnaya Mine Project

Seam	Existing Mine	Similar Seam	Actual depth for the seam at similar mines (m)	Actual water inflow (m^3/h)		Designed depth for Krasnoluchskaya (m)	Expected water inflow	
				Avg.	Max.		Avg.	Max.
h_{11}^1	Miusinskaya	h_{11}	433	104	293	640	126.4	356.2
h_{10}^H	Shetovskaya	h_{10}	735	78	94.9	640	72.8	88.6
h_6	Miusinskaya	h_6	433	90	219	640	109.4	266.2
h_6^H	Miusinskaya	h_6	433	90	219	640	109.4	266.2
h_4^B	Miusinskaya	h_4	433	77	164	640	93.6	199.4
h_3^B	Miusinskaya	h_3	333	61	103	640	84.6	142.8
h_3	Miusinskaya	h_3	333	61	103	640	84.6	142.8
h_3^H	Miusinskaya	h_3	333	61	103	640	84.6	142.8

4.2.6 Geotechnics

The development headings in sandstone will be competent throughout all levels; and siltstone, sandy–clay shale and mudstone will be competent up to -300m horizon; within mudstone rock the roof is expected to be competent or medium-competent up to the horizon of -200m. Within mudstone in stope, false roof condition with thickness up to 0.60 m and floor sliding at rock inclinations of over 30° may occur.

Complication of seam winning should be expected within flexure folds areas where the host rock is fractured with occurrence of domes and inrush of roof rock.

4.2.7 Outburst

Based on the logarithm of specific electric resistance (less than 3.3) of the anthracite seams studied within C_2 Suite and the natural gas content (less than 15 m^3/t daf), the outburst characteristics of the units were not performed as they are classified as non-dangerous for outbursts category under DNAOP 1.1.30-1.XX-04 (Safe mining operations or seams with gas dynamic occurrences).

The only exception may be the part of seam h_{11}^1 adjacent to the western part of the block and where it is marked with 20 m^3/t dry ash-free basis gas content contour line from the depth of 150 m.

4.2.8 Seismicity and Subsidence

No seismicity or subsidence related incident was recorded at the site so far.

4.2.9 Wash-outs

In the western part, Seam h_6^H is present with average thickness of 0.67-0.91 m. The seam is mainly homogenous, partings are sporadic and represented by carbonaceous shale or mudstone with thickness of 0.03 m-0.17 m. However, 4 km eastwards from the western boundary, a washout with a size of 0.5-1.0 km is observed. The washout extends near N-S, along its direction, the seam morphology changes and the impurities start to appear. The seam wedge out in places and small-range splitting occurs.

4.2.10 Seam Splitting and Merging

Small scale seam splitting is common for the majority of seams in the mine area although it is not a major concern for the operations as splitting pattern is quite simple and consistent. For example, Seam h_6^H splitting lines have been constructed by the boundary ash content of the 50 % balance reserves, which corresponds to interlayer thickness of 0.50-0.60 m (depending on the anthracite patches source ash content), the contour lines of the 1.0 m coal thickness were used to evaluate the lower layer, while the upper layer was considered ineffective, and 3.0 m thickness– for production from both layers. The seam is relatively regular.

In addition, small scale of splitting with a parting thickness of 0.2 m to 0.40 m is also observed in h_3 and h_3^B towards west-southwest.

4.2.11 Gas

Based on borehole testing results, methane content is in negligible amounts in Suite C_2^3. The gas bearing capacity of Seams h_3^H; h_3; h_3^B; h_4^B; h_6 and h_6^H on the lower level at -300m varies from 0.04 m^3/t daf (seam h_3) to 2.1 m^3/t daf (seam h_4^B). Only coal seams h_{10}+ h_{10}^H and h_{11}^1 are exception to the general rule, where at level of -250 m the gas content reaches 9.2 m^3/tdaf (seam h_{10}^H) and at level of -300 m it reaches 22.4 m^3/t daf (seam h_{11}^1) in the western part of the block.

Suits C_2^6 and C_2^5 have an increased gas-bearing capacity; the borehole tests within interval 446-507m of Suite C_2^5 produced free gas flow. Methane bearing capacity of K_3 S K_4 sandstone comprised 1.5 m^3/m^3 of rock.

The gas bearing capacity of overlying suites C_2^6 and C_2^5 is high varying between 20 and 34 m^3/t daf according to data from the State Commission for Deposits. The gas content in similar mines from the nearby vicinity (Fashevskaya Mine, Mine №6, №21, №52, №53) is also high ranging from 16 m^3/t daf to 78 m^3/t daf.

4.2.12 Oxidation

The design document for the mining operations shows that indications of coal oxidation are present up to depth of 35 m-40 m, and the host rock remains unstable up to the depth of 50-60 m.

Based on the experience of coal seam mining in the area, oxidation zone depth of 30 m has been adopted for the coal reserves computation.

4.2.13 Dust

The coal seams evaluated at Krasnoluchskaya-Severnaya Mine Project are not considered explosive as according to the “Ukrainian Safety Rules for Coal Mines” where coal seams with volatile matter of 15 % and more are regarded as explosive. The volatile matter content for the seams at the site does not exceed 6 %.

The content of free silicon dioxide was also estimated during Krasnoluchskaya geological exploration. The rock dust produced during mining operations contains large amounts of free silicon dioxide (SiO_2). Average content of SiO_2 in the bearing rock is as follows:

- sandstone - 55.5 %
- siltstone- 25.5 %

- sandy-clay shale- 14.7 %
- mudstone - 7,4 %
- limestone - 53 %

Rock containing over 10 % of SiO_2 is considered silicosis hazardous. Since sandy-clay shale, siltstone and sandstone will be silicosis hazardous, additional measures for dust removal as well a use of PPE for protection should be taken during rock development headings.

4.2.14 Spontaneous Combustion

No special study of spontaneous combustion within the coal seams at the site has been conducted. During the operation of the closed adjacent mines (Vakhrusheva, Novopavlovskaya, Miusinskaya, Yanovskaya Voroshilovgranska Pravda) no cases of spontaneous combustion within coal seams of suite C_2^3 in the area occurred.

4.3 RESOURCES AND RESERVES

The exploration in the area goes back to beginning of the 20th century in the form of geological and topographical mapping. After this period, the area was not investigated until 1950s. However, after 1950's, the site was subject to regular exploration activity. IMC considers the exploration standard to be reasonable. The third party organisations for the exploration and tests works were selected on the basis of the merit, cost and reputation.

A total of 425 boreholes were drilled with 141,380 linear meters in total length throughout all periods of geological exploration within the area. The geophysical methods employed for the drilling length comprised 95 % - 134,311 m.

During the period of detailed exploration, the core recovery in the majority of cases is more than 70 % although this may be much lower in coal sections. The geophysical methods included the usual tools common to the Soviet exploration campaigns.

4.3.1 Resources under Ukrainian System

A document from the Office of the First Deputy to Minister of Coal Mining Industry of Ukraine dated 26 December, 2008 indicated that the investment project of development of new coal mining enterprise - Krasnoluchskaya-Severnaya Mine by Sadovaya Group was approved. However, the documentation and negotiations for the payment conditions with the Ministry regarding the license rights are still ongoing. The license will be issued in the next 12 months subject to the additional exploration and the approval of the submission documents. The revised TER by Luganskgiproshakht cut-off parameters based on the additional exploration programme will be undertaken later in the next 12-18 months. The deposit will be developed in the next three years.

The reserves had been approved earlier by GKZ of the USSR as part of Geological report of detailed exploration of Krasnoluchskaya-Severnaya №1 Block (Mine Fields №1 and №2) under Protocol №8415 dated 10.12.1979.

The coal resources from the site were estimated under the Soviet System by separating the coal "reserves" into balance and out-of-balance categories by taking into account of the total mine losses in safety pillars under the existing surface waterworks and other infrastructure as well as the following boundary conditions:

Seam h_{11}^{1} in the north –coal seam reaches the Carboniferous surface; in south – the seam contour -300 m, boundary of Zaporozhskaya mine underground water intake, 50 m eastwards from Borehole D2360, 30 m eastwards from Borehole D1753, 70 m eastwards off borehole D1754; west - along the line crossing the seam strike, 20 m westwards off Borehole BO515, 50 m, eastwards off Borehole BO456; east - along the line crossing the seam strike through Borehole D2087.

Seam $h_{10}^{н}$ north – coal seam reaches the surface of the Carboniferous; south – the seam contour -300 m, boundary of Zaporozhskaya mine underground water intake, 50 eastwards from Borehole D2360, 30 m eastwards from borehole D1753, 70 m eastwards off Borehole D1754; west - along line crossing the seam course 50 m eastwards off borehole B0456; east - along line crossing the seam course, 50 m westwards off Borehole D1520 50 m westwards off borehole D2357.

Seam h_6+$h_6^{н}$ north – Axis of Paramonosvsky anticline (through Borehole D459) coal seam outbreak onto the surface of the Carboniferous; south – contour line -300 m; west - along the line crossing the seam strike, 180 m westwards off Borehole D456, 210 m eastwards off Borehole BO975; east - along the split line of h_6 (through Boreholes D1913, D2218, 7 m westwards off borehole D1954, 15 m eastwards off Borehole D1982, 5 m eastwards off Borehole D2113.

Seam $h_4^{в}$ north – axis of Paramonov Anticline, 60 m northwards off Borehole Ц456, 55 m northwards off Borehole B0994, seam outbreak, line across seam strike, 15 m northwards off Borehole D1534, axis of Timiryazev Anticline, 15 m southwards off Borehole D115, 0.60 m seam thickness contour line , 50 % seam ash content contour line, axis of Timiryazev Syncline (through Borehole D1811, licenses block of OOO Pluton (Mine Petrovenkovskaya#1); seam outcrop; south – contour line -300m; West - along line crossing the seam course 180 m westwards off Borehole Ц456; east – borderline of OOO Stroyindustria licensed block, line crossing the seam course 280 m eastwards off Borehole D1940.

Seam h_3+$h_3^{в}$ -north – axis of Paramonosvsky Anticline through Borehole D1990, D2013; west and south – contour line -300 m; east – split line of h_3, 150 m eastwards off Borehole D2303, seam outcrop, Skilevoy Fault, contour line of 50 % seam ash content, line across seam strike, 60 m westwards off D2189 Borehole.

Seam $h_3^{н}$ - north – axis of Timiryazev Anticline, 30 m southwards off Borehole D1948, 60 m northwards off Borehole D1549; - south – contour line -300m; -west – split line of h_3, 60 m westwards off Borehole D2466; 120 m westwards off Borehole D1968; - east – split line of h_3, through Borehole D2013, 145 m eastwards off Borehole D2303, seam outcrop, line across seam strike 75 m westwards off D2189 Borehole.

According to USSR Protocol № 1368-к dated 13.07.1979, the following mining parameters were approved for reserve estimates:

- Minimum thickness of coal seam (simple uniform and complex structure), including all coal beds and dirt partings – 0.6 m; (0.45 m for out-of-balance reserves).
- Maximum ash content of coal including dilution by dirt partings – 40 % (50 % for out-of-balance reserves).

The values of apparent density, defined in different moisture conditions, are given to the average natural moisture content of coal in the data array. Average moisture content of coal was calculated according to the definitions of maximum moisture.

The block methodology utilizing the contour layout of the coal seam in scale 1:5 000, 50 m line grid is used for the calculations by using the appropriate formulae taking into account the level of mining, seam thickness distribution, protective pillars, tectonic zones, outcrop positions, and recognition of the deposit grade boundaries. Both the planimeter and software applications are utilised in reserve calculations.

IMC have examined the resources updated to 1st July 2010 and applied no discount as the mine is still to be constructed.

4.3.2 Reserves and Resources Statement under JORC

To evaluate the resources at Krasnoluchskaya-Severnaya Mine Project under JORC system certain criteria must be in place to demonstrate that these resources are economic and meet the modifying factors. These are:

- There is a costed Business Plan that covers mining in this field until the year 2030.
- Production plans with the available mining layouts are available for the projected seams: h_{11}^{1}, h_{10}^{H}, h_6+h_6^{H} .
- Evaluation of the reserve has only been done for the period of the mining plan as it is determined that these are demonstrated as being economic.
- It is assumed that proved reserves will be worked first in the course of depletion and that the balance of the plan if required will then come from the probable reserve if any.
- It is assumed that the reassessment of the resources at the field will be approved as there is a very reasonable expectation that this will happen.
- The mine license is still to be obtained. It assumed that there is a reasonable expectation that the license will be issued to Sadovaya Group by the authorities.

The Business Plan for the Krasnoluchskaya-Severnaya Mine Project covers mining until 2030 and it shows that about 14.4 million tonnes will be worked from this field. The official resources prepared for the State Authorities (81.4 million tonnes) in are sufficient to cover this planned production. IMC considers that there is a reasonable expectation that the revised assessment of balanced resources will be approved by the authorities and have shown the revised figures as a measured resource in Table 4.3-1 below. However IMC have only assessed those tonnages that are shown in the current Business Plan as reserves and these are shown in Table 4.3-2 below.

The distinction between proved and probable reserves is based on the ratio of A+B category coal to C1 category coal. In this case, however, it is the opinion of IMC that all resources categorised as Category A and B assigned to the mining plan can be designated as proved reserves due to the nature of the coal and the degree of exploration.

Therefore based on the present Company forward plans the Reserves and Resources Statement is given below:

Table 4.3-1 JORC Compliant Resources Statement for Krasnoluchskaya-Severnaya Mine Project as at 1/7/2010

Seam	Total Balance Reserves Approved in GR5 Form by GKZ (Tonnes)	JORC Equivalent Resources		
		Measured resources (A+B)	Indicated resources (C_1)	Inferred resources (C_2)
h_{11}^{1}		11,500,000	3,961,000	-
h_{10}^{H}		10,858,000	1,893,000	-
$h_6+h_6^{H}$		18,267,000	10,044,000	-
h_4^{B}		1,492,000	1,927,000	-
$h_3+h_3^{B}$		15,049,000	5,315,000	-
h_3^{H}		-	1,142,000	-
Total		**57,166,000**	**24,282,000**	**-**
∑Mine (A+B+C1)	**81,448,000**			
∑Mine (Meas. + Ind.)		**81,448,000**		

Table 4.3-2 JORC Compliant Reserves for Krasnoluchskaya-Severnaya Mine Project as at 1/7/2010

Seam	Reserve (Tonnes)*		Total Seam Reserves (Tonnes)
	Proven	Probable	
h_{11}^{1}	2,420,000	630,000	3,050,000
$h_{10}+h_{10}^{H}$	4,478,000	1,175,000	5,653,000
$h_6+h_6^{H}$	4,154,000	1,610,000	5,764,000
Total Mine Reserves (Tonnes)	**11,052,000**	**3,415,000**	**14,467,000**
*: Numbers are rounded to the nearest thousand			

4.4 MINING OPERATIONS AND FACILITIES

4.4.1 Mine Planning

Mine planning for Krasnoluchskaya-Severnaya Mine Project was developed based on TER (Pre-Feasibility level) prepared by Luganskgiproshacht Institute up to 2030 and used as base for the Company's Business Plan.

The mine planning includes developments of new drifts and roadways with Ukrainian roadheader as well as drilling and blasting method.

In total three simultaneous longwall operations (one in each of h_{11}^{1}, h_{10}^{H} and $h_6+h_6^{H}$ coal seams) are scheduled with a maximum production of 1,068,000 t/y from the year 2019 onwards.

The mine will work with exhaust ventilation which allows the planned production rates. Despite increasing of mining depth up to about 500 m the planned production rates will not be limited by ventilation, gas outburst or roadway stability.

The planned operational figures are shown in Table 4.4-1. IMC considers that with established Ukrainian longwall equipment the planned production rates are achievable.

