Sadovaya Group S.A.

Annual Report 2010

Alexander Tolstoukhov,
Founder and Co-owner

Dear shareholders,

I am pleased to inform you about the main events and achievements of Sadovaya Group in 2010 and present our expectations for the upcoming year.

The financial year 2010 was a year of outstanding progress for Sadovaya Group. The Company showed a strong growth in revenue and income and laid the foundations for further growth in each of its business directions. We believe our present development program will make us the leading private producer of energy coal in Ukraine and also provide us with a strong base to look at opportunities abroad.

In 2010 we outperformed our own expectations. According to operational results, with the 905 ths. tones of coal sold and 278.5 ths. tones of coal mined, Sadovaya Group boasts to be the fourth private energy coal producer in Ukraine and holds 5.6% market share in terms of coal consumed by Ukrainian TPPs (Thermal Power Plants). Strong operational results found its reflection in the income statement. Total revenue increased from US$13.3 million as of 31 December 2009 to US$65.4 million as of 31 December 2010, revealing an impressive 391% year-to-year surge. Operating profit has increased from negative US$7.3 million as of 31 December 2009 to US$12.1 million as of 31 December 2010. Finally, net income has reached US$ 7.9 million as of 31 December 2010 compared to US$ 8.4 million loss as of 31 December 2009.

Sadovaya Group took a good lesson from a hard crisis time of 2009. In 2010 the Company both diversified its customer base securing demand from private energy companies and strengthened business relationship with Coal of Ukraine to ensure stable coal deliveries to state-run coal consumers.

We estimate strong growth potential in anthracite demand from the electricity and steel sector in the mid-term prospective. Demand increase from the power sector would be prompted by higher electricity production in Ukraine, which is likely to be fully covered by increase at coal-fired power plants. Demand from the steel sector would be driven by increased iron production. The Group is eager to grow in its niche, actively invests into production growth, and expands both customer base and geography of sales.

This year we plan to launch additional longwalls on two our operating mines – Rassvet-1 mine and Sadovaya mine in addition to four currently operating longwalls, which will enable us to triple the daily coal mining volumes. We has already bought the license to develop Roskoshniy field and look forward to acquiring the license to develop Krasnoluchskaya-Severnaya field, which will increase our resource base from current 40.7 mmt to 122.2 mmt. Expanding our waste recovery business we plan to put into operation two waste recycling factories, which will boost development of our waste dumps and tailing ponds, further improving our profitability margins.

Undoubtedly, as the highlight of the past year I must mention the Company's Initial Public Offering. In December 2010, Sadovaya Group was successfully listed on the Warsaw Stock Exchange raising US$30.4 million of new equity and started a new era in its development as a public company. Following the offering we constantly improve our governance standards and corporate culture.

Looking into the past, the 2010 brought us successful results and proved our ability to reach declared targets. Sadovaya Group has financial, operational and human resources for confident step into the 2011. We will always do our best to achieve the development goals to maximize shareholder value and meet the expectation of our stakeholders.

Sincerely Yours,

Alexander Tolstoukhov

Report of the Board of Directors on Operations for the Year 2010

The Directors present their report to shareholders for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

The Group’s principal activities are the preparation and marketing of coal from three main sources: own underground mining, the recovery of coal waste deposits, and third party purchases. The Group’s diversified mining and related operations are divided into the following 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).

The Group has two mining complexes in the Donbas region with its own infrastructure. Mining, coal enrichment and trading operations are conducted by companies Shahta Sadovaya LLC and Shahta Rassvet-1 LLC. Processing of coal waste is executed by company Interdon PC, which controls 16 coal waste dumps and tailings ponds that are located in Luhansk Region. 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 operating companies.

Brief description of the Group structure:

Group’s Company	Country of incorporation	Activity
Sadovaya Group S.A.	Luxemburg	Parent company
Sadovaya LLC	Cyprus	Subholding
“Shahta”Sadovaya” LTD	Ukraine	Mining and sale of coal
“Shahta”Rassvet-1” LTD	Ukraine	Mining and sale of coal
“Volat Trans” PE	Ukraine	Transportation
“Interinvest” LTD	Ukraine	Holding & servicing of PP&E items
“Interdon” PE	Ukraine	Processing of waste dumps & tailing ponds
“Donvostok” LTD	Ukraine	Holding & servicing of PP&E items

Review of developments, position and performance of the Group’s business

Sadovaya Group is the one of the largest private producers of anthracitic (energy) coal in Ukraine.

The Group’s financial position at 31 December 2010 as presented in the consolidated balance sheet reflects significant recovery and development after 2009 downturn. The net asset position of the Group has been substantially increased in year 2010 following the issue of new share capital at a premium, which resulted in capital injection of US$ 30.3 million. For the year ended 31 December 2010 the Group recorded a net profit of US$ 7.9 million compared to a loss of US$ 8.4 million for the year ended 31 December 2009, primarily as a result of increased sales on recovered demand from energy sector in Ukraine in post-crisis period.

The EBITDA for year 2010 amounted to US$ 16.2 million (compared to negative US$3.2 million in 2009). The EBITDA margin and net profit margin for the year 2010 reached 25% and 12% correspondingly.

Revenue

Total revenue increased from US$ 13.3 million as of 31 December 2009 to US$ 65.4 million as of 31 December 2010, revealing 391% year-on-year increase.

The main part of sales volume was generated from mining and coal cleaning activities comprising 96% of total revenue (US$ 62.9 million). For information on sales segmentation please refer to Note 5 of the consolidated report.

Cost of goods sold

Cost of sales increased from US$ 17.5 million as of 31 December 2009 to US$ 50.4 million as of 31 December 2010, that represents a 288% year-on-year increase. The increase is explained mainly by growth in sales volume. The main cost of sales components are as follows:

- Raw materials - 78% of total COS (US$ 39.2 million). Raw materials increased by 21% compared to year 2009 affected mainly by increase in prices of coal for cleaning;
- Wages and salaries – 9% of total COS (US$ 4.6 million), decreased by 2% compared to year 2009 due to production volume increase;
- Depreciation – 6% of total COS (US$ 3.2 million), decreased by 7% compared to year 2009 due to production volume increase;

For detailed information about COS segments please refer to Note 7 of the consolidated audit report.

Gross profit

Gross profit increased from negative US$ 4.1 million as of 31 December 2009 to positive US$ 15.0 million as of 31 December 2010, which represents 23% of Group's 2010 consolidated revenues. The overall increase reflects growth in sales volume and coal prices.

Operating expenses

Distribution costs increased from US$ 520 thousand in the financial year ended 31 December 2009 to US$ 1,388 thousand in the financial year ended 31 December 2010. The 167% year-on-year growth is due to the increase in tonnage of coal handled by our company and increase in transportation costs on our domestic market (increase of railway tariff) in the reporting period.

General and administrative expenses increased from US$ 556 thousand as of 31 December 2010 to US$ 1,517 thousand as of 31 December 2010, +173% year-on-year. Share of general and administrative expenses in consolidated sales decreased from 4.2% in 2009 to 2.3% in 2010.

Finance costs increased from US$ 2.3 million as of 31 December 2009 to US$ 4.9 million as of 31 December 2010, +114% year-on-year. The increase reflects primarily the effect of long-term receivables discounting (US$ 1.45 million). Share of finance costs decreased from 17% to 7% of sales for the year ended 31 December 2009 and 2010 respectively.

Comparative analysis of key operating and financial data for years 2010 and 2009:

US$ million	31-Dec-10	31-Dec-09	y-o-y change
Revenue	65.4	13.3	391%
EBITDA (1)	16.2	(3.2)	n/m
EBITDA margin	25%	neg	n/m
Operating profit/(loss)	12.1	(7.3)	n/m
Operating margin	19%	neg	n/m
Profit/(loss) for the year	7.9	(8.4)	n/m
Profit margin	12%	neg	n/m
Total assets	**97.1**	**49.3**	97%
Total equity	**59.4**	**26.3**	126%
Cash and equivalents	32.5	0.04	81130%
Loans and borrowings (non-current)	-	0.002	n/m
Loans and borrowings (current)	16.9	10.9	55%

(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 Consolidated 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 Consolidated Financial Statements.

