



Sadovaya Group
ANNUAL REPORT 2014



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Dear shareholders, colleagues and partners,

Presenting the report of Sadovaya Group for 2014, I would like to thank all our shareholders, partners and investors for their support and trust, and our employees - for their unity and dedication. Your “reliable shoulder” in such difficult times is invaluable to us.

The past year has been one of the most tragic both for the country and our company. Many people come to close quarters with the “war” and its destructions.

I’m happy to inform that in such hard times Sadovaya Group S.A. continue to fight for its existence and try to agree with all our creditors.

Continued anti-terrorist operation in eastern Ukraine, the inability to supply coal production from this region has a negative impact on the domestic coal market of Ukraine; Ukrainian coal industry experiences difficult times and suffers a loss of stability. Industry is in the abyss of the crisis and the large-scale decline in manufacturing.

As a result of military events the infrastructure in eastern Ukraine was considerably damaged, the majority of industrial enterprises were completely or partially destroyed, including our subsidiaries. The production capacity of the largest industrial region of the country has significantly decreased.

But currently thanks to the Minsk agreements there is a real opportunity not only to secure the sustainable lasting stabilization, but also to improve the situation. The first restoration work were already been started. We all hope for a peaceful “tomorrow” and we are doing all possible to pave the reliable way to successful future.

Sincerely Yours,



Aleksandr Tolstoukhov

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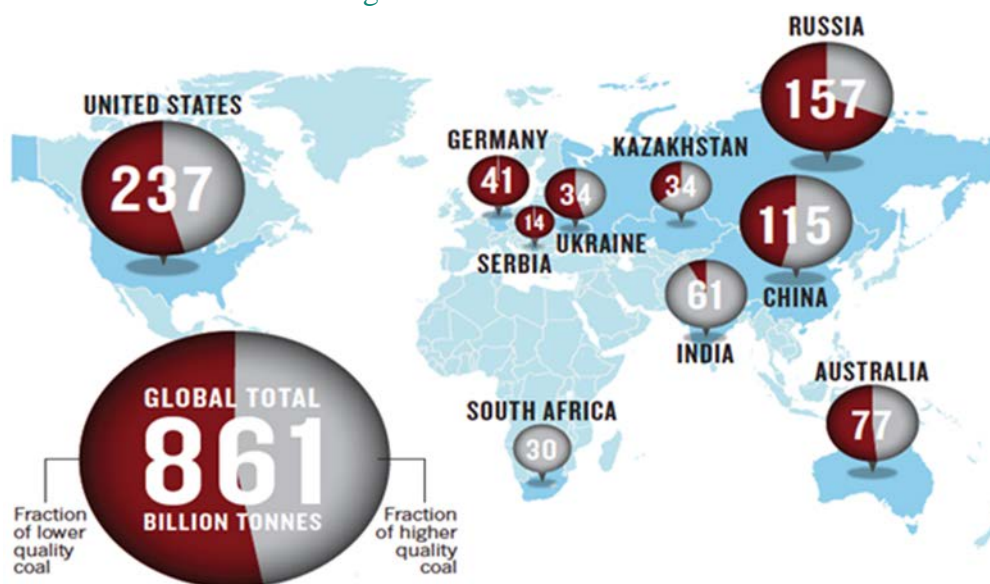
Coal market

Coal remains central to the global energy system. It is the world's largest source of electricity, accounting for around 40% of global electricity production. It is currently the world second largest source of primary energy, and is widely expected to replace oil as the world's largest source of primary within a few years.

Ukraine has a favorable geographical location between Europe and Asia at the crossroads of major international trade routes and benefits from access to river and sea ports, developed railway and road networks.

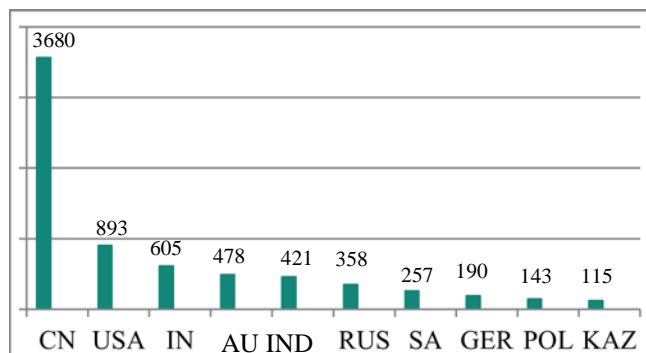
Traditionally, coal was one of the main energy sources in Ukraine, powering its massive metallurgical industry and one of the biggest fleets of thermal power plants in Europe. Ukraine holds the 7th largest coal reserves in the world – 34 billion tones and 3rd largest anthracite coal reserves – 5.8 billion tones. Most of the country's coal deposits are located in Donbas basin, Eastern Ukraine. In 2011, Ukraine was the 11th largest coal mining country in the world.