Table 4.4-1 Planned operational figures at Krasnoluchskaya-Severnaya Mine Project

Seam	Roadway Development (m/d)	ROM Production (t/d)	Longwall Equipment	Ventilation	Comments
h_{11}^{1}	4.3	655	Shearer UKD 200, Shield support KD90	U - shape	Non gassy for current mine planning
h_{10}^{H}	6.1	1310	Shearer UKD 200, Shield support KD90	U - shape	Non gassy for current mine planning
$h_6+h_6^{H}$	4.2	1535	Shearer UKD 200, Shield support KD90	U - shape	Non gassy for current mine planning

4.4.2 Mine Complex Infrastructure

It is planned that the Krasnoluchskaya-Severnaya Mine Project project will be served with road, rail, and water links to the national networks and will be provided with potable water and stable electric power supplies from the national connected systems.

- The major proposed facilities of this mine location comprise of the following services:
- Electric power systems,
- Surface supplied and underground compressed air systems,
- Diesel powered mono rail haulage transport systems for men and material from surface to underground workings,
- Surface Main drift coal out feed conveyor system with possible one way man-riding facilities,
- Main and Auxiliary ventilation systems,
- Process water systems,
- Mine dewatering systems,
- Mine automation systems,
- Mine communication systems,
- Surface and underground lighting systems,
- Mine shaft winder system,
- Mine auxiliary systems,
- Mine repair electrical and mechanical Workshops and Amenity Buildings,
- Stores Offices and Amenity Buildings,
- Mine Auxiliary Rescue stations,
- Coal washery plant capacity of 1.2 Mt/y (still being considered),
- Vehicle Workshops and transport services,
- Waste Rock /Spoil storage and contract disposal,

- Coal storage bunkers for washery and rail wagon loading,
- Equipment stocking yards,
- Settling ponds,
- Motor vehicles and bulldozers garage with repair workshop.

Krasnoluchskaya-Severnaya Mine project presently comprises of a green field site with gravel clay compacted access road; the prospective drifts exist from the 1990s and where part driven but during the former Soviet Union reconstruction plans for the mine where abandoned. The prospective mine construction site was demolished along with the shaft drift portals along with the underground shaft/drift access which was backfilled to an undisclosed depth.

The future mine design is based on the TER submission designed by Ukrainian Mine Design Institute Luganskgiproshakht with the surface and underground infrastructure comprising of the following facilities.

4.4.2.1 Electric Power Systems

Present proposed mine development supply comprises of two sets 35 kV overhead lines with two sets of step down transformer with secondary supplies 35/6.3 kV each comprising of 2 x 4 MVA and 2 x 2.5 MVA capacity. All supplies will be derived from the Inter Regional grid power company supplier who own and operate the incoming grid power supplies and possible the mine intake substation.

No electrical design or power study details of the proposed future mine has been presented. The mine prospective maximum power demand has been calculated to be 4.095 MW (5.12 MVA) with an estimated annual power consumption of 16.4 MWh. when producing 600,000 t/y. this equates to a given cost of approximately 26.56 KWh per ton of coal. This cost will decrease with an increase of 1.07 mt/y.

4.4.2.2 Stand-by Power supplies and Generation

No standby generation is planned but control room but electronic safety equipment will have the standby supplies.

4.4.2.3 Underground Mine Plant and Equipment.

Planned coal extraction is by longwall retreat coal face production units comprising of four mechanised retreating coal faces each operating on 6.3/0.66 kV 3 phase 50 Hz electrical system. The coal face shearer AFC, BSL and hydraulic supports with associated ancillary equipment will be of Russian, Ukrainian or European manufacture with a total designed capacity of 1.07 mt/y.

Proposed coal mine roadway development units will employ the following equipment.

- Three roadheader development units (KSP 32, 210 kW capacity with a 110 Kw cutter motor),
- Six drill and fire heading units with associated bucket loading equipment for the drift and roadway drivage.

It is proposed that the nine heading developments will operate on a 660 V 3 phase 50 Hz electrical system utilising Ukraine manufactured mining equipment.

4.4.2.4 Auxiliary Ventilation

Underground Auxiliary ventilation heading overlap systems unit's 16/60 kW fan motors operating on 660 v 3 phase 50 Hz systems.

4.4.2.5 Ancillary Equipment

Underground facility equipment supplies comprising of, pumps, conveyors and mine ancillary equipment operating on a 6.3 kV/660 v 3 phase 50 Hz.

4.4.2.6 Underground Conveyors

Proposed underground coal face and conveyor coal clearance systems comprising of:

- Shearer proposed capacity 330 t/h 3power capacity 30 kW operating on a 660 V 3 phase 50 Hz supply,
- AFC (armoured face conveyor) proposed capacity 480 t/h (speed and width not detailed) operating on a 660 V 3 phase 50 Hz supply,
- BSL (Beam Stage Loader) 240 t/h capacity (480 t/h) (speed and width not detailed) twin outboard chain 18x 64 X 65mm,
- Surge delivery Bunker 50 tons capacity onto drift conveyor,
- Main drift conveyor with a proposed capacity 890 t/h belt width 1 metre operating speed 2.5 m/s with a total length of 85 m.

The coal flow onto the main drift conveyor has been calculated to fluctuate between 570 - 590 t/h with part bulk loading.

4.4.2.7 Pump Stations

Proposed mine dewatering scheme will comprise one major underground pump station with in seam ancillary stations located at the 340 m level operating 660V 3phase 50 Hz system each pump has 180 m^3 capacity each 250 kW pump has the following duties:

- One TSPP180-340 pump in operational,
- One TSPP180-340 Standby pump motor sets,
- One TSPP180-340 Standby /Maintenance pump motor set.

The pump station will have a sump capacity 20,280 m^3 (12.67 hours). The settled mine sump water will be pumped to the surface via a shaft/drift delivery pipe range at prospective rate of 180 m^3/h operating with a 340 metre head.

4.4.2.8 Underground Compressed Air

The proposed underground compressed air will be initially supplied by three mobile screw type compressor units each with a free air capacity 7.5 m^3/m operating at pressure 7 bars. Compressed air will be utilised for most underground pneumatic mining operations including rock /coal drilling and operation of pneumatic equipment.

4.4.2.9 Underground Transport Systems

The proposed underground transport systems for men and material will comprise of diesel powered overhead mono rail traction tugger units with associated carrier sections designed for specific load carriers for men and material.

Man access to underground workings is by either walking down the drifts to their places of work or mono rail transport depending upon distance. Mine exit can be via man riding belt conveyor system from underground workings to the surface via the coal drift man riding conveyors

4.4.2.10 Surface Equipment

The proposed Krasnoluchskaya-Severnaya Mine project has two access drifts of a dog legged declined construction of varying lengths to a maximum depth of 340 m each comprise the following:

- No1 Main mine coal delivery conveyor drift 17.2 m^2 in section (up-cast ventilation),
- No2 Main mine transport drift for men and material 17.2 m^2 in section (down cast ventilation).

4.4.2.11 Surface Coal Handling and Washery Plant

It is proposed that Run of Mine (ROM) coal is discharged at the surface No1 drift and discharged into one of the two surface 2,400 tonnes receiving bunkers with the following functions

- Clean coal load out delivery bunker with a 2,400 tonnes capacity,
- Dirty coal bunker which will be screened to minus 200 mm and load out to washery.

The coal will be loaded and transported to a 120 tonne/h washery plant surge bunker treated and delivered into rail trucks or transported to company washery plants.

4.4.2.12 Surface Mine Fans

The mine fans are located in close proximity to No2 main down-cast ventilation drifts

The fan installation will comprise of two fan installations each comprising of two fans (one operating and the one on standby) each with the following duties.

Each main fan system capable of supplying free air capacity of between 20-95 m^3/s at a pressure of 1200-2600 Pa with a estimated efficiency of 85 % operating each operating on 6.3 V 3 phase 50 Hz supply. It is proposed that declined shaft air heating be employed during winter months with purpose designed heating station located in close proximity to the downcast ventilation intake systems.

4.4.2.13 Methane Extraction

No proposed methane drainage schemes have been presently planned.

4.4.2.14 Control and Monitoring

Proposed mine underground and surface control room located in the surface administration block at the drift mine site location.

4.4.2.15 Workshops Located at Drift

Proposed surface mechanical, electrical and fabrication infrastructure workshops situated in close proximity to the decline shaft/drift systems.

The surface workshops will maintain and repair both surface and underground electrical equipment including general repairs to switchgear electrical power equipment motors and transformers.

4.4.2.16 Boiler House

The mine design proposes plans for the mine boiler houses comprising 3 modular units with a total capacity of 7.8 MW which will supply hot water to the administrative-and accommodation buildings, for washing, bathing and laundry purposes and also space heating of the surface site buildings and possible shaft heating.

4.4.2.17 Surface Water

No plans have been submitted for the future management of surface run off water.

4.4.2.18 Mine Sewage

No definite plans have been submitted for the future management of sewage disposal but will probably comprise a sceptic tank which is emptied at regular intervals by the municipal sewage company.

4.4.2.19 Process Water Systems

Future plans for potable water to be supplied from mains water supplied by the local utility provider which originate from artesian borehole for drinking water 4 km from the proposed mine site.

4.4.2.20 Process and Fire Fighting Water

It is proposed that the process and fire fighting water is obtained from recycling the underground pump water. The systems will include for underground pump water to be collected in surface storage tanks, undergo filtering process, suitable treated for final distribution to surface and underground process applications; the initial scheme for process recycled water mine water includes for four settling and filtering ponds 400 m^3 capacity.

5 COAL WASTE DUMPS AND TAILINGS PONDS

The list of the waste dumps currently held in the Company's asset inventory is given in Table 5-1.

Table 5-1 List of coal waste dumps and tailings ponds held by Sadovaya Group

Location of reserves	Contract № and date
Waste dumps from coal mining	
Dump №1 of Krasnokutskaya№5 Mine	№ 27/01-2010 dated 27.01.2010
Dump №1 of Knyagininskaya Mine	
Dump №2 of Knyagininskaya Mine	№ 27/01-2010 dated 27.01.2010
Dump of Ganozhenko Holing of Knyagininskaya Mine	№ 27/01-2010 dated 27.01.2010
Dump №26 of Miusinskaya Mine	№ 27/01-2010 dated 27.01.2010
Dump №2 of Krasnokutskaya №5 Mine	№ 9/13 dated 16.01.2006
Dump of former Yelizavetovskaya Mine	№ 051203/02 dated 05.12.2003
Dump of former Yelizavetovskaya Mine	
Dump №7 of former Yanovskaya Mine	№9/07 dated 09.07.2008
Dump of Sadovaya Mine	Is formed during site operation
Dump of former Imeni 50-letiya Sovetskoi Ukraini Mine	At the contracting stage
Dump №5 (Mine № 12 Zapadnaya) of Almaznaya Mine	At the contracting stage
Waste tailings from coal preparation	
Tailings Pond of Izvestiy Mining Preparation Plant	№08-09/06 (08.09.2006) №16-11/06 (16.11.2006)
Tailings Pond of Miusinskaya Mining Preparation Plant	№08-09/06 dated 08.09.2006
Tailings Pond of former Sukhodolskaya Preparation Plant	№ 22/03-2010 dated 22.03.2010
Tailings Pond of Khrustalskaya Mine	№16-11/06 dated 16.11.2006
Tailings Pond of Knyagininskaya Mine	№235 dated 04.09.2008
Tailings Pond of former Samsonovskaya Preparation Plant	№28/09-2010 dated 28.09.2010

5.1 SIZE OF THE WASTE DUMPS AND PONDS

According to the company personnel, Sadovaya Group purchased these dumps and ponds on the basis of the government data during the auction process. The Company surveying team confirmed this base data before the purchase and more detailed surveying was undertaken from the waste dumps later on.

The old mine waste dumps are regularly measured by tacheometric tools as part of quality procedures and resource inventory system. The measurements are modelled in Autodesk-Civil 3D computer package by using Delaunay triangulation principles by adopting 0.5 m gridding space based on horizontal splicing. The area and the volume is then calculated from each slice.

However, there are no actual measurements undertaken to confirm the depth of the tailings ponds as they are still heavily saturated with water. Although, the old maps, plans and cross sections available from some of the old tailings ponds are there to indicate the possible depth and size, the precise depth for the ponds are still unknown. There were some attempts to drill and reach the bottom of the ponds by the company, but these proved to be futile. Some trenching work was also undertaken to find out the depth, but this attempt was also ceased after the trench was fully flooded with water after reaching 20 m of depth and the operations were stopped for safety reasons.

The company then decided to apply a combination of actual measurements and modelling approach to find out the possible shape and size of these ponds from the old maps, plans and cross sections by adopting the lowest contour visible for the bottom of the pond. Although this approach may miss out the possible 10-20 % of the depth, it is still a good approximation based on the available topography and original pond configuration.

According to this approach, the surveying team has measured some actual and dummy points both from the ponds and modelling package to create the original surface topography. Tacheometer and old maps and plans were employed for this purpose to figure out the highest and lowest elevation points at one-meter intervals for the ponds. Central line of water flow was also established and the surface elevation points were set up on the basis of interpolation from this central line of water-flow and the existing topography. This provided a good approximation of the size and quantity available from the tailings ponds.

5.2 COAL QUALITY AND SAMPLING

Coal quality parameters are determined by sampling according to GOST standards at various points from the dumps and ponds by the internal laboratory.

Up to 32 samples weighing about 12-15 kg are collected to characterise the waste dumps from 1-2 m trenches by using a small bulldozer. Monthly checks are also conducted regularly to monitor the coal quality. The representative sample, which is about 200 kg in total, is collected and further reduced by quartering the sample pile. Proximate analysis and other tests required for blending the shipment load are conducted after the sample is collected.

Tailings ponds are also characterised by collecting 20 samples from at least 20 trenches which are about 20 m in height depending on the size of the pond. 20 sampling points are selected in grid style in each trench and then about 30 kg of sample is collected. A total of 600 kg of sample is collected from the pond, and then this is further reduced by quartering the representative sample pile for laboratory tests.

5.3 OTHER ISSUES

According to Company personnel, no toxic or harmful elements that would interfere with local flora and fauna and human health are present in the waste dumps and tailings ponds.

The waste dumps are regularly monitored by the surveying team for inventory and stability purposes. In addition, the local state Environment Agency regularly monitors the waste heaps for any break-out of spontaneous combustion incidents.

The Environment Agency also monitors the water quality and discharges from both the waste dumps and tailings ponds.

Table 5.3-1 Coal quality parameters at the waste dumps and tailings ponds held by Sadovaya Group

Type	Asset Name	Coal ash-content (%)	Coal in waste dump (%)	Recoverable Amount (%)
Waste Dumps	№1 sh.№5 Krasnokutskaya	24.70	17.80	90
	№1 Knyagininskaya mine	19.30	21.40	90
	№2 Knyagininskaya mine	21.80	18.80	90
	Sboyki Gamozhenko Knyagininskaya mine	17.80	19.60	90
	№2 sh.№5 Miusinskaya mine	22.50	18.30	90
	№2 sh.№5 Krasnoutskaya mine	24.80	24.65	90
	Former Yelizavetskaya mine	19.20	25.50	90
	Former Yelizavetskaya mine	0.00	0.00	90
	№7 of Former Yanovskaya mine	24.00	20.63	90
	Sadovaya Mine	30.00	21.00	
Tailings Ponds	Izvestia	17.20	63.16	84
	Miusinskaya	20.80	60.87	84
	Central Processing Plant Sukhodolskaya	20.70	50.84	84
	Mine Krustalskaya	21.00	55.60	84
	Mine Knyagininskaya	13.80	62.83	84
	Tailings Pond of former Samsonovskaya CPP	19.10	19.10	84

5.4 RESOURCES AND RESERVES BY WASTE DUMPS AND TAILINGS PONDS

The JORC Code applies to the reporting of all potentially economic mineralised material as well. This can include mineralised fill, remnants, pillars, low grade mineralisation, stockpiles, dumps and tailings (remnant materials) where there are reasonable prospects for eventual economic extraction in the case of *Mineral Resources*, and where extraction is reasonably justifiable in the case of *Reserves*. Unless otherwise stated, all other clauses of the Code apply to these parts. If there are no reasonable prospects for the eventual economic extraction of all or part of the mineralised material as described in this clause, then this material cannot be classified as either Mineral Resources or Ore Reserves. If some portion of the mineralised material is currently sub-economic, but there is a reasonable expectation that it will become economic, then this material may be classified as a Mineral Resource. If technical and economic studies have demonstrated that economic extraction could reasonably be justified under realistically assumed conditions, then the material may be classified as an Ore Reserve.