Cash flow

Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-term bank facilities and lines of credit. Our bank credit lines are provided by domestic banking institutions (Credit-Dnepr Bank). Banks provide financing to our Group either in US$ or in Hryvna. For information on material loan facilities extended to our Group Subsidiaries see notes 18.2 and 30.

In the financial year ended in December 31, 2010, with sales growing by 391%, our working capital requirements increased by US$ 27.4 million financed primarily through bank loans and current profit.
With our high cash levels and the strong liquidity of our coal commodities inventory, together with our trading policy, we believe our working capital levels satisfy our present business needs.

Cash used in investing activities was US$ 2.6 million for the year ending 31 December 2010, primarily reflecting the acquisition of the mining equipment and development of longwalls.

RELATED PARTY TRANSACTIONS

Information in respect of related parties transactions is disclosed in note 28 to the consolidated report. Total amount of proceeds from goods and services arising from such transactions doesn't exceed 1% of total revenue. The most significant transaction the Group executed with related parties in FY 2010 is shown in accounts payable. Accounts payable are interest-free at each date. Such liabilities arose due to machinery lease from related parties and purchased coal. Accounts receivable from related parties at each date are interest-free as well. Prices of such transactions with related parties are established according with market ones. Provisions for impairment of accounts receivable from the related parties were not charged.

PRINCIPAL RISKS AND UNCERTAINTIES

Price for coal
Level of coal prices in Ukraine is historically lower than world prices and is regulated by the Government. For the last decade the price for coal in Ukraine was constantly growing.

Demand for coal products
Demand for coal is fluctuating and depends on the shape of local and world economy, as well as weather conditions. The Company understands the risk and is diversifying its customer base, signs long-term contracts and considers expansion to export markets.

Additional principal risks and uncertainties faced by the Group and the steps taken to manage these risks are disclosed in Note 29 of the consolidated financial statements.

FUTURE DEVELOPMENTS OF THE GROUP

The Company intends to use net proceeds from the issue of share capital to 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 for processing tailings ponds deposits, with a total processing capacity of 200 tonnes/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 has bought Roskoshniy coal deposit (a field that is attached to the Group's currently operational Sadovaya Mine) and expects to complete the acquisition of coal deposit Krasnoluchskaya Severnaya. The acquisition of Krasnoluchskaya Severnaya will increase the Group's total coal resources under control from 40.7 million tonnes to 122.2 million tonnes and provide with significant growth opportunities.

SHARE CAPITAL

On 9 November 2010 the Board of Directors of the Company resolved to proceed with the initial public offering of 10,771,423 new ordinary shares of the Company and the application for the admission of the entire issued share capital of the Company, including the Offer Shares, to trading on the regulated market of the Warsaw Stock Exchange. The members of the Company held an Extraordinary General Meeting on 9 November 2010 where they authorized and approved the increase of the issued share capital of the Company from EUR 323,142 to EUR 430,976 (divided into

38,771,423 shares of nominal value US$ 0.01), by the creation of 10,771,423 new shares of a nominal value of US$ 0.01 each ranking pari pasu with the existing shares of a nominal value of US$ 0.021 each, in the share capital of the Company. In this respect the Company issued 10,771,423 ordinary shares of EUR 0.01 each at a premium of US$ 2.83 each and received total gross proceeds of US$ 30.4 million.

On 30 December 2010 the shares of the Company were admitted on the regulated market of the Warsaw Stock Exchange.

BOARD OF DIRECTORS

Mrs. Olena Abrosimova, Class A Director;

Mrs. Iryna Daryina, Class A Director**;**

Mr. Vitaliy Dogval, Class A Director;

Mr. Oleksandr Miroshnyk, Class A Director;

Mrs. Nadiya Tanushkina, Class A Director;

Mr. Pierre Mestdagh, Class B Director;

Mr. Pierre-Siffrein Guillet, Class B Director

Directors were appointed with effect as of the date of the 13 October 2010.

EVENTS AFTER THE END OF THE REPORTING PERIOD

As at 28 March 2011 the “Volat Trans” PE obtained 18% loan in amount 1,747,200 UAH from PJSC Bank “Credit Dnepr”. Maturity date is 28 March 2014.

Loan 1 from Note 29 was prolonged from 1 April 2011 to 1 April 2012. According to agreement #010411 dated 1 April 2011.
Loan 3 was fully repaid in March 2011.
Loan 4 from Note 29 was prolonged from 1 April 2011 to 1 April 2012 and interest rate was changed from 25% to 19% per annum. According to agreement #010411 dated 1 April 2011.

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

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

Resource base in '000 tonnes, under JORC classification(1)

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

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

Corporate Governance Report

CORPORATE GOVERNANCE

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of the Company's shares on the Warsaw Stock Exchange, the Company is required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules it intends to comply with and to state the reasons for the non-compliance.

The Company has decided to observe the majority of the WSE Corporate Governance Rules. However, certain principles apply to the Company only to the extent allowed by Luxembourg corporate law and corporate structure of the 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 applies those principles of the WSE Corporate Governance Rules which refer to relations between supervisory board and management board not directly, but accordingly.

Recommendations for Best Practice for Listed Companies

No	Rule	Yes/No	Comment of Sadovaya Group SA
1	A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular: maintain a company website; ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication; enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website	YES	Except of on-line broadcast of General Meetings over the Internet, recording General Meetings and publishing them on the Company website
2	A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting	YES	
3	Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded	YES	
4	A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company	NO	The Company plans to adopt remuneration policy and rules till the end of 2011
5	A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time	YES	The Company has no Supervisory board (in

	necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company		compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
6	Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular: refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments; raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest the company	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
7	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities	YES	
8	The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business	YES	

Best Practice for Management Boards of Listed Companies

No	Rule	Yes/No	Comment of Sadovaya Group SA
1	A company should operate a corporate website and publish on it, in addition to information required by legal regulations		
	1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies	YES	
	2) professional CVs of the members of its governing bodies	YES	
	3) current and periodic reports	YES	
	4) where members of the company's governing body are elected by the General Meeting - the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to candidates to the Board of Directors
	5) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to management reports who are part of the annual reports

	6) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions	YES	
	7) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds	YES	
	8) information about breaks in a General Meetings and the grounds of those breaks	YES	
	9) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions	YES	
	10) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
	11) where the company has introduced an employee incentive scheme based on shares or similar instruments - information about the projected cost to be incurred by the company from to its introduction	YES	
	12) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published	YES	
	13) information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule	YES	
2	14) A company should ensure that its website is also available in English, at least to the extent described in section II.1.	YES	
3	15) Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake. For the purpose of this document, related entity shall be understood within the meaning of the Regulation of the Minister of Finance issued pursuant to Article 60.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Dz.U. No. 184, item	NO	The Company has no Supervisory Board and is unable to comply with this rule

	1539, as amended)		
4	16) A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest	YES	
5	17) A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting	YES	
6	18) A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders	YES	
7	19) If a company's Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2-4 of the Code of Commercial Partnerships and Companies, the company's Management Board shall immediately perform the actions it is required to take in connection with organising and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorisation given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies	YES	

Best Practice for Supervisory Board Members

The Company does not have two separate governing bodies (supervisory board and management board) instead, its Board of Directors perform both the management and supervisory functions.