Fig.1 World Coal Reserves



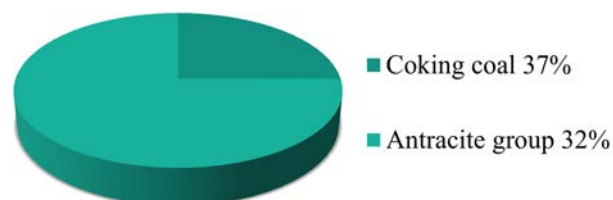
Source: BP Statistical review RDW 2013

Fig.2 Top coal producing countries in 2014, Mt



Source: BP Statistical review 2014

Fig.3 Ukraine's coal production structure, 2014

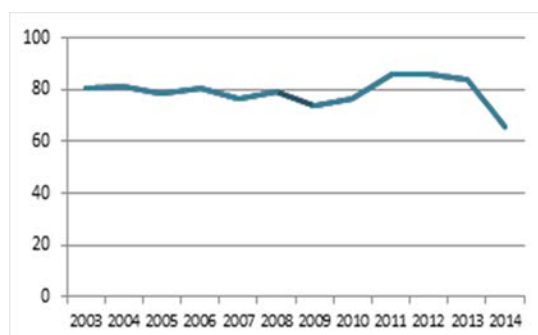


Source: BP Statistical review 2014

In 2014 in Ukraine out of 65,99 mmt of coal mined, the volumes decreased at 22,3% comparing with 2013. The main reason is the military conflict in the east of Ukraine where the most part of mines are situated. The amount of steam coal mined in 2014 is 48,86 mmt.

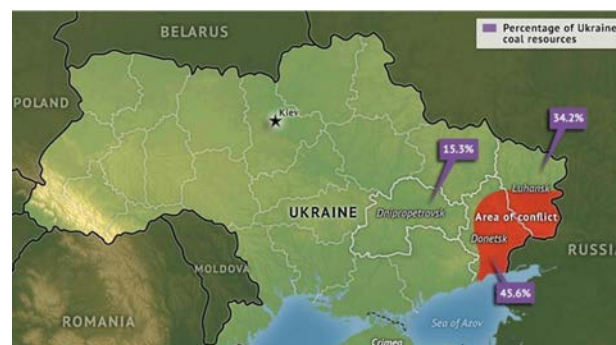
Majority of produced steam coal in Ukraine is consumed domestically for electricity production.