Based on the data obtained from the Company resources, following is a summary of the resources and reserves available from the waste dumps and tailings ponds that the Sadovaya Group currently holds as assets. There are five tailings ponds and ten waste dumps in the asset list five of which are still in the process of acquisition.

5.4.1.1 Nature of Evidence

All the analytical results regarding the coal quality and surveying calculations on the dimension of the masses are available in both electronic and paper format and properly documented. However, the original records on the dumps and ponds from the earlier years i.e. from the time of the old mines were partially available due to time-gap and missing data. The data examined was in good order and some of the hard copies examined randomly were all readable and well preserved.

5.4.1.2 Drilling and sampling

No drilling was undertaken in the spoiling ponds due to the difficulties associated with the water saturated state of the volume and corresponding safety concerns. However, a vigorous sampling programme is undertaken in each dump and pond in order to characterise the volume, mass, quantity and quality. The records of the sampling along with the sample preparation notes and test results are kept within the Quality Control department.

5.4.1.3 Losses and Dilution

As these are old waste products from the old mines, no losses and dilution is calculated. Any quantity winnable from them for the saleable product contract specifications is accepted as the available quantity from them. The quantity and quality would be dump/pond specific and dependant on the size of the dumps/ponds as well as the original coal quality characteristics and the ratio of coal to waste. In addition, the quality requirements of the sale product would determine the ultimate wining of coal from them.

5.4.1.4 Validation and Verification

The resource evaluation at the dumps and ponds is undertaken by actual surveying work and coal quality determination at the company's laboratories. A special surveying modelling package is also employed in calculating the dimensions of the piles. All the original resource calculation blocks/slices are transferred into AutoCAD so that the current production plans can be produced.

However, as some of the tailings ponds were heavily water logged, there was no confirmation of the actual depth from these ponds by boreholes. However, the Company adapted a methodology based on the last visible contour line for the depth as the cut-off boundary for calculating them.

IMC checked the calculations and found that this was a good approximation in estimating the depths. The resource calculations were examined by IMC on their visit and IMC saw no reasons in the calculations to assume these were not correct. All areas are measured in each block, which is delineated on the basis of natural boundaries and coal quality parameters, and the original site configurations, coal amount available in the piles and coal density are also calculated for the blocks based on the input data. IMC is of the opinion that this is reasonable and that the methods used to calculate the tonnages are valid.

Randomly selected areas, where the original resource calculations were assigned, were compared against the calculated figures by the IMC team and the results were found reasonably comparable to each other. In addition, the schedule plans were re-checked by using AutoCAD plans and appropriate Excel spreadsheets. Therefore it was concluded that the overall coal amount and the coal density used to calculate tonnages are considered reasonable and compare well with the raw data and analytical test results.

5.4.1.5 Electronic Data and Database

All data from the analytical laboratories and surveying team were stored on the system which is accessed by the relevant departments. The plans and maps from the previous studies were digitised and stored as picture files and utilised in AutoCAD environment if necessary. The data also is available for storage purpose in Excel format. All relevant data and reports from the past mine operations are also available in digital format. Some of the records are also available in hard copy.

It is the opinion of IMC that the database is managed, controlled and regulated to a reasonably good standard and that, within the constraints of time and the amount of data examined, the integrity and validity of the database is assured.

5.4.1.6 Survey Data

IMC were told that the workings were surveyed on a regular basis. No confirmation of the survey data in the field was undertaken during the IMC Audit visit.

5.4.1.7 Reserves and Resources Statement under JORC

To evaluate the resources available from the tailings ponds and coal waste dumps for the Sadovaya Group under JORC, certain criteria must be in place to demonstrate that these resources are economic and meet the modifying factors. It is important to point out that one of the company's core businesses is the re-claiming of coal from these piles as they are already well experienced in meeting the customers' coal purchase requirements.

In estimating the resources, the key criteria were the ash content and the ratio of the available coal to waste material (see Table 5.4-1).

In estimating the reserves, the key criteria were the practically and economically recoverable portion of the piles. IMC accepted 90 % and 84 % of the coal would be recoverable from both waste dumps and spoiling ponds respectively.

Therefore based on the present Company forward plans the Resources and Reserves Statement are given below in the Table 5.4-1 and in Table 5.4-2.

Table 5.4-1 JORC Compliant Resources Statement for coal waste dumps and tailings ponds at Sadovaya Group as at 1/7/2010

Asset Type	Asset Name	Resources (Tonnes)		Total
		Measured	Indicated	
Waste Dumps	№1 sh.№5 Krasnokutskaya	96,178	-	96,178
	№1 Knyagininskaya Mine	149,157	-	149,157
	№2 Knyagininskaya Mine	31,399	-	31,399
	Sboyki Gamozhenko Knyagininskaya Mine	59,991	-	59,991
	№2 sh.№5 Miusinskaya Mine	64,473	-	64,473
	№2 sh.№5 Krasnoutskaya Mine	446,166	-	446,166
	Former Yelizavetskaya Mine	277,420	-	277,420
	№7 of Former Yanovskaya Mine	180,306	-	180,306
	Sadovaya Mine	84,000	-	84,000
	Total	**1,389,090**	**-**	**1,389,090**
			1,389,090	
Tailings Ponds	Izvestia	51,564	-	51,564
	Miusinskaya	20,087	-	20,087
	Central Processing Plant Sukhodolskaya	4,690,702	-	4,690,702
	Mine Krustalskaya	34,772	-	34,772
	Mine Knyagininskaya	181,309	-	181,309
	Tailings Pond of former Samsonovskaya CPP	1,563,212	-	1,563,212
	Total	**6,541,645**	**-**	**6,541,645**
			6,541,645	
Waste Dumps and Tailings Ponds	**Total**	**7,930,735**		**7,930,735**

Table 5.4-2 JORC Compliant Reserves Statement for Coal waste dumps and tailings ponds at Sadovaya Group as at 1/7/2010

Asset Type	Asset Name	Reserves (Tonnes)		Total
	Waste Dumps	Proven	Probable	
Waste Dumps	№1 sh.№5 Krasnokutskaya	86,560	-	86,560
	№1 Knyagininskaya Mine	134,241	-	134,241
	№2 Knyagininskaya Mine	28,259	-	28,259
	Sboyki Gamozhenko Knyagininskaya Mine	53,992	-	53,992
	№2 sh.№5 Miusinskaya Mine	58,026	-	58,026
	№2 sh.№5 Krasnoutskaya Mine	401,549	-	401,549
	Former Yelizavetskaya Mine	249,678	-	249,678
	№7 of Former Yanovskaya Mine	162,276	-	162,276
	Sadovaya Mine	75,600	-	75,600
	Total	**1,250,181**	**-**	**1,250,181**
			1,250,181	

Asset Type	Asset Name	Reserves (Tonnes)		Total
	Waste Dumps	**Proven**	**Probable**	
Tailings Ponds	Izvestia	43,314	-	43,314
	Miusinskaya	16,873	-	16,873
	Central Processing Plant Sukhodolskaya	3,940,189	-	3,940,189
	Mine Krustalskaya	29,208	-	29,208
	Mine Knyagininskaya	152,299	-	152,299
	Tailings Pond of former Samsonovskaya CPP	1,313,098	-	1,313,098
	Total	**5,494,981**	**-**	**5,494,981**
		5,494,981		
Total of Waste Dumps and Tailings Ponds		**6,745,162**	**-**	**6,745,162**

5.5 BLENDING/COAL WASHING

5.5.1 Site N° 5/7 Krasnokutskaja

Two mining waste dumps (Krasnokutskaja 5_1 and 5_2) are located at site N° 5/7. The material is fed by a caterpillar dozer to the screening equipment where the 0 – 16 mm and 16 – 40 mm (0 – 40 mm) fractions are separated. The 0 – 16 mm fraction will be used for blending at site N° 12. The sulphur content is in the low range of 0.5 % and the volatile matters in at 3 %.

The second fraction 16 (0) – 40 mm will be deposited for later processing in a new preparation plant, which is planned at the site.

5.5.2 Yelizavetovskaya

Processing activities comprise mainly screening and crushing. In the same way as at site N° 5/7 the material is feed by caterpillar dozer to a chain conveyor for screening. The 0 – 16 mm fraction (ash content 50 – 55 %, sulphur content < 0.8 %) will be separated for blending purposes at the site N° 12. The screened 16 – 40 mm (0 – 40 mm) fraction will be stocked for later processing in the new preparation plant at site N° 5/7.

In addition, crushing and screening of coarse material (> 100 mm) for use as construction material e.g. in road works is undertaken where the crusher allows a selective crushing operation. The material transport is by truck.

5.5.3 Planned Waste Dump Processing

The Company plans to extend the waste dump processing by extending not only the capacity as well as the extent of the processing. It is planned to process the material from 12 waste dumps with an overall mass capacity of about 8 Mt.

The waste dumps were mainly generated by stockpiling of mine waste from roadway development, which accounts for the relative high coal content. The new preparation plant is intended to be sited at Krasnokutskaja where there are two waste dumps, the distances between the other dumps and the planned CPP varies between 0.9 km and maximum 16 km.

The already contracted dumps designated for processing are listed in the following Table 5.5-1.

Table 5.5-1 Contracted waste dumps

Nr	Location	Overall deposit weight (1,000t)	Coal (product) content (%)	Ash content product (%)
1	Waste dump №1 of Krasnokutskaya№5 Mine	540	17.8	24.7
2	Waste dump №1 of Knyagininskaya Mine	697	21.4	19.3
3	Waste dump №2 of Knyagininskaya Mine	167	18.8	21.8
4	Waste dump of Ganozhenko Holing of Knyagininskaya	306	19.6	17.8
5	Waste dump №26 of Miusinskaya Mine	352	18.3	22.5
6	Waste dump №2 of Krasnokutskaya №5 Mine	1810	24.65	24.8
7	Waste dump of former Yelizavetovskaya Mine	1088	25.5	19.2
8	Waste dump of former Yelizavetovskaya Mine			
9	Waste dump №7 of former Yanovskaya Mine	874	20.63	24
10	Waste dump of Sadovaya Mine	400	21	30
Total		**6234**	**22.3**	**22.8**

For two waste dumps the contracting process is in progress. These two dumps are listed in the Table 5.5-2.

Table 5.5-2 Waste dump under Negotiation

Nr	Location	Overall deposit weight (1,000t)
1	Waste Dump of the 50-letiya Sovjetskoy Ukrainy Mine	1500
2	Waste Dump № 5 (№ 12 West Mine) closed Mine Almaznaya	291
Total		**1791**

The coal content and ash results from fractioned float and sink analysis from each dump provided by Sadovaya Group. For the new preparation plant at the Krasnokutskaya waste dump a preliminary evaluation and design has been prepared for the 0 – 40 mm fraction.

The + 40 mm fraction (about 30 % of the overall mass) is not intended for process, because the ash content of this fraction is in average at 93 %. The average coal content from the overall dump material is at about 20 %. The product which will be produced by the plant will have an average an ash content of 20 % with a moisture content of about 8 – 10 %.

The design of the plant is mainly based on a dense medium process. The following summarises the main steps and key operating figures of the planned process:

- Nominal feed 150 t/h (design capacity 188 t/h);

- Coarse grain sorting by dense medium cyclone;
- Fine grain sorting by spiral separator;
- Closed water and slime circuit including thickener and filter equipment; and
- Pure water consumption nominal about 3.8 m³/h.

IMC considers that the process chosen can be judged as state of the art. It is an appropriate process to treat the waste dump material. The preliminary process equipment costs are calculated to 5,000,000 USD.
The design comprises the process of the fraction 40 – 0 mm. The pre processing (screening at 40 mm) of the overall waste fraction is not included in this design.

Costs for deliverable and performance not included in the budget proposal, are considered in the Business Plan. These costs detail construction works, loading devices, electrification works and transportation equipment.

For the process, mainly DMS for the fraction 40 – 1 mm (about 90 % of the feed) and spiral sorting for the fraction 1 – 0.2 mm, the efficiency was assessed to 90 %.

5.5.4 Planned Tailings Pond Processing

As a new field of activity of Sadovaya Group it is planned to process tailings material from former coal mines.
At the location of the planned CPP are two ponds, the distances between the other 4 ponds (region Krasnyi Luch) and the planed CPP is about 65 km.
About 95 % (9.226 Mt) of the overall tailings (contracted mass) for recovering is deposited at the site of the planned CPP. The rest of about 5 % of the overall tailings is deposited in the Krasnyi Luch region.
The 6 mining tailings ponds designated for processing and under contract from Sadovaya are listed in the Table 5.5-3.

Table 5.5-3 Contracted tailings ponds for processing

Nr.	Location	Overall deposit weight (1,000t)	Coal (product) content (%)	Ash content product (%)
1	Tailings ponds of "Izvestiy" Mining Preparation Plant	82	63.16	17.20
2	Tailings pond of "Miusinskaya" Mining Preparation Plant	33	60.87	20.80
3	Tailings pond of former "Sukhodolskaya" Preparation Plant	9226	50.84	20.70
4	Tailings pond of "Khrustalskaya" Mine	63	55.6	21.00
5	Tailings pond of "Knyagininskaya Mine	289	62.83	13.80
6	Tailings Pond of former Samsonovskaya CPP	1701	53.24	20.80
Total	**-**	**11394**	**51.65**	**20.52**

For the new preparation plant at the site of Sukhodolskaya tailings pond a preliminary proposal has been prepared. Regarding the layout of the plant a preliminary conceptual design was provided.

The coal content from the ponds is in average at about 51 %. The product will be at ash content between 14 and 21 %, with a moisture content of about 8 – 10 %.

The conceptual design of the proposed plant considered at current status of planning mainly the processing by flotation. The following summarises the main steps and key operating figures of the planned process known so far:

- Nominal Feed 200 t/h (design capacity 250 t/h);
- Separate of the coarse fraction by screen and grading cyclone;
- Finest grain processing by flotation; and
- Closed water and slime circuit including thickener and filter equipment.

The process chosen can be judged as appropriate regarding the design analysis which was used by the plant supplier. It is an appropriate process to treat tailings material in the size fraction < 0.2 mm. The preliminary budget assessment for the process equipment is calculated to 6,500,000 USD.

Costs for deliverable and performance not included in the budget proposal, are considered in the Business Plan. These are detail costs for construction works, loading devices, electrification works and transportation equipment.

In connection with the conceptual design the Detail Engineering will follow. This will be done under consideration of further sampling and analyzing of the different tailings ponds to find the final layout.

For tailings processing a rough assessment of the process efficiency was about 85 %.