No	Rule	Yes/No	Comment of Sadovaya Group SA
1	In addition to its responsibilities laid down in legal provisions the Supervisory Board should:		
	once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system;	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to the Board of Directors
	once a year prepare and present to the Ordinary General Meeting an evaluation of its work;	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to the Board of Directors
	review and present opinions on issues subject to resolutions of the General Meeting.	YES	The Company has no Supervisory Board (in compliance with Luxembourg

			law), so this Rule will apply to the Board of Directors
2	A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
3	A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
4	A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to members of the Board of Directors
5	A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to the Board of Directors
6	At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the *Commission Recommendation of 15 February 2005 on the role of nonexecutive or supervisory directors of listed companies and on the committees of the (supervisory) board.* Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to the Board of Directors
7	Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors... should apply to the tasks and the operation of the committees of the Supervisory Board.	YES	The Company has no Supervisory Board (in compliance with Luxembourg law), so this Rule will apply to the Board of Directors

8	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board	NO	The Company has no Supervisory Board and is unable to comply with this rule

Best Practices of Shareholders

No	Rule	Yes/No	Comment of Sadovaya Group SA
1	Presence of representatives of the media should be allowed at General Meetings	YES	
2	The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting	YES	
3	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision	YES	
4	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events	YES	
5	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds	YES	
6	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to dividend	YES	
7	A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange	YES	
8	A company should enable its shareholders to participate in a General Meeting using electronic communication means through: real-life broadcast of General Meetings; real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting; exercise their right to vote during a General Meeting either in person or through a plenipotentiary.	NO	Under the Luxembourg law, personal participation of either the shareholder or his proxy should take place

	This rule should be applied not later than 1 January 2012		

Recommendations for Best Practice for Listed Companies

No	Rule	Yes/No	Comment of Sadovaya Group SA
1	A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular: maintain a company website; ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication; enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website	YES	Except of on-line broadcast of General Meetings over the Internet, recording General Meetings and publishing them on the Company website
2	A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting	YES	
3	Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded	YES	
4	A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company	NO	The Company plans to adopt remuneration policy and rules till the end of 2011
5	A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company	NO	The Company has no Supervisory board, its single Board structure complies with Luxembourg corporate law
6	Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular: refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments; raise explicit	NO	The Company has no Supervisory Board and is unable to comply with this rule

	objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest the company		
7	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities	YES	
8	The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business	YES	

MANAGEMENT STATEMENT

This statement is provided to confirm that to the best of our knowledge the consolidated annual financial statements and comparative information have been prepared in compliance with IFRS and give a true, fair and clear view of Sadovaya Group S.A. assets, financial standing and net results and that the management report on the operations of Sadovaya Group S.A., including the business review, review of financial results, risk factors and risk management policies, related party transactions and corporate governance practice truly reflects the development, achievements and situation of the Group.

This statement is also provided to confirm that Intraudit S.a.r.l. Baker Tilly Luxembourg, LLP BAKER TILLY UKRAINE and Baker Tilly Klitou Cyprus have been appointed in accordance with the applicable laws and performed the audit of the consolidated financial statements of Sadovaya Group S.A. for the year ended 31 December 2010, and that the entities and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with International Standards on Auditing.

By Order of the Board of Directors

Daryina Iryna,

Director A

Luxembourg,
29 April 2011

Sadovaya Group S.A.

Pro forma consolidated Financial Statements

for the years ended 31 December 2010 and

31 December 2009

& INDEPENDENT AUDITOR'S REPORT

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interaudit

Cabinet de révision agréé

To the Board of Directors of
Sadovaya Group S.A.
412F, Route d'Esch
L-2086 Luxembourg

Independent auditor's report on the pro forma consolidated financial statements as at December 31, 2010

We have audited the accompanying pro forma consolidated financial statements of Sadovaya Group S.A. and its subsidiaries (the « Group » hereinafter), which comprise the pro forma consolidated statement of financial position as at December 31, 2010, and the pro forma consolidated statement of comprehensive income, pro forma consolidated statement of changes in equity and pro forma consolidated statement of cash flows for the years ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these pro forma consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU), and for such internal control as management determines is necessary to enable the preparation of pro forma consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these pro forma consolidated 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 pro forma consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the pro forma consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the pro forma consolidated 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 pro forma consolidated 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 Group'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 pro forma consolidated financial statements.

119, avenue de la Faïencerie
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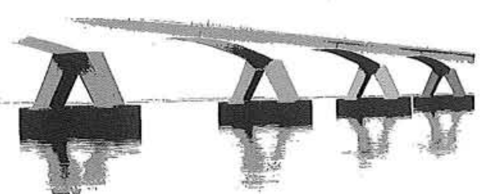

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

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 pro forma consolidated income statement, the amount of dividends in the pro forma consolidated statement of changes in equity for the years ended December 31, 2011, December 31, 2010.

We are not able to confirm that trade and other accounts payable are recorded in full in the pro forma consolidated statements of financial position as at December 31, 2011, December 31, 2010.

We are not able to confirm the book value of raw materials which are carried at USD 5 639 100 and prepayments which are carried at USD 6 237 800 on the pro forma consolidated statements of financial position as at December 31, 2011.

Qualified Opinion

In our opinion, except for the effect on the pro forma financial statements of the matters referred to in the preceding paragraphs, the pro forma consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2010 its operating results and cash flows for the years ended December 31, 2010 in accordance with the Basis of preparation described in Note 2.1 of the accompanying pro forma consolidated financial statements.

Emphasis of matter

Without qualifying our opinion, we draw your attention to:

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. The Group accrued provision for probable additional tax liabilities and fines related to such transactions.

Luxembourg, April 29, 2011

INTERAUDIT S.à r.l.
Cabinet de révision agréé

Edward KOSTKA

Pro forma consolidated income statement

for the year ended 31December 2010 and 2009

	Note	2010	2009
Revenue	6	65,442,876	13,322,222
Cost of sales	7	(50,402,112)	(17,470,418)
Gross profit		**15,040,764**	**(4,148,196)**
		23%	-31%
Selling and distribution expenses	9	(1,387,848)	(520,313)
General administrative expenses	8	(1,516,598)	(556,391)
Other income/(expenses), net	10	20,936	(2,071,696)
Operating profit/(loss)		**12,157,254**	**(7,296,596)**
Finance expenses	12	(4,889,194)	(2,288,131)
Finance income	11	1,071	336,771
Profit/(loss) before tax		**7,269,131**	**(9,247,956)**
Income tax (expense)/benefit		620,537	836,183
Profit/(loss) for the period		**7,889,668**	**(8,411,773)**
Earnings per share		0.20	

Pro forma consolidated statement of comprehensive income

for the year ended 31 December 2010 and 2009

	2010	2009
Profit for the year	**7,889,668**	**(8,411,773)**
Other comprehensive income		
Change in corporate profit tax rate	1,711,310	-
Exchange differences on translation in presentation currency	(167,506)	(1,067,214)
Other comprehensive income for the year	**1,543,804**	**(1,067,214)**
Total comprehensive income for the year	**9,433,472**	**(9,478,988)**
Attributable to:		
Equity holders of the parent	**9,335,440**	**(9,403,007)**
Non-controlling interests	**98,032**	**(75,981)**

Notes on pages 11 - 45 are the integral part of these pro forma consolidated financial statements

Director A / Iryna Dorgina

Director B

Pro forma consolidated statement of financial position
as at 31December 2010, 2009