Fig.4 Coal production in Ukraine, mmt



Source: Ministry of Coal and Energy of Ukraine

Fig.5 Military conflict in Ukraine



Source: European association of coal and lignite

Business description and principal activities of the Group

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

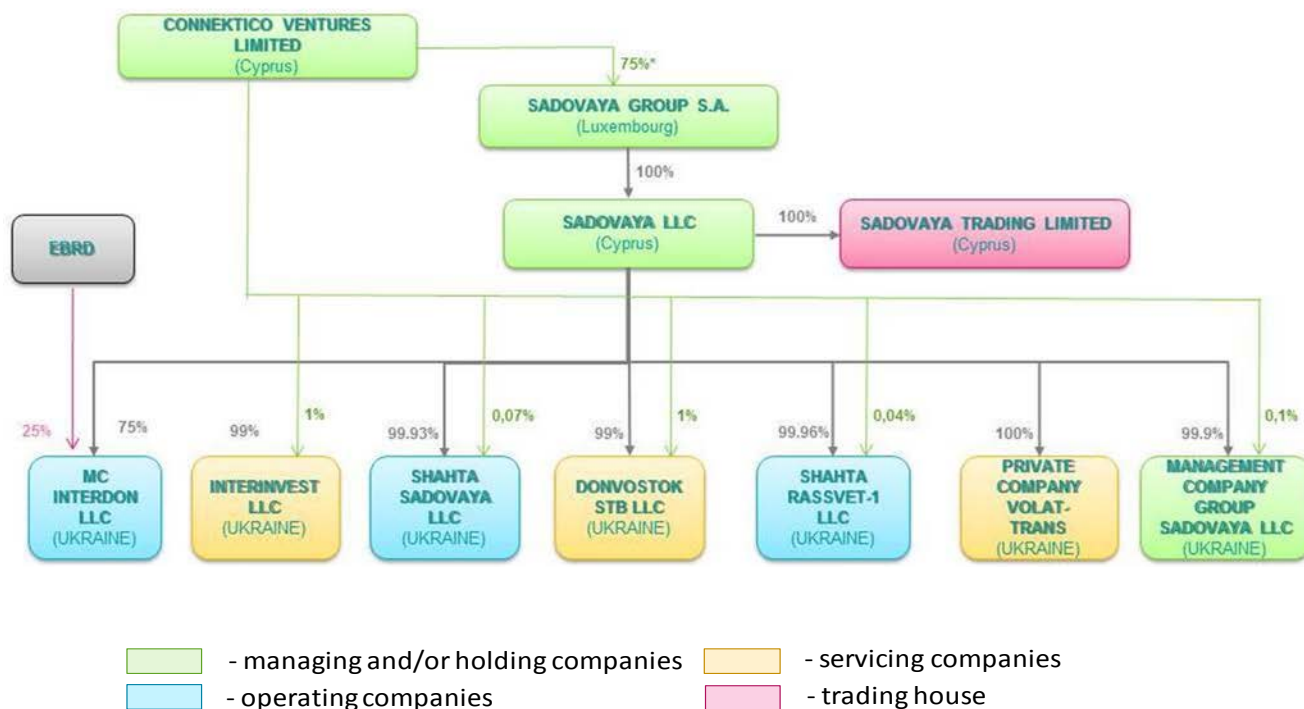
The Group comprises operating, holding, servicing and trading companies (Fig.6).

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

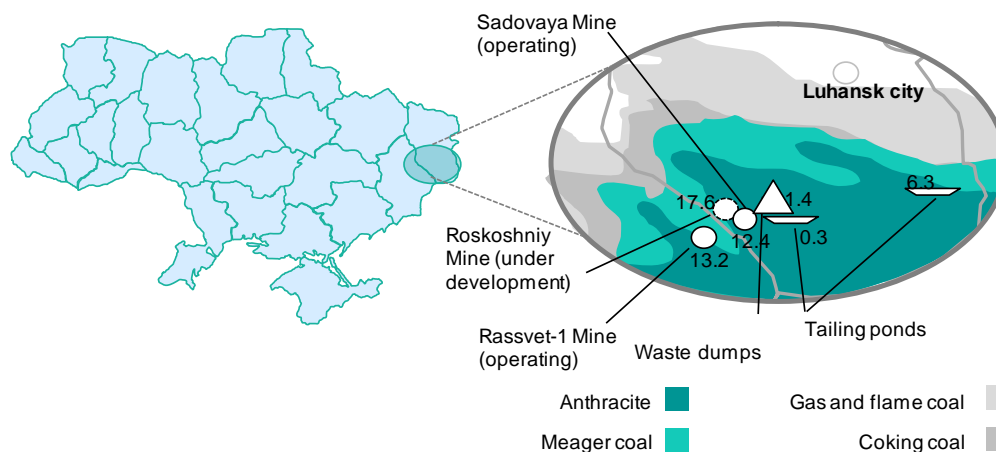
Other 25% of shares are traded on the Warsaw Stock Exchange.

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

Fig.6 Sadovaya Group structure, 2015



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



Geographically, the Group is optimally located, in the Donbas region near its major customers in eastern Ukraine, and with rail and water (via the Black Sea) links to the external markets.

Coal mining

The Group has two mining complexes in the Donbas region with its own infrastructure. **Sadovaya mine** extracts coal of anthracite type (grade A). **Rassvet-1 mine** extracts semi-anthracite type of coal (grade T).

In October 2012 due to surplus of coal these two mining complexes have to be temporally stopped. Currently they continue working in sustaining mode to maintain safety conditions of underground mining.

The Management took all necessary measures to save all property and assets. It was secured continuous provision of electricity. Mines' dewatering was performed on a going basis to prevent its flooding.