6 CONCLUSIONS

IMC concludes from the independent technical review that:

- management's geological and geotechnical knowledge and understanding is of a satisfactory level to support short, medium and long term planning as appropriate and operations are well managed at an operating level;
- the mine plans appropriately consider geological and geotechnical factors to minimise mining hazards although IMC has reservations about the viability of the underground designs in the final years of operation but any impact of a failure on production will be small;
- Sadovaya mining equipment (either in place or planned in the capital forecasts) not the most modern for the current operations but is suited to its mine plans and is adequate, with minor adjustments, for the production plans;
- processing plants and other infrastructure planned are capable of supplying appropriate quality products to the markets at the forecast production plans;
- IMC is unable to compare the LTIFR but believe this to be similar other comparable operations. The fatality rate is higher than similar comparable operations and could rise as manpower numbers increase;
- health and safety standards have been based on a Soviet approach which is not acceptable but the Company has demonstrated an intent to move away from this approach at the Sadovaya Mine;
- environmental issues are basically managed and there are a number issues that need to address to achieve national and international standards;
- the assumptions used in estimating both capital and operating costs are appropriate and reasonable;
- capital and operating costs used in the financial models incorporating minor adjustments by IMC reflect the mine plans, development and construction schedules and the forecast production levels;
- special factors identified by IMC are well understood by management and appropriate action to mitigate these risks is being taken; and
- management operates a management accounting system and are able to monitor and forecast production and cost parameters which complies with IFRS management accounting systems.

IMC has estimated the value of the Sadovaya coal assets at an operating level as US $347.7 million including Terminal Value assuming a real discount rate of 18 %, an exchange rate of UAH/US$ 7.9, and product prices, capital and operating costs and production forecasts which are soundly based.

Yours Faithfully,

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Germany

John S Warwick B Sc (Hons) FIMMM, C Eng, Eur Ing
IMC Supervisory Board Director

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Project Personnel:

- J S Warwick — Project Director
- U Ruppel — Principle Mining Engineer/Project Manager
- H Arden — Principal Geologist
- P C Robinson — Valuation Engineer
- H Hind — Infrastructure Engineer
- U Hochheimer — Beneficiation Engineer
- A Chayka — Mining Engineer
- Elena Perfilyeva — Environmental Principal
- Ksenia Shipilova — Environmental Specialist

Key Words: Mining, Coal, MER

	Signature	**Name / Designation**
Production:		U Ruppel, Mining Engineer Project Manager
Verification:		A Chayka, Mining Engineer
Approval:		J S Warwick, Project Director
Date:	22nd October, 2010	

Annex A

QUALIFICATIONS OF CONSULTANTS

Annex A – Qualifications of Consultants

***J S Warwick, Project Director**
B Sc Electrical Engineering (Hons), Newcastle University (1973); B Sc Mining Engineering (Hons), Nottingham University (1975); Mine Manager's 1st Class Certificate; Fellow Institute of Materials, Minerals and Mining; Chartered Engineer; European Engineer (Eur Ing)
35 years experience in the coal, base metals and industrial minerals mining industry and 8 years of directing Competent Person's Reports.

***U Ruppel, Principle Mining Engineer/Project Manager**
Dipl.-Ing. (BSc) Mining Engineering University of applied sciences Gregor Agricola Bochum (1981); Member of Association of German Mining Engineers (Ring Deutscher Bergbauingenieure e.V.)
29 years of experience in all aspects of mine planning, roadway heading and rock support, especially in deep mines with very complex rock mechanical conditions; in-depth knowledge in mining and tunnelling solutions.

***H Arden, Principal Geologist**
BSc (Honours) Geology Istanbul Technical University (1984); PhD – Geology University of Nottingham (1990); MSc - Civil Engineering University of Southampton (2007)
26 years experience in the mining industry, specialized in sedimentary deposits with international experience in sedimentary/mining geology, civil engineering and environmental studies; undertaken a number of projects including Geological and sedimentary models, Competent Person's Reports and feasibility studies in Europe, Australasia, South America and the CIS region.

***P C Robinson, Valuation Engineer**
Associate, Chartered Institute of Management Accountants
33 years experience in the mining, minerals and consulting industry worldwide with specific experience of investment and mine purchases including the first successful listing outside China of a Chinese coal mining company.

***Howard Hind, Infrastructure Engineer**
HND Electrical and Electronic Engineering; MQB Electrical Engineering Certificate; MQB Class I Certificate; Fellow Institution of Mining Mechanical and Mining Electrical Engineers.
37 years experience as an electrical, mechanical and infrastructure engineer in major projects worldwide on shaft sinking and mining operations.

***U Hochheimer, Beneficiation Engineer**
Dipl.-Ing (MSc) Processing Engineer, University of applied science Gregor Agricula, Bochum (1985); Member of the board Arbeitsgemeinschaft Deutscher Aufbereitungsingenieure (Association of German Processing Engineers); Member of the standards committee raw material analysis/hard coal preparation
25 years professional experience in beneficiation and processing

***A Chayka Mining Engineer**
Dipl.-Ing. (MSc) Mining, Donetsk National Technical University, Ukraine (2003); MSc Technical Business Administration, University of Applied Sciences Georg Agricola, Bochum, Germany (2010)
7 years of professional experience in underground coal mining

Elena Perfilyeva, Environmental Principal
Expert of the World Bank of project environmental assessment, certificated specialist of environmental assessment, environmental management and audit (USAID, EBRR certificates), certified specialist of occupational health and safety management systems (DNV certificate), the executive chief of «InEcA-Consulting», LLC, Novokuznetsk, Russia.

***Ksenia Shipilova, Environmental Specialist**
MSc (Diplom) GeoEcologist Kemerovo State University (2005)
Specialist in Environmental Consulting Department, «InEcA-Consulting», Novokuznetsk, Russia,
LLC - certificated specialist in the field of environmental assessment and audit, occupational health and safety management systems (DNV certificates).

* - denotes visited operations.

Annex B

SCOPE OF WORK/ LIMITATIONS AND EXCLUSIONS/ MATERIALITY

Annex B – Scope of Work / Limitations and Exclusions / Materiality

Scope of Work

IMC carried out the following scope of work for the Report:

IMC will prepare a Mineral Expert's Report (MER) for the Coal and Coking assets of the Company. This report, will summarise the findings of an IMC's review, will be prepared in order to satisfy the requirements of a Mineral Expert's Report as set out in the Prospectus Directive in conjunction with the recommendations of the CESR and with the pre 1 July 2005 requirements of Chapter 19 of the Listing Rules of the UKLA.

IMC propose that the scope of work follow the requirements of the London Stock Exchange.

London Stock Exchange Requirements

1. Description of Resources and Reserves
   - Nature and extent of the company's rights of exploration and extraction and a description of the properties to which the rights attach. Details of the duration and other principal terms and conditions of the concessions including relevant legislation, environmental and rehabilitation requirements, abandonment costs and any necessary licenses and consents including planning permission.
   - Geological characteristics of the occurrence of the reserves, the type of deposit, its dimensions and grade distribution.
   - Methods to be employed for exploration and extraction, and where appropriate the mineral processes to be employed.
2. Maps and Plans
   - Maps, sections and plans demonstrating for each major property or field, its location, the nature and extent of workings thereon and its principal geological characteristics.
   - Surface location plan showing boreholes, sample pits, trenches and other evidence.
3. Reserves
   - An estimate of the volume, tonnage in place and grades, as appropriate, each split between proven and probable reserves
   - Method by which the reserves were estimated
   - Expected extraction tonnage or volume
   - Where relevant, processing volumes or tonnages together with the other principal assumptions relating to forecast revenues and operating costs
   - If there are mineral resources which have not been sufficiently appraised to demonstrate them as proven or probable reserves, a separate statement of such mineral resources, which may not include any quantified information other than in respect of such mineral resources which have been appraised as measured or indicated mineral resources, in which case quantified information with regard to tonnage (or volume) and grade may be included in the statement but no information in respect of such measured or indicated mineral resources may be included in the valuation of the statement of reserves

4. Long Term Prospects
   - Details of any mineral resources relevant to the long term future of the company
5. Nature of Evidence
   - The nature of any geophysical and geological evidence used in the estimation of reserves
   - Summarised details of this evidence including information on quality control procedures
   - The results of drilling and sampling, stating the number of holes drilled, sample pits or trenches and their location, with a description of their current status
   - The names of the organisations that carried out the investigation and analysis
6. Production Schedule
   - Production policy, including production rates of sites, mines and wells where production has already been commenced
   - Estimated production rates relating to new mines, or reworkings, or new drilling, or work-overs
   - Estimate of the working lives and degree of depletion of each major property
   - An assessment of the expertise of the technical staff being or to be employed
   - An indication of the bases on which these estimates have been arrived at
7. Commencement of Working
   - The date(s) on which commercial extraction by the applicant was commenced, or is expected to commence, on each major property
8. Progress of Workings
   - An indication of the progress of actual working, including analysis (both in narrative an numerical form) of previous exploration, development and extraction carried out on the relevant properties or fields
9. Forecast Extraction Rates
   - Comment on the reasonableness of the directors' forecasts (if any) of the rate(s) of extraction of the major properties or fields
10. Valuation of Reserves
   - An estimate of net present value (or a valuation arrived at on an alternative basis, with an explanation of the basis and of the reasons for adopting it) of proven and probable reserves (analysed separately)
   - The principal assumptions on which the valuation of proven and probable reserves is based including those relating to discount factors, exchange rates and economic conditions
   - Information to demonstrate the sensitivity to changes in the principal assumptions
11. Plant and Equipment
   - Commentary on the type, extent and condition of plant and equipment which is of material significance to the company's operations and which is currently in use on the company's major properties or fields

- Information on additional plant and equipment which will be required to achieve the forecast rates of extraction (including an estimate of the relevant costs and of the cost of maintaining and repairing all plant and equipment)

12. Valuation of Plant

- A valuation (made on an existing use basis within six months of the date of publication of the listing particulars) of the plant and equipment owned by the company currently in use for exploration or extraction of mineral reserves, save that a valuation is not required if a statement is made confirming that either:
- The directors do not consider that plant and equipment to be of material importance to an investor's assessment of the company's operations, or
- The valuation of the plant and equipment has been included in the net present valuation of the reserves.

13. Special Factors

- A statement setting out any additional information required for a proper appraisal of any special factors affecting the exploration or extraction businesses of the company, including difficulties of access to, or in recovery of, mineral reserves on properties where the company has extraction rights, and special circumstances, such as difficulties in transporting or marketing the extracts which may affect the commercial viability of the project, or an appropriate negative statement

14. Other Prospectus Directive Requirements

- Any other information or analysis required by Chapter 19 of the Listing Rules

15. Environmental

This subject is only a passing mention in the LSE Rules but is incorporated here as is IMC's understanding of the matter.

- The review and report should include a review of the environmental status with particular regard to the liabilities held by other parties prior to the current owners taking responsibility. The current environmental status will be assessed as will the long term liabilities. The main object of this action will be to confirm that the operations have the necessary environmental permitting in place to allow ongoing operation of the assets. The report could also highlight material risk areas that may need to be addressed in the "risks" section of the Listing Particulars
- Given the nature of Listing Particulars and responsibilities to current and future shareholders, we are keen to ensure any material environmental issues discovered during the due diligence and report preparation are communicated to us as early as possible.

Annex C

LOCATION AND MINE PLANS

List of Annexes:

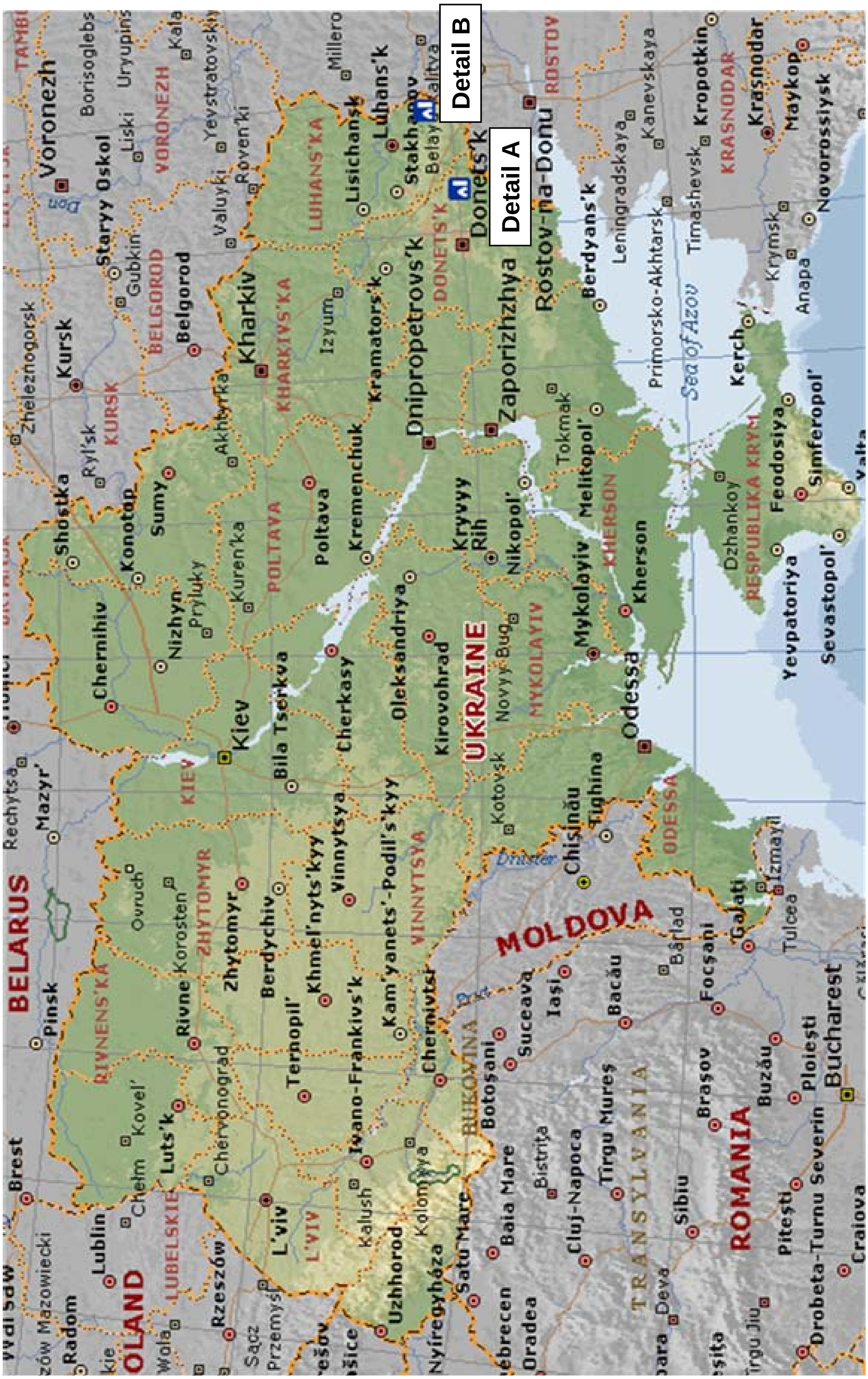

Plate 1: Sadovaya Group facilities in Donbass region, Ukraine (Location Ukraine)