	Note	as at 31/12/2010	as at 31/12/2009
Assets			
Non-current assets			
Property, plant and equipment	16	29,753,755	31,493,825
Intangible assets	17	901,309	463,469
Other financial assets	18	4,973,485	-
Deferred tax assets	15	608,758	718,521
Prepayments	21	-	-
		36,237,307	**32,675,815**
Current assets			
Inventories	19	16,046,131	7,144,660
Trade and other receivables	20	4,799,127	4,761,414
Prepayments and deferred expenses	21	7,588,233	2,747,764
Other financial assets	18	-	1,940,259
Cash and cash equivalents	22	32,452,015	39,678
		60,885,506	**16,633,775**
Total assets		**97,122,813**	**49,309,590**
Equity and liabilities			
Equity			
Share capital.	23	430,857	43,143
Share premium		28,525,902	-
Retained earnings		20,313,295	16,315,299
Revaluation reserve		19,182,409	19,057,707
Effect of foreign currency translation		(9,041,670)	(9,089,163)
Equity attributable to the parent		59,332,979	26,081,663
Non-controlling interest		292,815	245,323
		59,410,793	**26,326,986**
Non-current liabilities			
Loans and borrowings	18	-	1,627
Employee benefit liability	24	1,773,030	1,264,114
Provisions	26	965,016	811,499
Deferred tax liability	15	4,402,736	7,085,674
		7,140,782	**9,162,914**
Current liabilities			
Trade and other payables	25	12,818,608	2,885,890
Loans and borrowings	18	16,907,930	10,932,826
Provisions	26	751,029	-
Income tax payable		93,671	974
		30,571,238	**13,819,690**
		37,712,020	**22,982,604**
Total equity and liabilities		**97,122,813**	**49,309,590**

Notes on pages 11 - 45 are the integral part of these pro forma consolidated financial statements

Director A Iryna Darygina

Director B

Pro forma consolidated statement of changes in equity
for the year ended 31 December 2010 and 2009

	Share capital	Share premium	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total equity
As at 01 January 2009	**43,143**	**-**	**22,944,851**	**21,089,213**	**(8,021,949)**	**36,055,258**
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	-	-	-	-	-	-
Dividends	-	-	(249,285)	-	-	**(249,285)**
As at 31 December 2009	**43,143**	**-**	**16,315,299**	**19,057,707**	**(9,089,163)**	**26,326,986**
Profit for the period	-	-	7,889,668	-	-	**7,889,668**
Other comprehensive income	-	-	-	1,711,310	47.493	**1,758,804**
Depreciation transfer	-	-	1,586,608	(1,586,608)	-	**-**
Total comprehensive income	-	-	**9,476,276**	**124,702**	**47.493**	**9,648,472**
Increase in share capital	387,714	30,306,048	-	-	-	**30,693,762**
Expenses related to IPO		(1,780,146)				**(1,780,146)**
Dividends	-	-	(5,263,280)	-	-	**(5,263,280)**
As at 31 December 2010	**430,857**	**28,525,902**	**20,313,295**	**19,182,409**	**(9,041,670)**	**59,410,793**

Notes on pages 11 - 45 are the integral part of these pro forma consolidated financial statements

Director A Куриа Дагуна Director B

Pro forma consolidated statement of cash flows

for the year ended 31 December 2010and 2009

	2010	2009
Operating activities		
Profit/(loss) before tax	7,269,131	(9,247,956)
Non-cash adjustment to reconcile profit before tax to net cash flows:		
Depreciation and amortization	4,019,029	3,738,613
(Profit)/loss on disposal of property, plant and equipment and intangible assets	7,747	353,767
Impairment of receivables/(reversal of impairment)	(272,777)	383,748
Shortages and losses from impairment of inventory	120,887	11,851
Net profit on exchange differences	(2,226)	(137,523)
Finance expenses	4,889,194	2,288,131
Finance income	(1,071)	(336,771)
Movements in provisions, pensions	1,309,151	499,575
Working capital adjustments:		
(Increase)/decrease in trade and other receivables and prepayments	(9,147,661)	1,675,038
(Increase)/decrease in inventories	(9,031,254)	-1,361,744
Increase/(decrease) in trade and other payables	9,903,910	320,058
	9,064,060	910,275
Interest received	1,071	5,352
Income tax paid	(175,653)	(52,018)
Net cash flows from operating activities	8,889,478	863,610
Investing activities		
Proceeds from sale of property, plant and equipment	-	58,944
Purchase of property, plant, equipment and intangible asset	(2,626,335)	(2,636,050)
Net cash flows used in investing activities	(2,626,335)	(2,577,106)

Notes on pages 11 - 45 are the integral part of these pro forma consolidated financial statements

Director A / Iryna Daryina

Director B

Pro forma consolidated statement of cash flows (continued)
for the year ended 31 December 2010 and 2009

	2010	2009
Financing activities		
Proceeds from borrowings	5,961,423	2,182,823
Repayment of borrowings	-	(39,746)
Interest paid	(3,289,421)	(2,159,489)
Dividends paid	(5,276,375)	(249,285)
Increase in share capital and establishment of the Group	28,760,034	637,255
Net cash flows from/(used in) financing activities	**26,155,661**	**371,559**
Net increase in cash and cash equivalents	**32,418,804**	**(1,341,937)**
Net foreign exchange difference	(6,467)	(23,509)
Cash and cash equivalents as at January 1	39,678	1,405,124
Cash and cash equivalents at January 31	**32,452,015**	**39,678**

Notes on pages 11 - 45 are the integral part of these pro forma consolidated financial statements

Director A Irgina Daryina Director B

Notes to the pro forma consolidated financial statements

1. General information

The Sadovaya Group S.A. ("the Group") comprises 8 companies, operating in spheres indicated below. These pro forma consolidated financial statements include financial statements of the Group's Companies. Mr. Tolstoukhov A.Y. and Mr. Stetsurin S.N. are ultimate Group's owners. Note 23 contains detailed information about ownership ratios.

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

Sadovaya Group S.A. is wholly owned by a Cypriot company Connectico LLC, whose final shareholders are Mr. Alexander Iurievich Tolstoukhov (51%) and Mr. Sergey Nicolaievich Stetsurin (49%) (the "Final Owners").
Till December 2009 all corporate rights in six Ukrainian companies belonging to the Group and listed in the table above were jointly owned by the Final Owners. In October 2010 all shares of Sadovaya Group S.A. were purchased by Connectico LLC. Subsequently, Sadovaya Group S.A. received payment-free all shares in Sadovaya LLC. Sadovaya LLC purchased shares in the six Ukrainian companies from Connectico LLC. As a result of these transactions (the "Operations"):

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

"Shahta"Sadovaya" LTD is an enterprise registered on 7 June 1995 as "Olvin Trade" LTD. In 2007 name of the company was altered to "Shahta"Sadovaya" LTD. Today "Shahta"Sadovaya" LTD is a highly-developed company, which operates in such areas as mining of Anthracite rank coal, processing and wholesale of coal. Today, the Company has 7 coal beds, with general quantity of inventories equalling to– 33 mln. Tons 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 pro forma consolidated financial statements for the year ended 31 December 2009, 2010 was approved by the Decision of the Board of Directors dated April 29, 2011.

2.1 Basis of preparation

This report is intended solely for the purpose of performing and provision the Pro forma consolidated financial statement for year 2010 of Sadovaya Group S.A. to the Warsaw Stock Exchange.

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

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

Under the "pooling-of-interests method", the assets and liabilities contributed to entities under common control are transferred to the receiving entity at their carrying value at the date of transfer. To account for such transfer, the Group used the carrying amounts of such assets and liabilities in the pro forma consolidated financial statements of Sadovaya Group's Ukrainian entities as of September 30st, 2010 prepared in accordance with IFRS.

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

Therefore, the Group's special purposes pro forma consolidated financial statements at December 31, 2010, including comparative information for the financial year ended December 31, 2009 are presented according to this accounting policy referred to as "pooling-of-interests method".

Financial year 2009 refers to year ended December 31, 2009 and financial year 2010 refers to year ended December 31, 2010.

Statement of compliance

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

Basis of consolidation

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

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

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

Changes in accounting policy and disclosures

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

2.2 Summary of significant accounting policies

a) Foreign currency translation

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

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

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

31 December 2008	2009	31 December 2009	2010	31 December 2010
7,7	7,79	7,98	7,94	7,96

i) Transactions and balances

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

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

All differences are taken to the income statement.