Fig.10 Sadovaya Group resources, audited by IMC Montan, as of July 2010

in tones	Resources	2P Reserves
Sadovaya field	12,380,000	9,929,000
Rassvet- 1 field	13,200,470	5,473,000
Roskoshniy field	17,617,000	9,051,000
Waste resources	7,930,735	6,745,162
	51,128,205	31,198,162

Waste recovery

The Ukrainian coal mining industry is the largest coal mining region in Europe. It integrates around 167 active coal mines and 3 coal strip mines, numerous mines at the decommissioning stage, coal washing facilities, and other coal mining related companies. The main coal mining area is Donbas that is located in Donetsk and Luhansk regions.

Donbass is the largest coal basin in Ukraine and Europe with total (commercial and prospective) reserves of 240 billion t of bituminous coal and anthracite. Almost a quarter of all reserves are high-quality anthracite, while another quarter are thermal coal with high calorific value and low ash content.



Mining activities result in vast amounts of coal and accompanying of waste deposits being extracted and brought to the surface. Accumulation and storage of solid coal waste is a serious problem.

The wastes often ignite spontaneously and emits more than 500 thousand tons of dangerous substances into the air. According to the Scientific Research Institute of Makiyivka, one combusting dump emits on the average 150 tons of carbon dioxide, 1.5 tons of sulphur dioxide, 0.4 tons of hydrogen sulfide, and 0.1 tons of nitric oxide per day. Waste bank dust also contains many toxic substances.

The Group understands all complexity of the current problem and is engaged in its recovery.

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

The project has a number of environmental and social benefits including: processing of waste material, reduced emissions of greenhouse gases, smaller stockpiles with associated visual landscaping improvements and social-economic benefits in terms of job creation and a local economic stimulus.

On the first stage of the project PC “Interdon” LLC, which occupies with coal reprocessing, has got the first loan tranche from EBRD in amount of 18 mln dollars. The construction assembly work for the first reprocessing facility in Vakhrushevo city was finished in the 4th Quarter 2012. In February MEC “Vakhrushevskiy” began to operate in a testing mode.

On April 30, 2013 MEC “Vakhrushevskiy” was put into operation but it could not reach its project production capacity.

On September 13, 2013 the interest payment on EBRD loan was not made by PC Interdon LLC.

As of 29th of November 2013 the PC “Interdon” LLC received the follow-up Letter-notice of Demand from European Bank of Reconstruction and Development concerning the Event of Default which was taken place on September 13, 2013 in the result of nonfulfillment by PC Interdon LLC its obligations of the Loan agreement with EBRD concerning percent and commission fee payment.

In the result of negotiations between EBRD and Sadovaya group it was decided to conclude the Restructuring agreement to improve production indicators and advance the complex efficiency. The period of Restructuring is 2 years.

On December 19, 2013 the Restructuring Term Sheet was signed with EBRD. According to abovementioned 25% of participant interest of Interdon LLC is transferred to EBRD. It has been already drawn up Capex plan and detailed Plan of Improvement implementation.

According to this Agreement the Environmental and Social Action Plan shall be prepared and approved.

The Deed of Guaranty and Indemnity signed on February 15, 2012 between Sadovaya Group S.A. and EBRD was released.

According to the further plan of the realization of the cooperative project with EBRD, it was planned by the Company to prepare the second site for factory’s building – “Samsonovskiy” site.

But in 2013 due to financial difficulties of the Group and uncertainty in the east part of Ukraine it was taken the decision to temporally stop this Project realization. Detailed time scheme of its implementation will be discussed after the finishing of Anti-terroristic operation in Ukraine.

The Restructuring agreement and Share Purchase Agreement were signed between EBRD and Sadovaya Limited, PC Interdon LLC

In April 2014, PC Interdon LLC received the second tranche from EBRD in the amount of 299 ths. USD.

In 2014 12384,02 tonnes of coal were recovered from waste dumps.

In 2014 it was temporally captured by unknown military officers.

Currently the enterprise is under the full control of the Group. In the end of 2015 it restarted its recovery activity.

Coal trading

Since the 4th Quarter 2012 the Group has been suffering from the difficulties with coal trading, related to the decrease of the demand at the coal market caused by significant coal stock surplus at the TPPs. As a result two mining complexes of the Group have to be temporally stopped.

Currently they continue working in sustaining mode to maintain safety conditions of underground mining. Coal has not been mined in 2014.