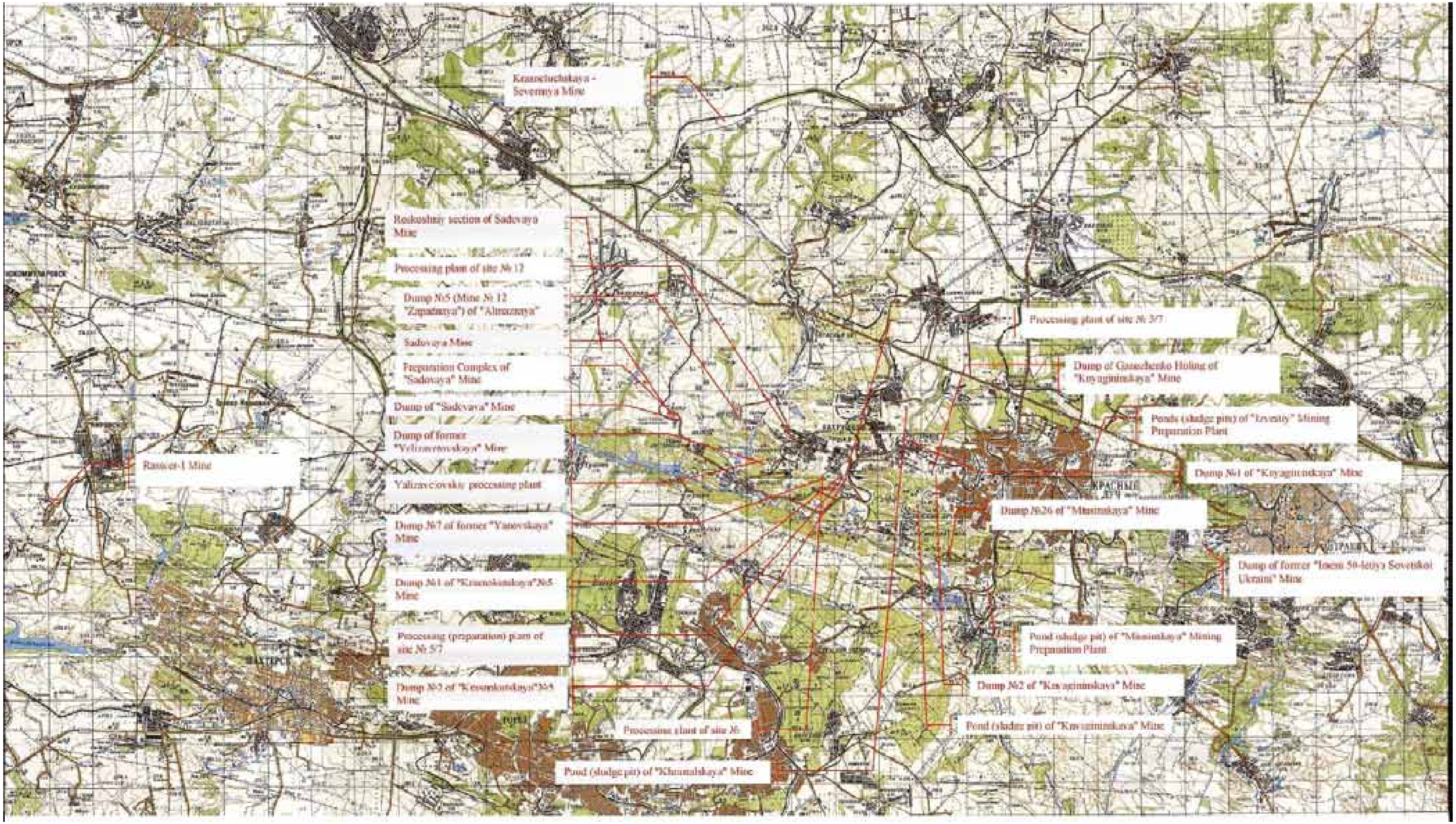

Plate 2: **Sadovaya Group facilities in Donbass region, Ukraine (Detail A)**

Plate 3: **Sadovaya Group facilities in Donbass region, Ukraine (Detail B)**

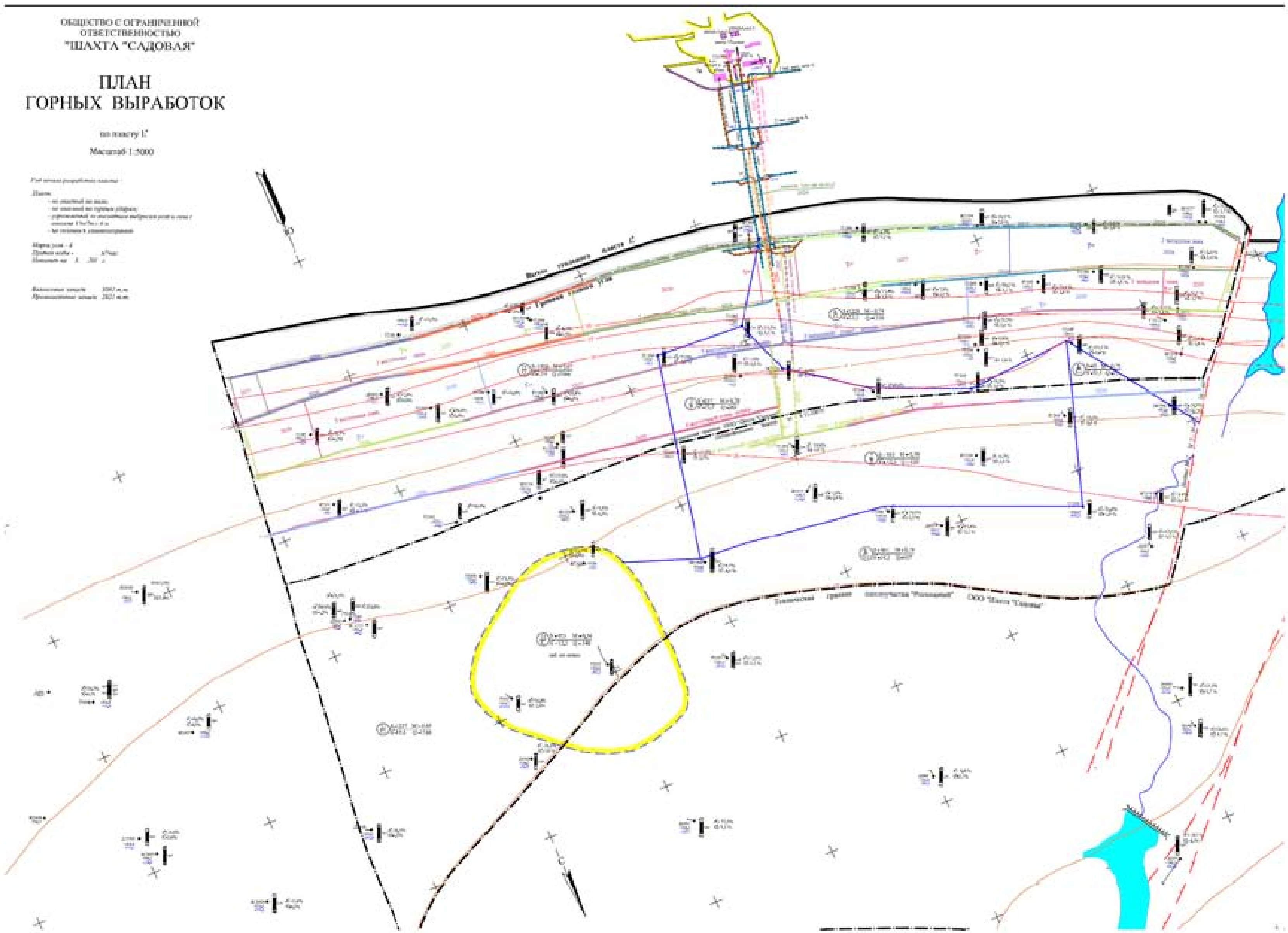

Plate 4: **Mine Plan, Sadovaya Mine, Seam ℓ_7^B**

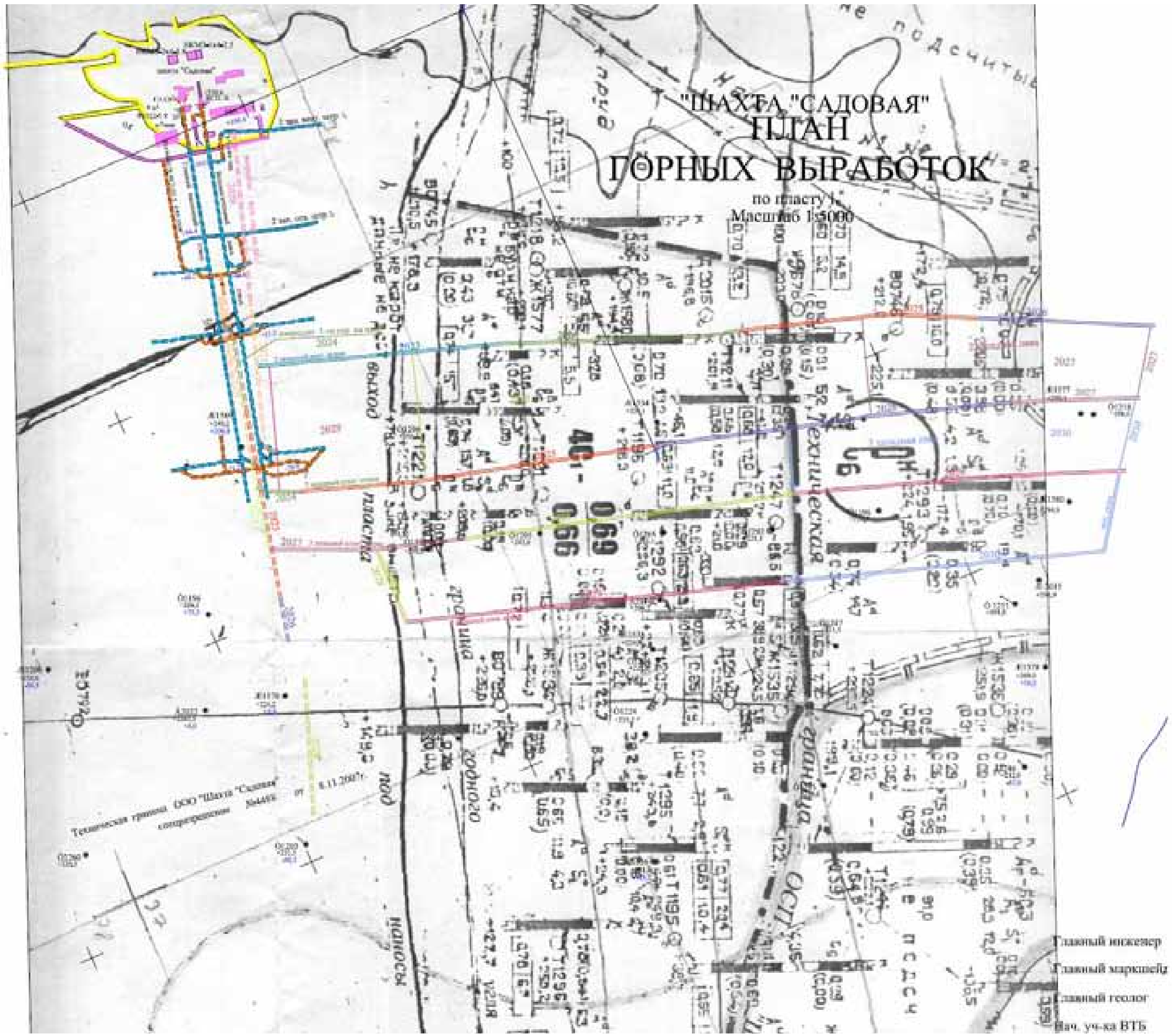

Plate 5: Mine Plan, Sadovaya Mine, Seam ℓ_6^H

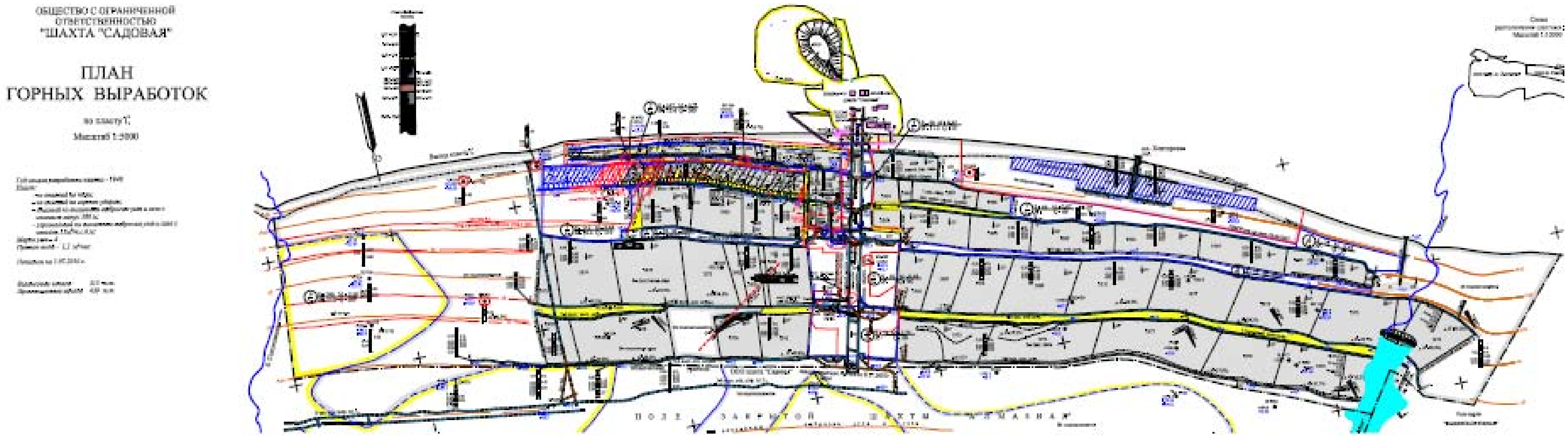

Plate 6: **Mine Plan, Sadovaya Mine, Seam ℓ_2^H**

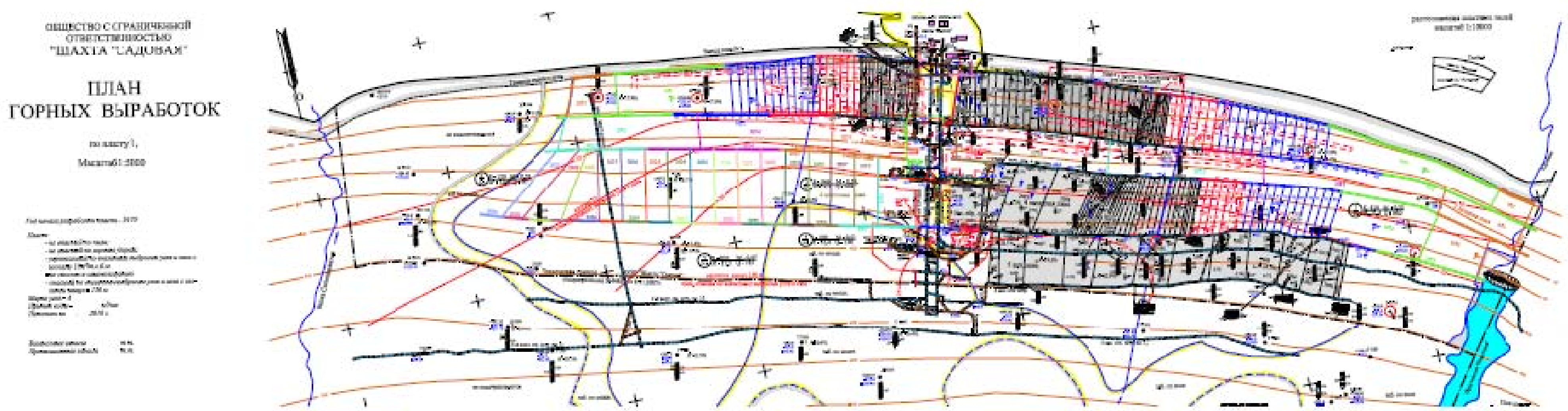

Plate 7: Mine Plan, Sadovaya Mine, Seam ℓ_1

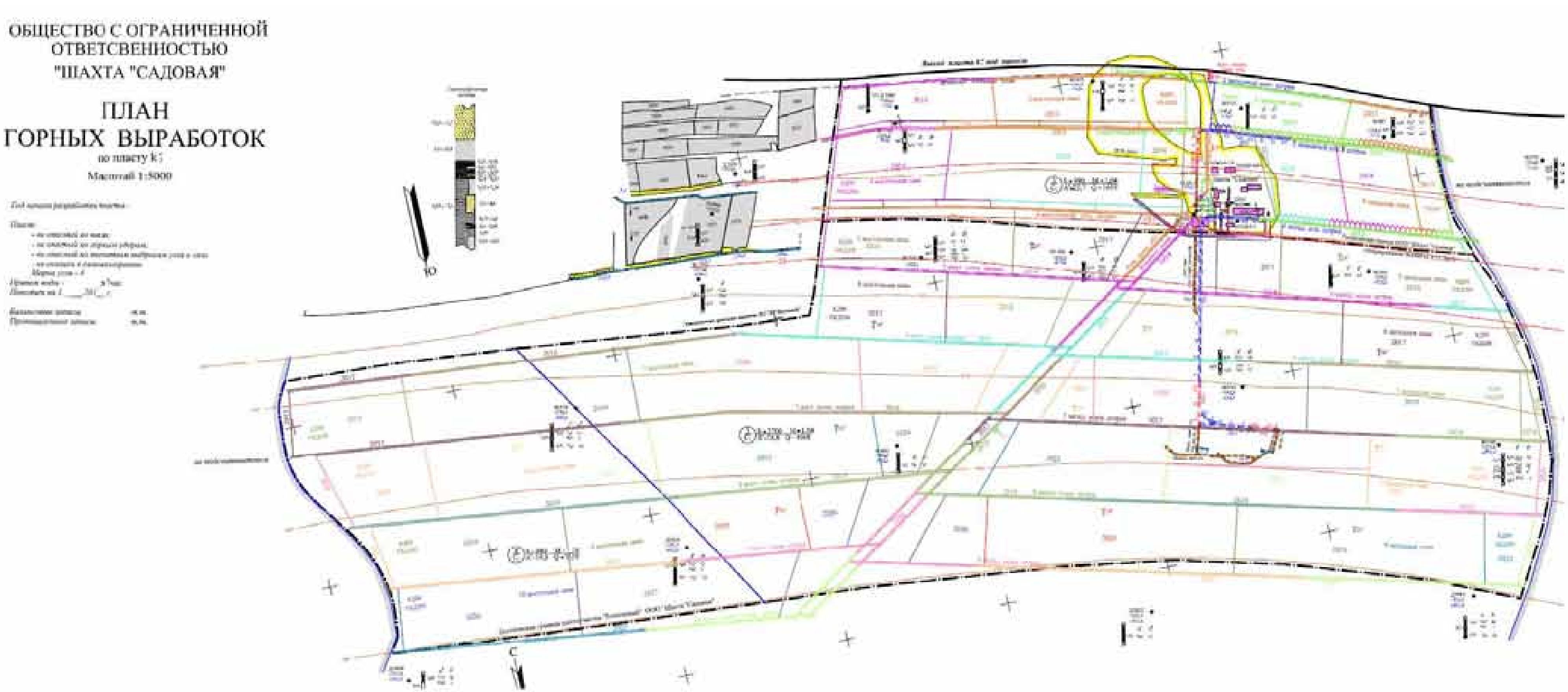