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

ii) Translation into presentation currency

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

(a) assets and liabilities for each statement of financial position presented are translated at the official rate at the date of the balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates on the dates of the transactions;

(c) share capital is translated at historical exchange rate;

(d) revaluation reserve is translated at historical exchange rate;

(e) all resulting exchange differences are recognized as a separate component of other comprehensive income;

(f) line items of the statement of cash flows are translated at average exchange rates of the appropriate reporting period.

b) Revenue recognition

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

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

Sale of goods

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

Rendering of services

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

Interest income

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

Rental income

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

c) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. In Ukraine the income tax rate 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 consolidation 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 consolidation and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

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

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

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

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

Value added tax

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

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

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

d) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

e) Intangible assets

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

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

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

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

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

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

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

f) Leases

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

Group as a lessee

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

Group as a lessor

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

g) Borrowing costs

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

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

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

h) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

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

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

v) Fair value of financial instruments

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

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

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

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.

On 2 December 2010 a new Tax Code was adopted in Ukraine with most of the changes introduced being effective from 1 January 2011. Among the main changes are a change in the rates for corporate income tax from 25% to 16% which is introduced in several stages during 2011-2014, a change in base rate for VAT starting from 1 January 2011 from 20% to 17%, and a change in the methodology for determining the base for VAT and corporate income tax application.
The tax base of the property, plant and equipment will also be changed from 1 April 2011 with the aim to remove existing differences between tax and accounting bases. The Group has treated the respective change in tax legislation regarding the tax base of the property, plant and equipment as an adjusting event for the current financial statements.

Pension benefits

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

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

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

Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods:
IFRS 3 (revised), Business Consolidations, and consequential amendments to IAS 27 *Pro forma consolidated and separate financial statements*, IAS 28 *Investments in associates*, and IAS 31 *Interests in joint ventures*, are effective prospectively to business consolidations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
The revised standard continues to apply the acquisition method to business consolidations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquirer's net-assets. All acquisition-related costs are expensed.

IAS 27 (revised), Pro forma consolidated and separate financial statements, requires the effects of all transactions with on controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

IAS 1 (amendment), Presentation of Financial Statements. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

IAS 36 (amendment), Impairment of Assets. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8 *Operating segments* (that is, before the aggregation of segments with similar economic characteristics).

IFRS 2 (amendments), Group Cash-Settled Share-based Payment Transactions. In addition to incorporating IFRIC 8 *Scope of IFRS 2*, and IFRIC 11 *IFRS 2 – Group and treasury share transactions*, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both pro forma consolidated and separate financial statements.
The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The amendments did not have a material impact on these financial statements.
Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's pro forma consolidated financial statements.

New Accounting Pronouncements
Listed below are new standards and interpretations that have been published and are mandatory for the Group accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:
IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.

Amendment to IAS 24, Related Party Disclosures, issued in November 2009. It supersedes IAS 24 *Related party disclosures*, issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap).

Prepayments of a minimum funding requirement (amendment to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. The amendments should be applied retrospectively to the earliest comparative period presented.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).
Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).
Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

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 consolidated.

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

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

1. Inter-segment revenues are eliminated on consolidation.
2. Profit for each operating segment does not include finance income (1 071), finance expenses (4889 194), selling and distribution expenses (1387 848), administrative expenses (1516 598), and other income/(expenses), net (113 498).
3. Segment assets do not include cash and cash equivalents (32452 015), other financial assets (4973 485), prepayments (6529 373), deferred tax assets (608 758), trade and other receivables (4799 127), as these assets are managed on a group basis.
4. Segment liabilities do not include income tax payable (93 671), loans and borrowings (16907 930), trade and other payables (12818 608), deferred tax liabilities (4402 736), as these assets are managed on a group basis.
5. Capital expenditure consists of additions of property, plant and equipment.

Year ended 12/31/2009	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 consolidation.
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.

Geographic information

Revenues from external customers

	2010	2009
Ukraine	62,109,757	12,157,573
Export	3,333,119	1,164,649
	65,442,876	**13,322,222**

Top 10 customers for year 2010

Customer name	Revenue USD
Shid Vugilly LLC	18,839,566
Fobas LLC	11,128,497
OJSC Arselor Mital Krivoy Rog	7,656,040
PE Side Market	4,931,623
CJSC Shahta Jdanivska	3,995,738
DTEK LLC	2,879,544
Spektr-2009 LLC	2,745,605
OJSC Centerenergo	2,154,215
OJSC Nikopolskiy zavod ferosplavov	1,684,270
Antracitugletrans LLC	2,360,636
	58,375,734

Top 10 customers for year 2009

Customer name	Revenue USD
State entity "TEC-2 ESHAR"	8,278,779
"W.W.C-precious Ltd"	728,691
Shid-Vugilly LLC	366,999
PE Silvertorg	347,956
OJSC Arselor Mital Krivoy Rog	311,389
PE Paradigma	288,836
PE Miromarket-07	267,851
Tropos TPK LLC	260,650
TK Vostok Region LLC	237,162
PE Mega-Lugkomplekt-V	190,752
	11,279,065

6. Revenue

	2010	2009
Revenue from sales of finished goods	63,138,453	10,763,774
Revenue from sales of merchandise	2,278,313	2,467,728
Revenue from rendering of services	17,717	64,243
Revenue from lease	8,393	26,477
	65,442,876	**13,322,222**

7. Cost of sales

	2010	2009
Change in finished goods and work-in-progress	2,544,721	1,119,539
Held for resale merchandise	(2,108,361)	(3,557,943)
Raw materials	(39,243,326)	(9,889,012)
Wages and salaries of operating personnel	(4,613,354)	(2,024,379)
Depreciation of non-current assets	(3,245,399)	(2,380,472)
Energy supply	(1,499,875)	(395,157)
Subcontractors services	(2,094,536)	(262,262)
Taxes and obligatory payments	(141,982)	(80,732)
	(50,402,112)	**(17,470,418)**

8. Administrative expenses

	2010	2009
Wages and salaries of administrative personnel	(635,433)	(319,260)
Utilities	(50,481)	(38,172)
Depreciation of non-current assets	(66,678)	(32,741)
Cost of transportation	(13,293)	(9,376)
Professional services	(675,607)	(134,485)
Other expenses	(75,106)	(22,357)
	(1,516,598)	**(556,391)**

9. Selling and distribution expenses

	2010	2009
Delivery costs	(488,884)	(219,108)
Raw materials	(566,020)	(120,659)
Wages and salaries of distribution personnel	(112,012)	(41,361)
Depreciation of non-current assets	(123,368)	(86,347)
Other expenses	(97,564)	(52,838)
	(1,387,848)	**(520,313)**

10. Other income/(expenses), net

	2010	2009
Net income from exchange differences	765,419	137,523
Income from sale of foreign currency	71	78,396
Profit/(loss) from sale of property, plant and equipment	(7,747)	(297,169)
Other operating income	268,575	20,975
Fines and penalties accrued	(302,764)	(293,303)
Shortages and losses from impairment of inventories	(120,887)	(11,851)
Wages and salaries of non-operating personnel	(2,185)	(8,053)
(Impairment of receivables)/reversal of impairment	272,777	(383,748)
Expenses for researches and developments	-	(2,397)
Charity	(4,908)	-
Writing-off of non-current assets	-	(56,598)
Cost of idle capacity	(633,625)	(1,205,897)
Other income/(expenses)	(121,228)	(49,574)
	113,498	**(2,071,696)**

As at 31 December 2010 cost of idle capacity includes: depreciation of idle assets in amount of USD 518 973 (as at 31 December 2009 USD 1 058 806).