In 2014 Rassvet and Sadovaya mines were captured by military people. Today all enterprises have renewed the total control.

In 2014 Rassvet and Sadovaya mines also concluded a contract on coal realization in the amount of 37730 tonnes. But due to the current military events and impossibility of coal supply from Donbass region the coal is still not shipped. The due date of shipment is unknown.

Significant additional information


In the period from September to December 2014 production assets of “Mine “Rassvet-1” LLC and Mine “Donvostok STB” LLC, located in the Shakhtersk district of the Donetsk region, were seized by unknown weaponed persons. In the result of the actions of these persons the infrastructure of the mine was partially destroyed.

Collective sediment pond was also destroyed being on the Company's balance sheet, designed for mechanical water treatment of the group of mines in the region built for the treatment of mine water inflowing to the Olkhovskiy reservoir - the source of drinking water for a number of nearby settlements. In the result of military events all waterworks had been broken, that is pumping station, transformer substation, the chlorination building, as well as pumping and filtration station with boiler, which led to the deterioration of the water to the established norms.

The Group makes all efforts to minimize the consequences.


Highlights of 2014

The event of force majeure was taken place due to the beginning of Anti-terroristic operation in the East of Ukraine



April

PC Interdon LLC received the second tranche from EBRD




April

The Restructuring agreement and Share Purchase Agreement were signed between EBRD and Sadovaya Limited, PC Interdon LLC




April

Part of the subsidiaries was captured by military people.



June - December

Cession agreement between Sadovaya Limited and Hayworth Services Limited was signed.




November

Interests on Loan agreement between between EBRD and PC Interdon LLC were not paid.




January-December

Interests on Loan agreement between PJSC OTP Bank and “Shakhta Sadovaya” LLC and “Shakhta Rassvet-1” LLC were not paid.



January-December

Interests on Loan agreement between JSC «BANK CREDIT-DNEPR» and PE “Volat-Trans” were not paid.



January-December

Review of financial results for 2014

Revenue. Total revenue amounted to USD 2,542 thousand for the year ended 31 December 2014, showing a 24% increase comparing to the year 2013 driven by continuing market recovery processes. For information on sales please refer to Note 6 of the consolidated financial statements.

Cost of sales. Cost of sales increased from USD 3,534 thousand in the year 2013 to USD 3,883 thousand in 2014, a 10% increase.

Please refer to Figures 11,12 for the main cost components.

Fig.11 COS structure in 2014

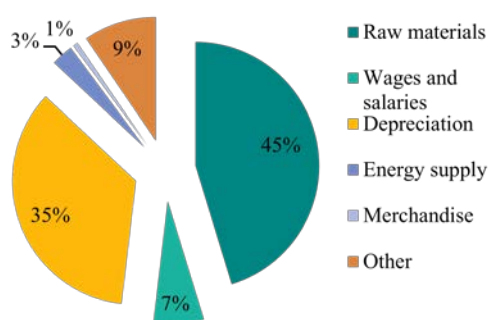
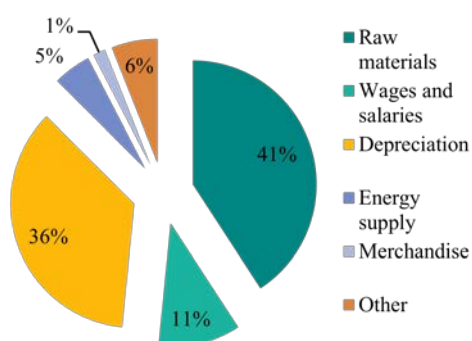


Fig.12 COS structure in 2013



For detailed information about COS structure please refer to Note 7 of the condensed consolidated financial statements.

Total loss. In 2014, general loss amounted to USD 1,342 thousand, which is 10% less than previous year.

Low coal output volumes suspend Group's sales activities. On the other side, coal deficit, followed by significantly growing coal prices in the local market provide profitable opportunities for Company's local coal trading. Moreover, local currency devaluation brings potential gains on external market.

The Net loss of the Group in 2014 is rather high. The main reasons are the continuous anti-terroristic operation in the eastern Ukraine, a sharp devaluation of the national currency, which led to the impairment of assets of the Group, as well as a number of other reasons.

Operating expenses

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

Distribution costs decreased from USD 405 ths. in 2013 to USD 269 ths. in 2014, a 33% decrease. For detailed information about delivery costs structure please refer to Note 8 of the consolidated financial statements.