Plate 8: **Mine Plan, Sadovaya Mine, Seam k_7^H**

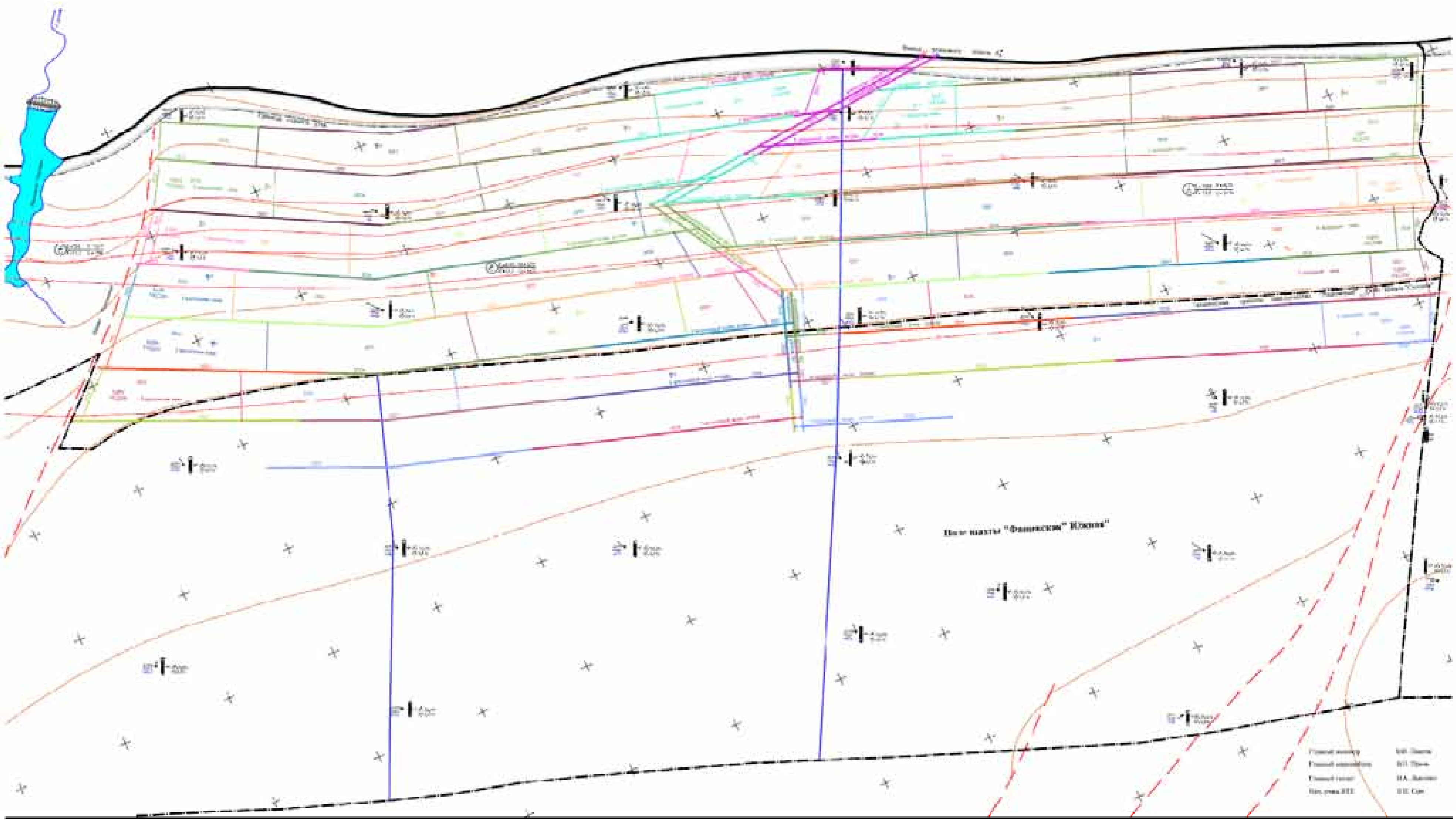

Plate 9: Mine Plan, Roskoshniy Mine, Seam ℓ_7^B

Plate 10: **Mine Plan, Rassvet-1 Mine, Seam ℓ_7**

Plate 11: **Mine Plan, Rassvet-1 Mine, Seam ℓ_6**

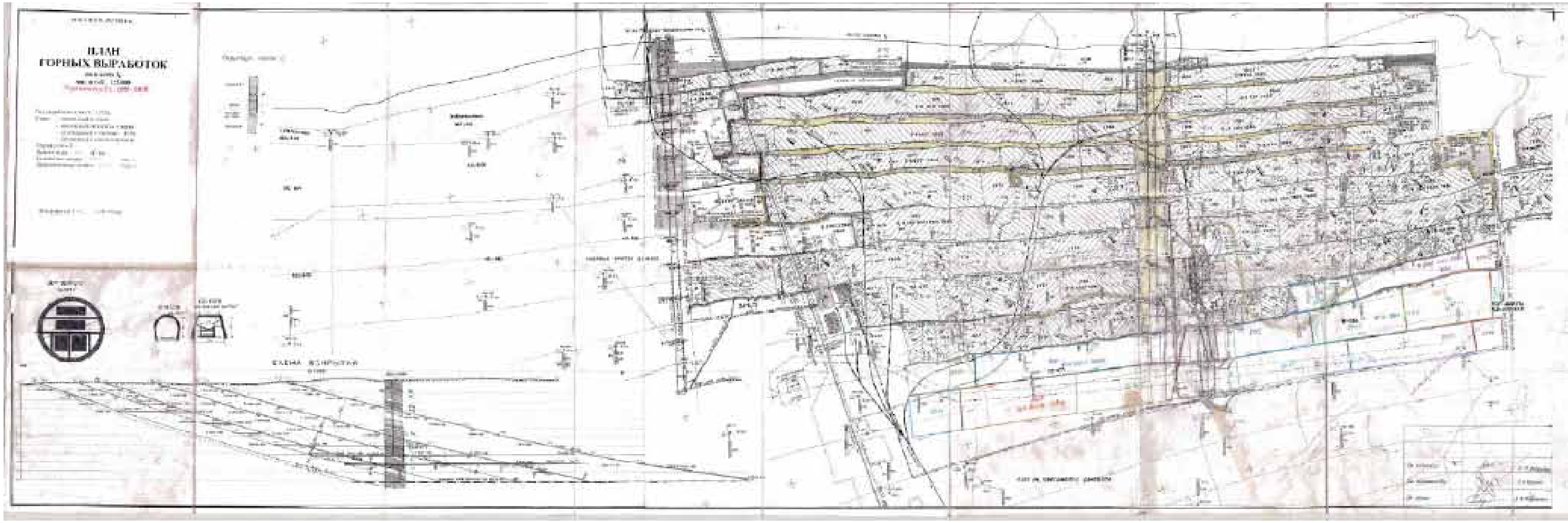

Plate 12: **Mine Plan, Rassvet-1 Mine, Seam ℓ_4**

Plate 13: **Mine Plan, Rassvet-1 Mine, Seam ℓ_3**

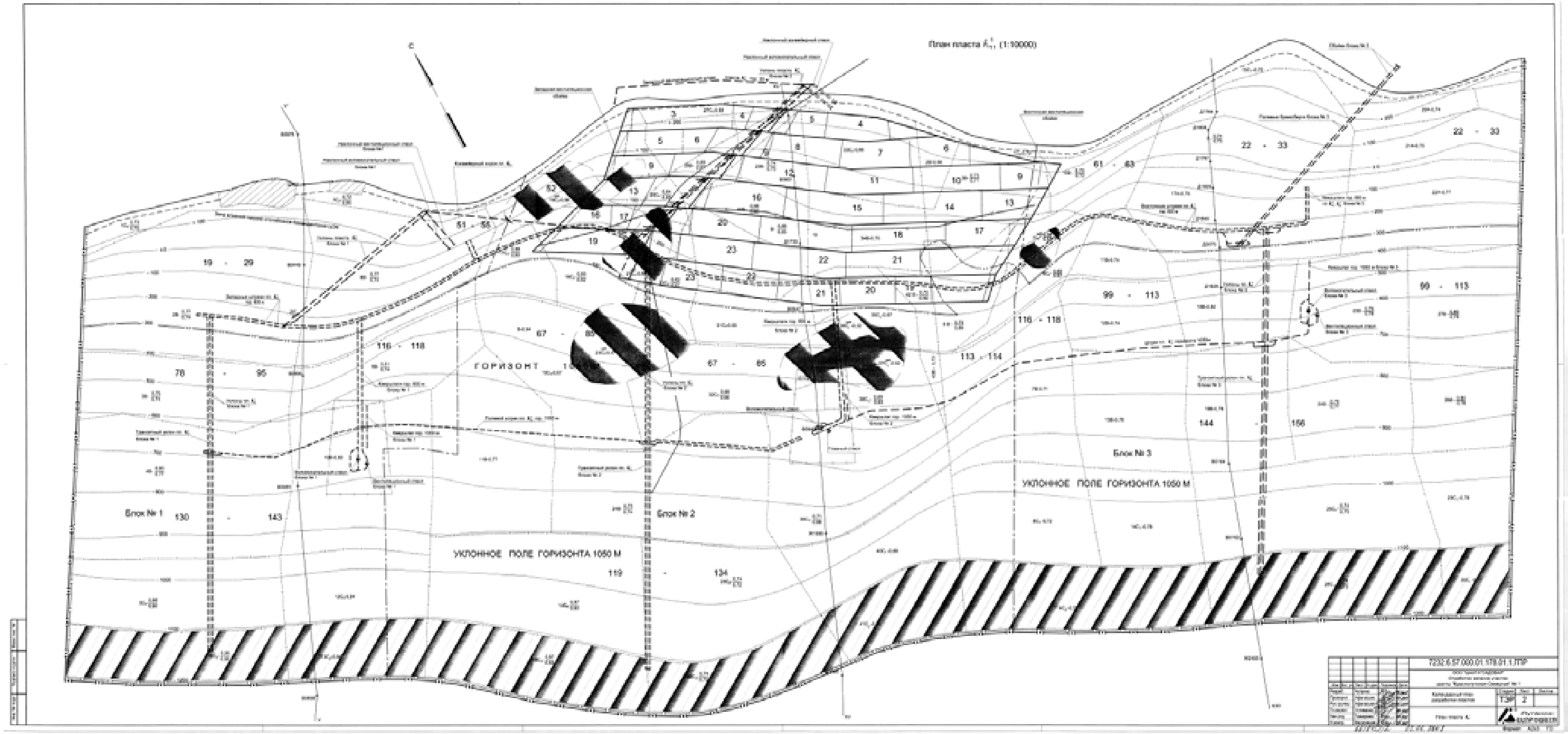

Plate 14: **Mine Plan, Krasnoluchskaya-Severnaya Mine, Seam h_{11}^{1}**

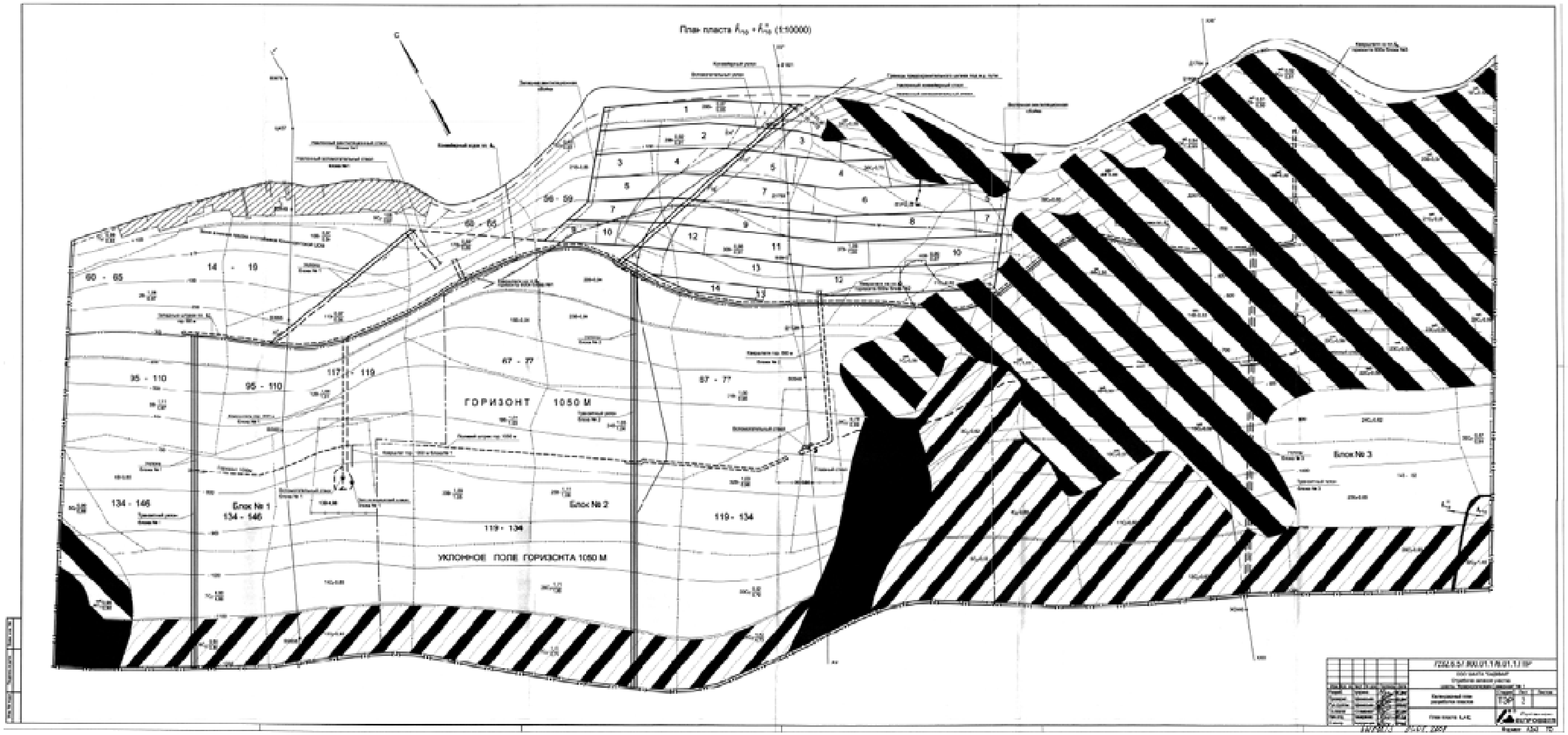

Plate 15: **Mine Plan, Krasnoluchskaya-Severnaya Mine, Seam $h_{10}+h_{10}^{H}$**