11. Finance income

	2010	2009
Interest received	1,071	5,352
Income from borrowings and receivables at amortized cost	-	331,419
	1,071	**336,771**

12. Finance expenses

	2010	2009
Interest expenses	(2,952,134)	(1,822,104)
Borrowing costs	(337,287)	(337,385)
Expenses from borrowings and receivables at amortized cost	(1,450,061)	-
Effect of provision discounting	(149,712)	(128,642)
	(4,889,194)	**(2,288,131)**

13. Depreciation of non-current assets

	2010	2009
Depreciation of property, plant and equipment, recognised in:		
Cost of sales	(3,224,770)	(2,358,677)
Administrative expenses	(66,040)	(32,429)
Selling and distribution expenses	(123,368)	(86,347)
Other expenses (temporarily idle capacity)	(583,583)	(1,058,806)
Expenses on creation of other assets	-	(172,569)
Amortization of intangible assets, recognized in:		
Cost of sales	(20,630)	(21,795)
Administrative expenses	(638)	(312)
Deferred expenses	-	(7,678)
	(4,019,029)	**(3,738,613)**

14. Employee benefit expenses

	2010	2009
Wages and salaries	(3,531,505)	(1,649,381)
Contributions to Pension Fund	(1,003,281)	(571,229)
Other contributions	(405,666)	(262,307)
Net plan expenses	(598,601)	(518,441)
	(5,539,053)	**(3,001,358)**
Average number of employees, persons	850	618
Wages and salaries of operating personnel	(4,014,753)	(1,505,938)
Wages and salaries of administrative personnel	(635,433)	(319,260)
Wages and salaries of distribution personnel	(112,012)	(41,361)
Wages and salaries of non-operating personnel	(2,185)	(8,053)
Wages and salaries of personnel involved in production of property, plant and equipment	(149,129)	(353,401)
Wages and salaries of personnel recognized as deferred expenses	(26,940)	(254,904)
Net plan expenses	(598,601)	(518,441)
	(5,539,053)	**(3,001,358)**

15. Income tax

The major components of income tax expense for the years ended 31 December are:

Pro forma consolidated income statement

	2010	2009
Current income tax charge	(268,659)	(32,586)
Deferred income tax benefit/(loss) relating to origination and reversal of temporary differences	889,196	868,769
Income tax expense reported in the income statement	**620,537**	**836,183**

Reconciliation between income tax expense and accounting profit multiplied by income tax rate for the year ended 31 December:

	2010	2009
Accounting profit before tax	**7,269,131**	**(9,247,956)**
At Ukraine's statutory income tax rate of 25%	(1,817,283)	2,311,989
Effect of changes in Ukrainian tax legislation	1,319,719	-
Effect of permanent differences	1,118,101	(1,475,806)
At the effective income tax rate	**620,537**	**836,183**

Deferred income tax relates to the following:

	Pro forma consolidated statement of financial position		Pro forma consolidated income statement	Pro forma consolidated statement of comprehensive income
	2010	2009	2010	2010
Deferred tax assets				
Prepayments received	8,115	26,169	(18,054)	-
Trade receivables	19,136	114,300	(95,164)	-
Provisions	154,403	202,875	(48,472)	-
Defined benefit plan obligations	308,923	321,988	(13,065)	-
Charged vacation expenses	83,655	53,189	30,466	-
Charged but not paid interest expenses	34,526	-	34,526	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(3,874,139)	(6,211,515)	626,066	1,711,310
Inventories	(456,012)	(384,566)	(71,446)	-
Prepayments and deferred expenses	96,892	(207,418)	304,310	-
Other financial assets	(169,477)	(282,175)	112,698	-
Effect of translation into presentation currency			27,331	-
Deferred income tax (expenses)/benefits			**889,196**	**1,711,310**
Net deferred tax asset/(liability)	**(3,793,978)**	**(6,367,153)**		

	Pro forma consolidated statement of financial position		Pro forma consolidated income statement	Pro forma consolidated 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)**		

Reconciliation of deferred tax assets/(liabilities):

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)**
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	889,196
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	1,711,310
Effect of translation into presentation currency	(27,331)
As at 31December 2010	**(3,793,978)**

16. Property, plant and equipment

	Land and 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	1,718,741	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**
Additions	510,691	629,504	184,556	9,522	28,463	838,251	2,200,987
Disposals	-	43,001	23,394	-	-	-	66,395
Effect of translation into presentation currency	80,872	(51,693)	(43,222)	224	262	(269)	(13,826)
As at 31 December 2010	**28,527,520**	**13,271,940**	**806,234**	**97,365**	**167,649**	**1,445,369**	**44,316,077**
Accumulated depreciation							
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)**
Additions	(1,961,811)	(1,854,235)	(115,005)	(13,117)	(53,593)	-	(3,997,761)
Disposals	-	10,535	13,216	-	-	-	23,751
Effect of translation into presentation currency	(8,592)	(9,757)	(1,117)	(65)	(84)	-	(19,615)

As at 31 December 2010	**(7,381,793)**	**(6,594,606)**	**(376,902)**	**(48,897)**	**(160,123)**	**-**	**(14,562,321)**
Net carrying amount							
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**
As at 31 December 2010	**21,145,727**	**6,677,334**	**429,332**	**48,468**	**7,526**	**1,445,369**	**29,753,756**

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 2010, bank loans were secured by property, plant and equipment with carrying amount of USD 23 155 590 (as at 31 December 2009 - USD 22 397 440 as at 31 December 2008 - USD 27 335 368; as at 31 December 2007 - USD 1 693 884).

Carrying amount of temporarily idle capacity as at 31 December 2010 was USD 2 413 886 (as at 31 December 2009 – USD 11 802 482; as at 31 December 2008 – USD 12 800 230).

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 2010, 31 December 2009 and 31 December 2007 – absent).

As at 31 December 2010 there were no indicators of impairment of property, plant and equipment. Approach of the Group to impairment of property, plant and equipment is described in note 2.2 "Summary of significant accounting policies".

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

If land and buildings, machinery, vehicles, office equipment and other assets were reflected at cost, amounts in the financial statements would be as follows:

	Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in-progress	Total
As at 31 December 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)**
As at 31 December 2010							
Cost	2,308,178	3,285,757	768,836	3,123,936	167,463	1,281,299	**10,935,469**
Accumulated depreciation	(535,160)	(2,601,315)	(345,859)	(41,137)	(161,910)	-	**(3,685,381)**
Net carrying amount							
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**
As at 31 December 2010	**1,773,018**	**684,442**	**422,977**	**3,082,799**	**5,553**	**1,281,299**	**7,250,088**

17. Intangible assets

	Computer software	Licenses and rights to use natural resource	Expenses on acquisition of intangibles assets	Total
Cost				
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**
Additions	32,097	8,509	502,856	**543,462**
Disposals	-	(29,265)	(40,606)	**(69,871)**
Effect of translation into presentation currency	(105)	1,184	(1,546)	**(467)**
As at 31 December 2010	**33,510**	**492,443**	**460,704**	**986,657**
Accumulated amortization				
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)**
Additions	(958)	(34,298)	-	**(35,256)**
Effect of translation into presentation currency	3	(31)	-	**(28)**
As at 31 December 2010	**(1,325)**	**(84,023)**	-	**(85,348)**
Net carrying amount				
As at 31 December 2008	**753**	**169,083**	**3,004**	**172,840**
As at 31 December 2009	**1,148**	**462,321**	-	**463,469**
As at 31 December 2010	**32,185**	**408,420**	**460,704**	**901,309**

Intangible assets of "Shahta "Sadovaya" LTD as at 31 December 2010 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 2010 equals to USD 123 411 (as at 31 December 2008 – USD 190 467, as at December 2009 - USD 183 669).

Expenses on acquisition of IA related to Special permission #5259 dated 27 December 2010 for 20 years, which finally owned by the Company in year 2011 (please see Note 30). Carrying amount of this permission as at 31 December 2010 equals to USD 460 704.

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 2010 equals to USD 276 926 (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

	2010	2009
Receivables acquired under factoring contract	1,705,921	-
Long term receivables	3,267,564	
Total non-current	**4,973,485**	**-**
Receivables acquired under factoring contract	-	1,940,259
Total current	**-**	**1,940,259**

Receivables acquired under factoring agreement

Receivables acquired under factoring agreement comprise receivables of "Thermal Power Plant-2" ESHAR" SE which were acquired from "Atomenergokomplekt" OJSC and "Harimpecs" OJSK in December 2007.