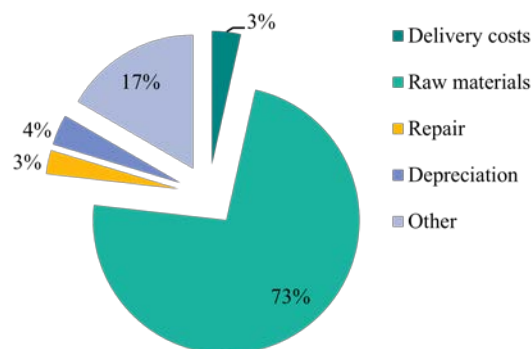


Fig.13 Selling and distribution expenses

General and administrative expenses decreased from USD 1,613 ths in 2013 to USD 838 ths. 2014, a 48% year-on-year decrease. For detailed information about general and administrative expenses structure please refer to Note 9 of the condensed consolidated financial statements.

Cost of idle capacity totaled USD 2,848 ths. in 2014, comparing to USD 7,417 ths. in the year 2013.

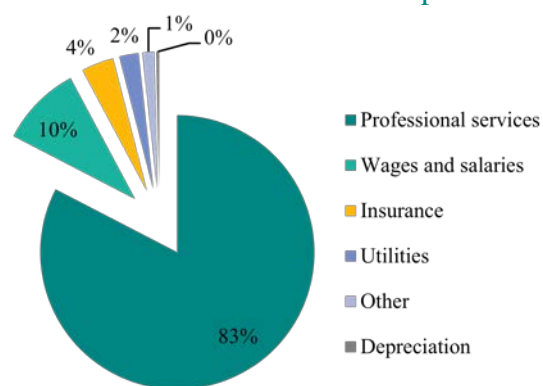
Expenses from financial assets impairment totaled USD 3,279 ths. in the year ended 2014, comparing to USD 9,286 ths. 2013. These expenses include trade and other receivables and advances received impaired according to the accounting policy of the Group.

Finance income and expenses

Finance expenses slightly increased from USD 3,681 ths. in 2013 to USD 3,746 ths. in 2014, a 2% increase. The increase is explained by changes in the Group's loan portfolio balance from USD 39.9 million to USD 41.4 million.

For additional information on Group's finance expenses please refer to Notes 13 of the consolidated financial statements.

Fig.14 General and administrative expenses



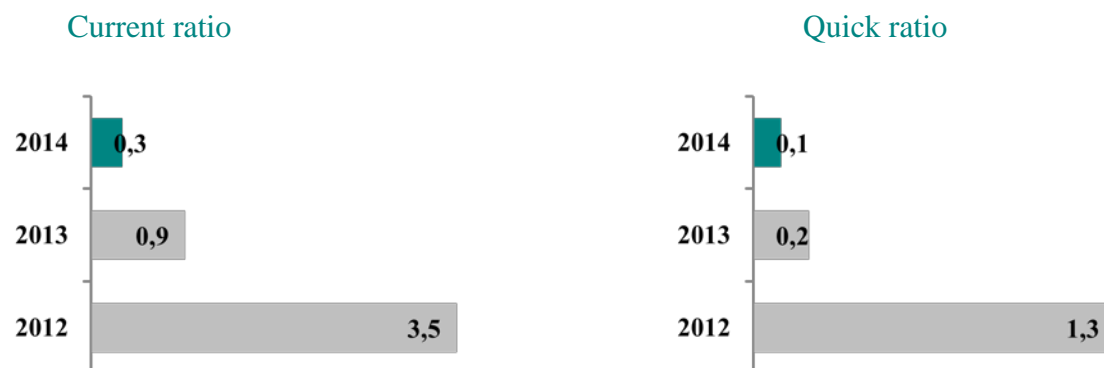
Cash flow and financial ratios

Cash outflow from operations in 2014 was USD 237 ths. The negative cash flow from operations reflects the substantial discharge of inventories below the cost of production.

Cash used in financial activities was USD 299 ths. in the year ended 31 December 2014, reflecting the disbursement of the loan received from EBRD in April, September 2014.

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

Fig.15 Liquidity ratios



Related party transactions

Information in respect of related parties transactions is disclosed in Note 29 of the consolidated report. Total amount of proceeds from goods and services arising from such transactions doesn't exceed 1% of total revenue.