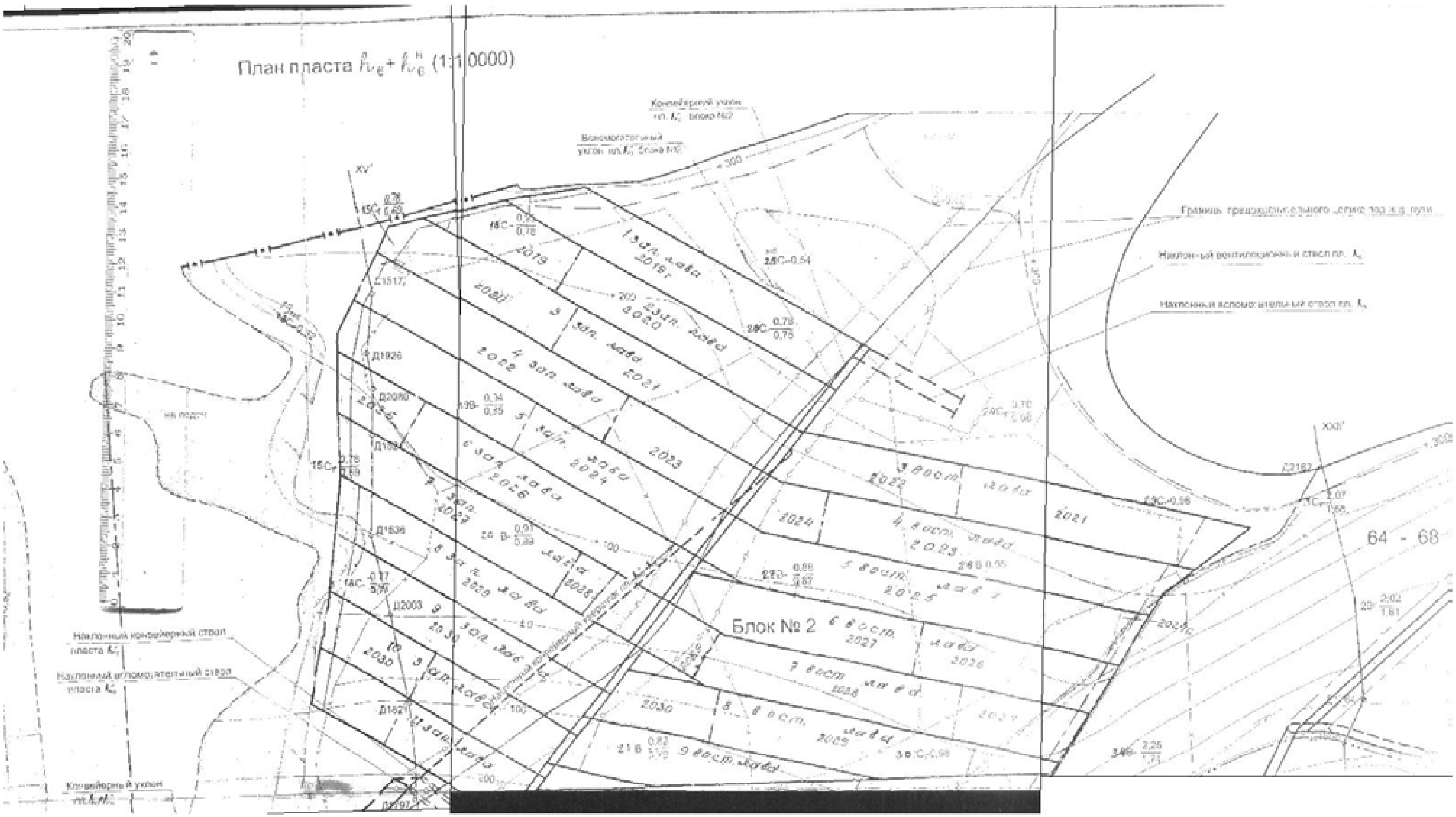

Plate 16: **Mine Plan, Krasnoluchskaya-Severnaya Mine, Seam h_6+h_6^H**

Annex D

GLOSSARY OF TERMS

Annex D: Glossary of Terms

Ash	The incombustible residue from mineral matter contained as either contamination (rocks) or inherent within the coal. On combustion the mineral matter is reduced to ash the refractory component of mineral matter. Some minerals dissociate on heating to release carbon dioxide or moisture.
Ash content	The inert percentage of a laboratory sample of coal remaining after incineration to a constant weight under standard conditions.
Basalt	A dark, fine-grained, intrusive igneous rock of a basic, rather than acidic, nature
BCE	A Bucket Chain Excavator
Bench	A near horizontal working area in a mine at least one side of which is defined by a significant vertical drop.
Best Practice	Operating procedures that are recognised in the international mining community which maximise productivity and return on investment commensurate with stewardship of the assets.
Billion	One thousand million.
Blending	Mixing two or more materials together to give a mixture of the desired quality.
BOT	Bełchatów Opole Turóv BOT capital group name
Borehole or bore hole	A hole made with a drill, auger or other tool for exploring strata in search of minerals.
Box cut	The opening excavation of an open pit mine
Bunker	An excavation made to store coal or ore, usually to provide a buffer facility.
BWE	A Bucket Wheel Excavator
By-product	Material, other than the principal product, that is generated as a consequence of an industrial process.
Calorific value, (CV)	The heat value of coal per unit weight. This is normally reported in kilocalories per kilogram, (kcal/kg).
Capex	Capital expenditure
Coal	A readily combustible rock containing more than 50% by weight and 70% by volume of carbonaceous material, including inherent moisture. It is formed from plant remains that have been compacted, indurated, chemically altered and metamorphosed by heat and pressure during geological time.
Conveyor	A rubberised belt running on rollers transporting the coal or other material from the faces to the endpoints. They can be reversed and used for manriding (carrying personnel to their working places).
Core	A cylindrical sample taken using a diamond drill.
CV	see Calorific value.
Deposit, Deposits	An area of coal resources or reserves identified by surface mapping, drilling or development.
Development	(i) The initial stages of opening up a new mine, and/or (ii)Removal of overburden, or tunnelling to prove the location and value, and allow the extraction of ore.
Development	Excavations or tunnels required to access the coal or ore.
Dilution	The contamination during the mining process of excavated coal by non-coal material from the roof, floor or in-seam partings.
Dip	The angle that a structural surface, i.e. a bedding or fault plane makes with the horizontal measured perpendicular to the strike of the structure.
Discounted Cash Flows (DCF)	The present value of future cash flows after applying cumulative discounts.
Disposal	Final placement or destruction of toxic, radioactive, or other wastes; surplus or banned pesticides or other chemicals; polluted soils; and drums containing hazardous materials from removal actions or accidental releases.

Dissolved	Organic and inorganic material taken into solution. An excessive amount in water usually makes water unfit for drinking or for use in industrial processes.
Dump	A site used to dispose of solid wastes without environmental controls.
Environment	The sum of all external conditions affecting the life, development, and survival of an organism.
Exploit	Make use of and derive benefit from a resource.
Exploitation	Method of deriving benefit from a resource.
Exploration	Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.
Fault	A structural discontinuity in the earth's crust formed by movement between adjacent blocks resulting from tectonic forces.
Fault Throw	The amount of vertical displacement in an upward or downward direction produced by a fault.
Feasibility Study	A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the technical and economic viability of a project and to support the search for project financing.
Floor (seam)	The bottom of the seam.
Fold	Any bending or wrinkling of rock strata.
Fractured - relating to geology	Breaks in rock formations due to intense faulting or folding.
Geotechnical Conditions	The engineering behaviour of rocks as a result of an excavation.
Grade	The classification or value of coal. The relative quality.
Granite	A light coloured, coarse-grained, intrusive igneous rock of an acidic, rather than basic, nature
Groundwater	The supply of fresh water found beneath the Earth's surface (usually in aquifers), which is often used for supplying wells and springs. Because groundwater is a major source of drinking water, there is growing concern about areas where leaching agricultural or industrial pollutants or substances from leaking underground storage tanks are contaminating it.
In Situ	In place, i.e. within unbroken rock.
Interburden	Sterile soil and rock material lying between coal seams.
Joints - relating to geology	A fracture or parting that cuts through and abruptly interrupts the physical continuity of a rock mass.
JORC	The "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004 Edition) published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code").
kcal/kg	Kilocalories per kilogram of coal, the energy content of coal used in the countries that do not conform to SI units. In countries where SI units are adhered to, the measure of energy is in mega joules per kilogram or MJ/kg.
KJ/kg	Kilojoules per kilogram, the energy content of coal used in the countries that do conform to SI units..
km	Kilometre.
kV	Kilovolt.

Lease	Contract between two parties enabling one to search for and/or produce minerals from the other's property.
LOM	Life Of Mine.
Lignite	Brown coal, the lowest rank of coal and used as fuel for steam-electric power generation
Losses - Geological	Ore lost due to unpredictable geological phenomena.
Losses - Mining	Ore lost due to less than perfect mining operations.
LTIFR	Lost Time Injury Frequency Rate usually measured per 100,000 manshifts or one million man-hours.
M	Million.
m3	A unit of volume defined as one metre length times one metre width times one metre height
Mg	One million grammes, equivalent to one metric tonne
Mine	Any operation where mineral is extracted from the ground. This may be by opencast or underground mining methods.
Mineable	Capable of being mined under current mining technology and environmental and legal restrictions, rules and regulations.
Mineable	That portion of a resource for which extraction is technically and economically feasible.
Mineral Deposit	A mineral occurrence of sufficient size and grade to have potential or existing commercial value; sometimes referred to as mineralisation.
Mining Licence	Permission to mine minerals from a Mineral Rights area.
Mining Permit	Permission to mine minerals from a Mineral Rights area.
Mitigation	Measures taken to reduce adverse impacts on the environment.
mln	Million
mln Mg	Million megagrammes equivalent to million tonnes
mln Mg/a	Million megagrammes per annum
Monitoring	Periodic or continuous surveillance or testing to determine the level of compliance with statutory requirements or pollutant levels in various media or in humans, animals, and other living things.
Mt	Million metric tonnes.
Mtpa	Million metric tons per annum.
MW	Megawatt.
No.	Number.
Nos.	Numbers.
Opencast	Method of extracting coal where the overburden is completely removed before extracting the coal or lignite, also known as and Open Pit.
Overburden	Sterile soil and rock material overlying the coal.

Parting	A layer or stratum of non-coal material in a coal bed which does not exceed the thickness of coal in either the directly underlying or overlying leaves.
Permit	An authorisation, license, or equivalent control document issued by an approved agency to implement the requirements of an environmental regulation; e.g., a permit to operate a wastewater treatment plant or to operate a facility that may generate harmful emissions.
Pillar(s)	An area of ore left during mining to support the overlying strata.
Pit	A hole in the ground – an excavation below original ground level – a surface mine may comprise one or more pits.
Pit (mining)	Abbreviation of Open Pit Mine.
Plant	Fixed or moveable equipment required in the process of winning or processing the ore.
PLN	Polish unit of currency zloty
Pollutant	Generally, the presence of matter or energy whose nature, location, or quantity that contaminates air, soil, or water.
Pre-treatment	Processes used to reduce, eliminate, or alter the nature of wastewater pollutants from non-domestic sources before they are discharged into publicly-owned treatment works.
Prevention	Measures taken to minimize the release of wastes to the environment.
Rehabilitation	Land restored to its former condition.
Reserve(s)	Refer to the assets review report included in Appendix A of this prospectus, prepared by IMC, for definitions.
Resource(s)	Refer to the assets review report included in Appendix A of this prospectus, prepared by IMC, for definitions.
Reclaimer	A Reclaimer can be used to recover stockpiled material.
Rights - Surface Rights	The ownership of the surface land under which minerals occur.
Roadways	An excavation to access a working area which subsequently may supply services or a conveyor.
ROM	Run of mine.
Roof of the seam	The top of the seam.
Run-of-Mine (ROM)	The grade and tonnage of material produced at the pit rim or shaft collar, stated on a dry basis.
S	Sulphur.
Sample	A representative fraction of a coal seam collected by approved methods, guarded against contamination, and analysed to determine the nature, chemical, mineralogical or petrographic composition, percentage content of specified constituents, and heat value.
Sampling	Taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content).
Seam	A layer or bed of coal or lignite. Correlated seams of coal are normally assigned a name, letter or number. A single seam can contain one or more non-coal partings resulting in a sub-division into leaves.
Seam outcrop	A manifestation of a coal seam at the Earth's surface.

Seam splitting	When a coal seam splits into two or more leaves or subsidiary seams.
Sedimentary	Formed by the deposition of solid fragmental material that originates from weathering of rocks and is transported from a source to a site of deposition.
Sedimentation	Letting solids settle out of wastewater by gravity during wastewater treatment.
Sediments	Soil, sand, and minerals washed from land into water, usually after rain. Sediments pile up in
	reservoirs, rivers, and harbours, destroying fish-nesting areas and holes of water animals and clouding the water so that needed sunlight may not reach aquatic plants. Careless farming, mining, and building activities will expose sediment materials, allowing them to be washed off the land after rainfalls.
Settling tank/ponds/lagoons	A holding area for wastewater in which heavier particles sink to the bottom for removal and disposal.
Sewage	The waste and wastewater produced by residential and commercial establishments and discharged into sewers.
Smoke	Particles suspended in air after incomplete combustion of materials.
Split	An in-seam parting which attains a thickness such that the resultant leaves of coal are considered as separate seams from a mining point of view.
Spontaneous combustion	The propensity of some types of coal to oxidise rapidly on contact with air. The oxidation reactions produce heat that increases the rate of oxidation to the point that the coal ignites. Low-rank coals are the most prone to spontaneous combustion.
Stacker	A stacker is large a machine used in mining applications to stack bulk material such as coal or lignite onto a stockpile
Stockpile	An accumulation of ore or mineral.
Strata	Layers of sedimentary rock.
Surface water	All water naturally open to the atmosphere (rivers, lakes, reservoirs, streams, impoundments, seas, estuaries, etc.); also refers to springs, wells, or other collectors that are directly influenced by surface water.
Sustaining Capital	Periodic capital expenditures required to replace or overhaul equipment. Also known as replacement capital.
Syncline	A fold in bedded or stratified rocks which opens upward like the trough of a wave.
Syncline / synclinal	A downward-curving fold, with layers that dip toward the centre of the structure.
t	Metric tonne
Tectonic influence	The influence of geological activity on an area.
Trenches	Lines excavated to a pre-determined depth to establish the geological structure of a deposit.
UAH	Ukrainian hryvnias (10 UAH appr. 1 €)
Underground Mining	Extraction of mineral whereby the overburden is not removed in order to extract the mineral.
V	Volts.
Volatile Matter	That portion of the coal comprising both gases and liquids that is released following heating it from 105°C to 800°C. The amount of volatile matter in a coal is a function of the rank of the coal (thermal maturity) and of the coal type.