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

This obligation is accounted at amortized cost. Effective interest rate is 17%.

The Group expects that receivables will be discharged in whole amount in January 2013 and provision for impairment was not charged.

Long term receivables

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

This obligation is accounted at amortized cost. Effective interest rate is 17%.

The Group expects that receivables will be discharged in whole amount in January 2013 and provision for impairment was not charged.

18.2 Loans and borrowings

		2010		2009	
	Currency	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	UAH	19%	8,558,311	19%	8,533,339
Loan 2	UAH	30%	-	30%	172,809
Loan 3	UAH	18%	7,536	18%	51,722
Loan 4	UAH	25%	7,661,680	25%	1,502,818
Loan 5	UAH	20%	481,053	20%	548,527
Non-interest borrowing	UAH		-	-	125,238
Promissory notes	UAH		199,350		-
			16,907,930		**10,934,453**
Short-term			16,907,930		10,932,826
Long-term			-		1,627

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 extended to 5 October 2010 and in year 2010, it was extended to 1 April 2011. Obligations under the credit contract are guaranteed by property, plant and equipment of "Interinvest" LTD, "Shahta"Sadovaya" LTD, "Shahta"Rassvet-1" LTD, property complex of "Donvostok" LTD.

Loan 2
Loan is an overdraft, opened by "Shahta Sadovaya" LTD in May 2009 in SB "Credit-Dnepr". Overdraft limit is equal to UAH 3 000 000. Maturity date is 1 April 2011.

Loan 3
Loan was received in March 2008 in Prominvestbank. The borrower is "Volat Trans" PE. Maturity date is 30 March 2011. Obligations under credit contract are guaranteed by borrower's vehicles.

Loan 4
Loan was received in October 2009 in SB "Credit-Dnepr". The borrower is "Shahta Rassvet-1" LTD. Initially, maturity date was 01 March 2010. It has since then been extended to 1 April 2011. Obligations under credit contract are guaranteed by property,
plant and equipment of "Interinvest" LTD, "Shahta"Sadovaya" LTD, "Volat Trans" PE, corporative rights in share capital of "Shahta"Rassvet-1" LTD.

Loan 5
Loan was received in December 2009 from an individual. The borrower is "Shahta Sadovaya" LTD. Maturity date is 01 October 2011. This loan is unsecured.

Non-interest borrowing
All the non-interest borrowing received by the Group in Ukrainian hryvnas, are reimbursable, interest-free and unsecured.

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

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	2010	2009
Trade and other receivables	4,359,149	4,149,325
Receivables, acquired under factoring contract	1,705,921	1,940,259
Long term receivables	3,267,564	-
Cash and cash equivalents	32,452,015	39,678
Total	**41,784,649**	**6,129,262**

Fair value	2010	2009
Trade and other receivables	**4,359,149**	**4,149,325**
Receivables, acquired under factoring contract	**1,705,921**	**1,940,259**
Long term receivables	3,267,564	-
Cash and cash equivalents	32,452,015	39,678
Total	**41,784,649**	**6,129,262**

Financial liabilities

Carrying amount	2010	2009
Trade and other payables	12,640,370	2,701,502
Loans and borrowings	16,907,930	10,934,453
Total	**29,548,300**	**13,635,955**

Fair value	2010	2009
Trade and other payables	12,640,370	2,701,502
Loans and borrowings	16,907,930	10,934,453
Total	**29,548,300**	**13,635,955**

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

	2010	2009
Finished goods	6,035,365	3,533,839
Merchandise	484,062	2,565,183
Raw materials	9,415,348	928,084
Spare parts	81,546	96,468
Other inventories	29,810	21,086
	16,046,131	**7,144,660**

20. Trade and other receivables

	2010	2009
Trade receivables	4,439,729	4,481,527
Provision for impairment of trade receivables	(83,543)	(348,426)
VAT recoverable	433,584	523,218
Liabilities for contribution to share capital	-	626
Prepayments for other taxes	6,394	26,795
Receivables from shareholders	-	62,076
Other receivables	2,963	15,598
	4,799,127	**4,761,414**

For terms and conditions relating to related party receivables, refer to Note 28.

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 29 for further guidance).

	Trade receivables	Other receivables	**Total**
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**
Charge for the year	75,148		**75,148**
Utilised	(91,463)		**(91,463)**
Unused amounts recovered	(250,874)		**(250,874)**
Effect of translation into presentation currency	**2,306**		**2,306**

As at 31 December, the ageing analysis of trade receivables is as follows:

				Past due, but not impaired			
	Total	**Undue and not impaired**	**Past due and partly impaired**	**< 60 days**	**60-180 days**	**180-360 days**	**> 360 days**
2010	**4,359,149**	2,848,642	334,167	938,206	143,321	50,161	44,652
2009	**4,148,699**	563,558	2,022,297	391,038	18,048	911,551	242,207

As at 31 December 2010 receivables, which nominal value amounted to USD 0 (as at 31 December 2009: USD 94 658; as at 31 December 2008: USD 97 954), 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 3 325 675 (as at 31 December 2009: USD 2 276 065; as at 31 December 2008: 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

	2010	2009
Prepayments to suppliers	6,541,417	1,853,209
Provisions for impairment of prepayments	(12,044)	(108,904)
Deferred expenses	1,058,860	1,003,459
Total current	**7,588,233**	**2,747,764**

See below for the movements in the provision for impairment of prepayments:

	2010	2009
As at 1 January	**108,904**	7,373
Charge for the year	12,044	111,793
Utilised	-	-
Unused amounts recovered	(109,095)	(7,156)
Effect of translation into presentation currency	191	(3,106)
As at 31 December	**12,044**	**108,904**

22. Cash and cash equivalents

		2010	2009
Cash in banks	UAH	1,194,477	39,678
	USD	603,546	-
	EUR	46,271	-
	PLN	30,607,721	
		32,452,015	**39,678**

23. Share capital

	2010		2009	
	%	Amount	%	Amount
Connectico LLC	75	323,143	100	43,143
Non-controlling interest	25	107,714		-
		430,857		**43,143**

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.

Changes in the present value of the defined benefit obligations are as follows:

	2010	2009
Defined benefit plan obligations as at 1 January	**1,816,024**	**1,217,894**
Current services cost	276,349	303,053
Interests expenses	270,908	179,027
Actuarial (gain)/loss	626,947	190,959
Paid benefits	(42,649)	(20,231)
Past service costs	-	-
Effect of translation into presentation currency	2,312	(54,678)
Defined benefit obligation as at 31 December	**2,949,891**	**1,816,024**

Amounts recognized in combined statement of financial position:

	2010	2009
Present value of defined benefit plan, not secured by funds	2,949,890	1,816,024
Unrecognized net actuarial (gain)/loss	(943,940)	(328,308)
Unrecognized cost of past services	(160,277)	(199,760)
Defined benefit plan obligations as at 31 December	**1,845,673**	**1,287,956**
Long- term	1,773,030	1,264,114
Short-term	72,643	23,842

Net plan expenses (recognised in cost of sales)

	2010	2009
Current service costs	277,277	303,054
Recognized actuarial loss	10,212	(4,586)
Interests expenses	270,908	179,027
Recognized cost of past services	40,204	40,946
	598,601	**518,441**

Changes in present value of liabilities recognized in pro forma consolidated statement of financial position

	2010	2009
As at 1 January	**1,287,954**	**831,514**
Paid-up remuneration	(42,649)	(20,231)
Net expenses in pro forma consolidated income statement	598,601	518,441
Effect of translation into presentation currency	1,768	(41,770)
As at 31 December	**1,845,674**	**1,287,954**

Basic actuarial assumptions:

	2010	2009
Discounting rate	15%	15%

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

	2010		2009	
Change in parameter	-1%	1%	-1%	1%
Parameter	Change of obligations, USD			
Wage increase	(168,148)	193,232	(160,917)	127,004
Discounting rate	209,969	(179,697)	198 825	(166,036)
Employee turnover	(4,214)	4,253	(4,347)	3,218

25. Trade and other payables

	2010	2009
Trade payables	11,133,715	2,101,299
Accounts payable for salaries, wages and related taxes	501,196	338,035
Provision for unused vacations	523,046	176,241
Accounts payable for other taxes	76,192	55,932
Advances from customers	29,403	104,614
Current portion of non-current liabilities on defined benefit plan	72,643	23,842
Accounts payable for loan's interest	300,785	-
Other current liabilities	181,628	85,927
	12,818,608	2,885,890

26. Provisions

	Provision on processing waste dump	Provision on mine abandon and dismantling of machinery	Total
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**
Accrued obligations	1,931	-	1,931
Discounting effect	827	148,885	149,712
Effect from translation into presentation currency	13	1,861	1,874
As at 31 December 2010	7,266	957,750	965,016

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:

	2010	2009
Discounting rate	18,3%	18,3%
Long-term inflation	8,0%	8,0%
Medium-term inflation	12,3%	12,3%

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	State entity "Shakhtarskantracit"	1,386,032	Recovery of prepayment	Decision of recovery
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	98,859	Recovery accounts payable for inventory	Decision of recovery
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	102,540	Recovery accounts payable for lease	Decision of recovery
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	10,862	Recovery accounts payable for lease	Decision of recovery
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	323,110	Recovery of accounts payable for staff services	Decision of recovery
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	41,515	Recovery accounts payable for inventory	Decision of recovery
"Shahta Sadovaya"	State entity "Shakhtarskantracit"	78,763	Recovery accounts payable for inventory	Decision of recovery

LTD				
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	78,099	Recovery accounts payable for inventory	Decision of recovery
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	81,269	Recovery accounts payable for inventory	Decision of recovery
"Shahta Sadovaya" LTD	State entity "Shakhtarskantracit"	70,931	Recovery accounts payable for inventory	Decision of recovery
"Shahta Sadovaya" LTD	Plant of public utilities Vakhrusheve town	12,327	Recovery accounts payable for goods	low probability of settle of a claim
"Shahta Sadovaya" LTD	"Promzovnishservice" LTD	20,459	Recovery accounts payable for goods	low probability of settle of a claim
"Shahta Rassvet-1" LTD	State entity "Shakhtarskantracit"	654,982	Recovery of prepayment	Decision of recovery
"Shahta Rassvet-1" LTD	State entity "Shakhtarskantracit"	250,404	Recovery of prepayment	Decision of recovery
"Shahta Rassvet-1" LTD	State entity "Shakhtarskantracit"	2,618	Recovery accounts payable for inventory	Decision of recovery
"Shahta Rassvet-1" LTD	State entity "Shakhtarskantracit"	13,343	Recovery of accounts payable according to contract of guarantee	Decision of recovery
"Shahta Rassvet-1" LTD	State entity "Shakhtarskantracit"	30,311	Recovery accounts payable for lease	Decision of recovery
"Shahta Rassvet-1" LTD	State entity "Shakhtarskantracit"	287,497	Recovery accounts payable for lease	Decision of recovery
"Donvostok STB" LTD	State entity "Shakhtarskantracit"	4,517	Recovery accounts payable for lease	Decision of recovery
"Donvostok STB" LTD	State entity "Shakhtarskantracit"	4,265	Recovery accounts payable for lease	Decision of recovery
"Donvostok STB" LTD	State entity "Shakhtarskantracit"	19,238	Recovery accounts payable for lease	Decision of recovery
"Donvostok STB" LTD	State entity "Shakhtarskantracit"	2,265	Recovery accounts payable for lease	Decision of recovery

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	OJSC "NZF"	644	Recovery of transportation loss	Decision of recovery
"Shahta Sadovaya" LTD	LOO Fund of social protection of disabled persons	36,637	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	State entity "Shakhtarskantracit"	19,562	Recovery of property value according to Loan agreement	Decision of recovery
"Shahta Rassvet-1" LTD	State entity "Shakhtarskantracit"	18,611	Recovery of accounts payable according to contract of guarantee	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.

As at 31 December 2010 accrued provision for satisfied claims in amount USD 19 562.

Litigations
As at 31 December 2010 outstanding litigations amounted to USD 55 248. 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 2009 – USD 144 308, in 2010 – USD 68 341.

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 pro forma consolidated 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.

In connection with the above at 31 December 2010, the Management created provisions for the payment of potential tax liabilities (see Note 26). 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 pro forma consolidated 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 pro forma consolidated 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 consolidation, and information about them is not disclosed in this note. Information about transactions between the Group and its related parties are as follows:

	Purchase of goods and services	
	2010	2009
Companies, directly or indirectly controlled by the Group owners	151,061	79,029

	Proceeds from goods and services	
	2010	2009
Companies, directly or indirectly controlled by the Group owners	**522,897**	445,015

	Liabilities to related parties	
	2010	2009
Companies, directly or indirectly controlled by the Group owners	47,088	232,413

	Liabilities of related parties	
	2010	2009
Companies, directly or indirectly controlled by the Group owners	620	315,682

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:

	2010	2009
Wages and salaries	82,394	44,481
Contribution to the pension fund	27,145	14,768
Other contributions	10,064	2,099
	119,603	**61,348**

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 2010 and 2009.

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
2010		
USD	9%	(1,789)
	-9%	1,789

	Change in UAH, rate	Effect on profit before tax
2009		
USD	9%	2,689
	-9%	(2,689)

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 2010	Less than 3months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	16,708,580	199,350	-	-	**16,907,930**
Trade and other payables	7,614,705	566,983	4,127,682	331,000	**12,640,370**
	24,323,285	**766,333**	**4,127,682**	**331,000**	**29,548,300**

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**

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 2010, 2009.

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.

	2010	**2009**
Loans and borrowings	16,907,930	10,934,453
Trade and other payables	12,818,608	2,885,890
Cash and short-term deposits	(32,452,015)	(39,678)
Net debt	**(2,725,477)**	**13,780,665**
Equity	59,410,794	26,264,910
Capital and net debt	**56,685,317**	**40,045,575**
Gearing ratio	-0.05	0.34

30. Events after the reporting date

As at 28 March 2011 the "Volat Trans" PE obtained 18% loan in amount 1,747,200 UAH from PJSC Bank "Credit Dnepr". Maturity date is 28 March 2014.

Loan 1 from Note 29 was extended from 1 April 2011 to 1 April 2012. According to agreement #010411 dated 1 April 2011.

Loan 3 was fully repaid in March 2011.

Loan 4 from Note 29 was extended from 1 April 2011 to 1 April 2012 and interest rate was changed from 25% to 19% for annum. According to agreement #010411 dated 1 April 2011.

In April 2010 Sadovaya Limited, the wholly owned subsidiary of the Sadovaya Group S.A., incorporated Sadovaya (Cyprus) Trading Limited. The share capital of Sadovaya (Cyprus) Trading Limited is USD 500,000 and will be paid in cash till the end of the year 2011. All shares in Sadovaya (Cyprus) Trading Limited will be held by Sadovaya Limited.

The Registered Office of the Sadovaya (Cyprus) Trading Limited will be at 1, Lampousas Street, Nicosia 1095, Cyprus. The newly incorporated company will act as a trading house of the Sadovaya Group responsible for trading with international markets.

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

Resource base in '000 tons, under JORC classification (1)

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

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

The acquisition is part of the investment program of Sadovaya Group as described in the prospectus issued in connection with the initial public offering.

31. Fees invoiced by the auditors

Fee category	2010	2009
Audit fees	41,670	98,229
Audit-related fees	121,612	-
Tax fees	-	-
Other fees	-	-
Total	**163,282**	**98,229**

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