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. The sales to and purchases from related parties are made on terms equivalent to those prevailed in arm's length transactions.

Principal risks and uncertainties

Risk of continued military events in Ukraine

The Group's business depends on the coal mining, enrichment and realization. In 2014 the level of coal prices in Ukraine was significantly increased due to high deficit of coal in the result of military events in the east of Ukraine where most of mines are located and impossibility of coal supply from this region. The coal deficit will remain at the level of 200,000–250,000 tons per month. The internal demand for coal is very high but due to military events it is not possible to renew the coal mining and coal supply.

Risk of closing of mines and other production objects

Because of the ongoing conflict in the eastern Ukraine, of the 82 mines in the Donbass region only 23 remain in territories controlled by Ukrainian authorities. All anthracite mines are located in uncontrolled parts. Many mines either suffered direct damage from shelling or were flooded as a result of the interruption in electricity supply. Restoration of former production levels seems impossible. Coal extraction in Ukraine declined by 60%, and the need for imports and thus dependency on foreign supply increased significantly. In particular, there is a shortage of anthracite coal, which cannot be easily replaced by different

types of coal. This has also turned Ukraine from an exporter of coal to an importer. The production objects of the Group were not closed but they were temporally captured by unknown weapon persons. Currently all subsidiaries are under the Group control.

Business environment

Within the year of 2014 a lot of important changes took place in Ukraine. Political crisis and protest movements (2013) led to the pre-term election of the new president and then of the early parliamentary election (2014). In April 2014 the Anti-terroristic operation in the east of Ukraine began and it is continued till nowadays resulted in negative influence at coal mining in the region. Most of the mines had to be stopped.

Demand for coal products

Demand for coal is fluctuating and depends both on the local and world economy and political stability, as well as on weather conditions. Today the main obstruction for recovery of the demand for anthracitic coal in Ukraine is terrorists' presence in the East of Ukraine. The internal demand for coal is very high but due to military events it is not possible to renew the coal mining and coal supply.

Exposure to currency risk

The Group debt structure is mostly denominated in US dollars, whereas the main

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

Risk of destruction of production units

Due to the continuous military events in the east of Ukraine the Production units can be destroyed partially and full. The Group does its best to save all assets and property.

Future developments of the Group

In 2015 military events continued to take place in the East of Ukraine the Management is not able to make any cashflow projections for the year 2015-2016 based on the current market uncertainties and current impossibility of coal mining renewal. The Group tries to control all production objects and to save all its assets. As its subsidiaries were encroached in 2014, part of the assets was damaged. Currently the Group determines the level of this harm and tries to make the consequences minimal.

Development of mining segment

The economic and political situation in Ukraine is extremely volatile and considerable downside risks remain with regards to the country's mining sector. Continuous military events in the east of Ukraine decreased the dynamics of development of mining industry in a whole but despite this its mining sector holds significant growth potential due to the country's vast mineral reserves.

At the date of this report Sadovaya mine and Rassvet-1 are stopped. The dates of their restarting depend on current events in there region and normalization of situation in the region. Due to high coal demand and sufficient coal needs in Ukraine Sadovaya Group has all chances to restart its activity in normal mode. The coal price within 2014-2015 has been increased at 70-90% but due to military events lines of transportation were materially damaged. All main production objects are in working order.

Development of waste recovery segment.

The development of waste management can be considered in some way dictates of time. Ukraine has unique conditions of the secondary usage of natural resources, which is particularly important given to the increasing generation of waste and its progressive accumulation.

The first enrichment complex for processing waste dumps with a total processing capacity of 150 tones/h and an annual expected coal output of 180-280 thousand tones was put into operation in April 2013.

The Group also intends to continue construction of an enrichment complex for processing tailing ponds deposits, with a total processing capacity of 150 tones/h and an expected annual coal output of 240-300 thousand tones but exact period of implementation will be defined after the finishing of Anti-terroristic operation.

Due to the high coal content in the deposits (average 23-53%) the coal can be recovered at about 20% lower cost than coal from mining. The technology allows enriching coal up to 5% ash content. Such type of coal could be sold with up to 70% price upside to regular energy coal (18-20% ash). The Group owns waste resources with a low sulphur content (< 1%) which opens additional export opportunities to EU countries.

Development of the coal trade segment.