Waste	Rock or material of no commercial value residing within the seam, above the seam or below the seam.
Waste - related to mining	Rock or material of no commercial value.
Waste Parting	Rock or material of no commercial value residing within the ore horizon/reef.
Wastes	1. Unwanted materials left over from a manufacturing process. 2. Refuse from places of human or animal habitation.
Waste water	Spent or used water from individual homes, communities, farms, or industries that contains dissolved or suspended matter.
Workable	See mineable.

ANNEX IV

LIST OF PLACES ACCEPTING SUBSCRIPTIONS FOR OFFER SHARES FROM RETAIL INVESTORS

The list of Points of Sale of the BZ WBK Brokerage House					
No.	**City**	**Address**	**Post code**	**Phone number**	
1	Bolesławiec	ul. Sądowa 6	59-700	0 -75	732 44 62
2	Bydgoszcz	ul. Gdańska 128	85-021	0 -52	341 40 33
3	Chorzów	ul. Katowicka 72	41-500	0 -32	346 09 02
4	Dzierżoniów	ul. Mickiewicza 4	58-200	0 -74	831 54 60
5	Gdynia	ul. 10 Lutego 11	81-366	0 -58	621 67 23
6	Głogów	ul. Obrońców Pokoju 12	67-200	0 -76	837 30 10
7	Gniezno	ul. Sienkiewicza 17	62-200	0 -61	424 02 57
8	Gorzów Wielkopolski	ul. Gen. Wł. Sikorskiego 24	66-400	0 -95	720 73 57
9	Inowrocław	ul. Grodzka 5/7	88-100	0 -52	356 05 61
10	Jelenia Góra	ul. Jasna 14	58-500	0 -75	753 38 87
11	Kalisz	ul. Parczewskiego 9A	62-800	0 -62	765 47 65
12	Katowice	ul. Katowicka 61	40-174	0 -32	351 39 56
13	Kędzierzyn-Koźle	pl. Wolności 1a	47-220	0 -77	482 40 85
14	Kępno	ul. Kościuszki 6	63-300	0 -62	782 21 87
15	Kielce	ul. Wspólna 2	25-950	0 -41	335 86 15
16	Kłodzko	ul. Kościuszki 7	57-300	0 -74	867 22 52
17	Konin	ul. Energetyka 6A	62-510	0 -63	245 67 47
18	Kraków	ul. Karmelicka 9	31-133	0 -12	42148 00
19	Legnica	ul. Gwarna 4A	59-220	0 -76	866 51 92
20	Leszno	ul. Słowiańska 33	64-100	0 -65	529 58 58
21	Lubin	ul. Odrodzenia 5	59-300	0 -76	840 48 65
22	Łodź	al. Piłsudskiego 3	90-368	0 -42	639 17 60
23	Nowy Tomyśl	ul. Poznańska 13	64-300	0 -61	442 22 89
24	Opole	ul. Ozimska 6	45-057	0 -77	451 68 20
25	Ostrów Wielkopolski	pl. Bankowy 1	63-400	0 -62	736 86 87
26	Piła	ul. Sikorskiego 81	64-920	0 -67	210 55 06
27	Płock	ul. Kolegialna 21	09-402	0 -24	267 93 40
28	Poznań	pl. Wolności 16	60-967	0 -61	856 49 47
29	Poznań	ul. Św. Marcin 81	60-967	0 -61	856 43 38
30	Poznań	ul. Szkolna 5	61-832	0 -61	856 46 77
31	Sopot	ul. Chopina 6	81-752	0 -58	550 78 18

32	Toruń	ul. Krasińskiego 2	87-100	0 -56	610 36 83
33	Wałbrzych	ul. Chrobrego 7	58-300	0 -74	842 67 79
34	Warszawa	ul. Kasprowicza 119a	01-949	0 -22	569 55 40
35	Warszawa	ul. Jana Pawła II 23	00-854	0 -22	526 21 20
36	Warszawa	ul. Rzymowskiego 34	02-697	0 -22	782 93 03
37	Wrocław	Rynek 9/11	50-950	0 -71	370 14 68
38	Wrocław	pl. Kościuszki 7/8	50-950	0 -71	370 66 82
39	Zgorzelec	ul. Wolności 11	59-900	0 -75	777 02 85
40	Zielona Góra	ul. Bankowa 5	65-950	0 -68	328 87 70

**The list of Points of Sale of BZ WBK Brokerage House's Agent,
i.e. Bank Zachodni WBK S.A.**

No.	City	Address	Post code	Phone number	
1	Aleksandrów Łódzki	ul.Wojska Polskiego 69	95-070	42	613-11-60
2	Białogard	ul. 1 Maja 7a	78-200	94	311-38-80
3	Białystok	ul. M.Skłodowskiej - Curie 2	15-097	85	748-60-00
4	Białystok	ul.Pałacowa 1a	15-042	85	748-47-80
5	Bielsko-Biała	ul. Partyzantów 22	43-300	33	819-10-00
6	Bochnia	ul.Kazimierza Wielkiego 18	32-700	14	615-27-60
7	Bogatynia	ul. Daszyńskiego 4abc	59-920	75	772-10-40
8	Bolesławiec	ul. Bankowa 12	59-700	75	734-94-00
9	Brzeg	ul. Powstańców Śląskich 6	49-300	77	424-20-00
10	Brzeg Dolny	ul. 1 Maja 10a	56-120	71	380-51-80
11	Brzesko	ul.Jana Matejki 2	32-800	14	663-57-10
12	Bydgoszcz	ul. Królowej Jadwigi 18	85-231	52	366-79-10
13	Bydgoszcz	ul. Powstańców Wlkp. 26	85-090	52	326-25-00
14	Bydgoszcz	ul. Szubińska 83	85-312	52	360-58-00
15	Bydgoszcz	ul. Gdańska 66/68	85-021	52	304-57-51
16	Bystrzyca Kłodzka	ul. Mickiewicza 8	57-500	74	811-78-00
17	Bytom	ul. Dworcowa 4	41-902	32	283-40-00
18	Chełm	ul. Lubelska 73	22-100	82	564-90-50
19	Chodzież	ul. Ks.Prymasa St. Wyszyńskiego 4	64-800	67	281-28-00
20	Chojnów	ul. Dąbrowskiego 12	59-225	76	819-64-00
21	Ciechanów	ul. Pułtuska 4/6	06-400	23	673-01-50
22	Cieszyn	ul. Stary Targ 1	43-400	33	851-66-40
23	Częstochowa	al.Wolności 8	42-217	34	372-73-43
24	Elbląg	ul. Pułkownika Dąbka 8-12	82-300	55	236-58-70
25	Gdańsk	ul.Fieldorfa 2	80-041	58	322-01-10
26	Gdańsk	ul. 3 Maja 3	80-958	58	308-20-00

27	Gdańsk	ul. Długie Ogrody 10	80-765	58	326-26-22
28	Gdańsk	ul.Miszewskiego 12/14	80-239	58	340-14-51
29	Gdańsk	ul.Kaprów 19c	80-316	58	522-32-80
30	Gdynia	ul. 10 Lutego 11	81-366	58	660-95-12
31	Gdynia	ul. Starowiejska 25	81-363	58	660-27-80
32	Gdynia	ul.Chylońska 116	81-007	58	660-86-80
33	Gdynia	ul. Świętojańska 89	81-381	58	668-49-20
34	Gliwice	ul. Dolnych Wałów 1	44-100	32	401-10-00
35	Gliwice	Pl.Piastów 2	44-100	32	335-79-70
36	Głogów	ul. Słowiańska 12	67-200	76	836-53-00
37	Głogów	ul. Galileusza 18	67-200	76	836-53-50
38	Głuchołazy	ul. M. Skłodowskiej-Curie 22	48-340	77	434-17-00
39	Głuszyca	ul. Grunwaldzka 10	58-340	74	887-03-70
40	Gniezno	ul. Sienkiewicza 17	62-200	61	424-01-00
41	Gorzów Wielkopolski	ul. Kombatantów 2	66-414	95	721-92-19
42	Gorzów Wielkopolski	ul. Pionierów 8	66-400	95	733-46-00
43	Gostyń	ul. Bojanowskiego 22	63-800	65	572-97-00
44	Grodzisk Wlkp.	ul. 3 Maja 8	62-065	61	442-14-00
45	Grudziądz	al. 23 Stycznia 42	86-300	56	451-15-00
46	Grudziądz	ul.Chełmińska 68	86-300	56	451-49-10
47	Gubin	ul. Piastowska 4	66-620	68	359-01-30
48	Inowrocław	ul. Grodzka 5/7	88-100	52	356-05-59
49	Jarocin	ul. Kilińskiego 2a	63-200	62	747-06-00
50	Jelenia Góra	pl. Niepodległości 4	58-500	75	753-86-00
51	Jelenia Góra	pl. Piastowski 1A	58-560	75	754-05-30
52	Jelenia Góra	ul. Jasna 14	58-500	75	753-81-00
53	Kalisz	ul. Podmiejska 32	62-800	62	764-90-32
54	Kartuzy	ul.Dworcowa 5	83-300	58	694-40-50
55	Katowice	ul. Wita Stwosza 2	40-036	32	609-95-00
56	Katowice	al.. Korfantego 5	40-005	32	201-59-50
57	Katowice	ul. Katowicka 61	40-174	32	351-39-25
58	Katowice	ul.Staromiejska 12	40-013	32	603-74-40
59	Kędzierzyn-Koźle	pl. Woności 1a	47-220	77	472-28-70
60	Kęty	ul.Kościuszki 12	32-650	33	847-50-80
61	Kłodzko	ul. Kościuszki 7	57-300	74	865-78-00
62	Koło	ul. Zielona 2	62-600	63	261-76-60
63	Kołobrzeg	ul. Gierczak 44/45	78-100	94	354-96-10
64	Komorniki	ul. Poznańska 17	62-052	61	893-52-02

65	Kostrzyn n/Odrą	ul. Sikorskiego 10	66-470	95	721-04-80
66	Koszalin	ul. 1 Maja 12	75-800	94	346-16-50
67	Kościan	al. Kościuszki 2	64-000	65	512-85-00
68	Kożuchów	ul. Rynek 20	67-120	68	355-50-05
69	Kraków	ul.Kijowska 22/24	30-079	12	296-46-80
70	Kraków	ul.Monte Cassino 6	30-337	12	620-51-40
71	Kraków	ul.Lubicz 23a	31-503	12	433-37-40
72	Kraków	ul. Karmelicka 9	31-133	12	424-10-20
73	Kraków	Rynek Główny 30	31-010	12	428-60-73
74	Kraków	ul. Westerplatte 15/16	31-033	12	424-06-90
75	Kraków	ul. Wielicka 72	30-552	12	623-31-10
76	Kraków	ul. Halszki 1a	30-611	12	659-50-00
77	Kraków	ul. Wadowicka 6	30-415	12	261-01-90
78	Krosno Odrz.	ul. Bankowa 1	66-600	68	383-37-70
79	Krosno Odrz.	ul. Poznańska 21	66-600	68	383-37-90
80	Krotoszyn	ul. Sienkiewicza 12a	63-700	62	725-51-10
81	Kutno	ul. Grunwaldzka 5	99-300	24	251-02-00
82	Legnica	ul. Gwarna 4a	59-220	76	866-51-40
83	Leszno	ul. Słowiańska 33	64-100	65	525-62-02
84	Lublin	ul. Spółdzielczości Pracy 26	20-147	81	756-80-70
85	Łódź	al.Piłsudskiego 76	90-330	42	677-98-20
86	Łódź	ul. Adwokacka 2	91-305	42	616-16-50
87	Mielec	al.Niepodległości 14	39-300	17	581-85-60
88	Namysłów	ul. Dubois 5	46-100	77	419-08-60
89	Nowa Ruda	ul. Armii Krajowej 4	57-400	74	872-04-60
90	Nowa Sól	ul. Moniuszki 9	67-100	68	356-05-00
91	Nowogrodziec	ul. Kościelna 17	59-730	75	738-07-40
92	Nowy Sącz	ul.Szwedzka 4-6	33-300	18	448-23-60
93	Nowy Tomyśl	ul. Poznańska 13	64-300	61	442-13-00
94	Oborniki Śląskie	ul. Dworcowa 33	55-120	71	310-93-10
95	Oleśnica	Rynek-Ratusz	56-400	71	398-01-01
96	Olsztyn	ul. Piłsudskiego 44a	10-449	89	522-00-00
97	Oława	ul. 3 Maja 2a	55-200	71	303-93-00
98	Opole	ul. Ozimska 6	45-057	77	451-68-00
99	Ostrów Wlkp.	Plac Bankowy 1	63-400	62	737-86-00
100	Ostrzeszów	ul. Zamkowa 20	63-500	62	732-23-00
101	Paczków	Rynek 11	48-370	77	431-65-55
102	Piła	ul. Sikorskiego 81	64-920	67	210-55-00

103	Piotrków Trybunalski	ul.Armii Krajowej 22 b	97-300	44	645-00-10
104	Polkowice	Rynek 13/14	59-100	76	845-80-00
105	Połczyn Zdrój	pl. Wolności 3/4	78-320	94	366-16-00
106	Poznań	ul. Fredry 12	61-701	61	854-94-00
107	Poznań	pl. Wolności 16	60-967	61	856-49-02
108	Poznań	ul. Jugosłowiańska 10	60-301	61	864-61-00
109	Poznań	ul. Powstańców Wlkp.16	61-895	61	856-44-01
110	Poznań	Plac Wolności 15	60-967	61	856-46-09
111	Poznań	ul. Gronowa 22	61-680	61	827-48-00
112	Poznań	Plac Andersa 5	61-894	61	850-33-51
113	Prudnik	ul. Piastowska 18	48-200	77	406-76-50
114	Pruszcz Gdański	ul.Wita Stwosza 3	83-000	58	692-17-60
115	Puławy	ul.Piłsudskiego 58	24-100	81	889-08-70
116	Radom	ul.Żeromskiego 9	26-610	48	360-27-72
117	Radom	ul.Bolesława Chrobrego 41	26-605	48	369-87-50
118	Rawicz	Rynek 18	63-900	65	546-66-00
119	Rogoźno	ul. Wielka Poznańska 24	64-610	67	268-41-60
120	Rzeszów	al.Józefa Piłsudskiego 32	35-001	17	858-17-80
121	Sanok	ul. 3 Maja 23	38-500	13	465-34-40
122	Skawina	ul.Konopnickiej 3a	32-050	12	277-59-00
123	Słubice	ul. Kościuszki 2	69-100	95	759-29-00
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126	Sopot	ul. Chopina 6	81-752	58	555-70-20
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130	Strzelin	ul. Książąt Brzeskich 7	57-100	71	392-73-70
131	Suchy Las	ul. Szkolna 20	62-002	61	811-72-90
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