Steam coal is a substantial contributor to the Ukrainian energy output. Coal-based thermal power generation is the only reliable and import-free energy source capable of delivering adequate energy volumes with flexibility required by the industrial and individual consumers in Ukraine.

In 2015 the Group has been undertaking attempts to sell stockpiled coal assets available.

The gross data about the Company after the reporting date.

In 2015 the Anti-terroristic operation continues to take place. All Banks, Financial institutions, Superannuation and pension funds were moved out and are still closed within the territory of Anti-terroristic operation. Shooting and bombardment is significantly decreased. But the access to this area is still limited.

Group regained the full control over all its subsidiaries. Currently it determines the consequences.

Events after the end of the reporting period

As Sadovaya Group S.A. could not perform its financial liabilities to Interaudit SARL, in January 2015 the whole debt was transferred to NV Atradius Credit Insurance, the collector service. Judicial proceedings were opened. As of 28 January 2015 Sadovaya Group received the notification concerning the possibility of transfer of the judicial proceedings to the Bankruptcy court. In February 2015 the aforesaid court proceedings was ceased.

In February the shares of Sadovaya Group restarted its trading at Warsaw Stock Exchange.

In May 2015 in the result of failure to publish Annual report 2014 of Sadovaya Group S.A. the trading of Sadovaya group shares at WSE was temporally stopped. The trading renewal will take place after the publishing of Annual report 2014 that is in the end of February 2016.

In July the license on coal mining of Shakhta “Sadovaya” LLC, the subsidiary of Sadovaya Group, was temporally stopped. Currently the company makes negotiation concerning its continuation.

In November 2015 Annual General Meeting took place concerning the Directors mandates prolongation.

In December 2015 OTP Bank began court proceedings with Sadovaya mine, Rassvet mine, Donvostok STB and Interinvest, the subsidiaries of Sadovaya Group, concerning the indebtedness recovery according to the Loan agreement between PJSC OTP Bank and “Sadovaya mine” LLC and “Rassvet-1 mine” LLC with total amount of USD 25,1 mln.

Sadovaya Group also could not meet its obligations to other creditors but it makes every effort to find the resolution of each matter. It succeeded to find the mutual understanding almost with all creditors.

Corporate governance report

General information

Sadovaya Group S.A. (“the Company”) is registered in Luxembourg, registered office: 10, Boulevard de la Foire, L-1528 Luxembourg. R.C.S Luxembourg B 153489. The shares of the Company are listed on the Warsaw Stock Exchange. The subscribed share capital is set at four hundred and thirty thousand eight hundred and fifty-six United States Dollars and ninety-three cents (USD 430,856.93), represented by forty-three million eighty-five thousand six hundred and ninety-three (43,085,693) shares with a nominal value of one cent (USD 0.01) each.

The Company declares that it follows the non-binding principles on corporate governance contained in “Ten principles of corporate governance of the Luxembourg stock exchange” approved in October 2009. Any incompliance with these principles were disclosed and explained below. Also the Company has decided to observe the majority of the WSE Corporate Governance Rules. Sadovaya Group S.A. has a clear and transparent corporate governance framework and provides relevant disclosure.

All adopted corporate governance documents and details regarding current corporate governance system of the Company are published on the Company’s website <http://sadovayagroup.com/>.

Board of Directors

The Company has a one-tier management structure consisting of the Board of Directors composed of one or more A directors (the “A Directors”) and one or more B directors (the “B Directors”). The Board of Directors is responsible for the management of the Company’s operations. It is vested with the broadest powers to take any actions necessary or useful to fulfill the Company’s corporate purpose, with the exception of actions reserved by Luxembourg law or the Articles of Association to the General Meeting of Shareholders.

The Director(s) are elected by the General Meeting, for a period not exceeding six (6) years and until their successors are elected, provided, however, that any Director may be removed at any time by a resolution taken by the General Meeting of Shareholders. In the event of vacancy in the office of a Director because of death, resignation or otherwise, the remaining Directors elected by the General Meeting may meet and elect a Director to fill such vacancy until the next General Meeting of Shareholders.

The Annual General Meeting of the Company held on March 03, 2014 the Board of Directors comprised of:

Mr.Alexander Tolstoukhov, A Director;
Mr. Sergey Stetsurin, B Director;

The mandate of the Directors will lapse at the Annual General Meeting of the year 2015 or until their successors have been duly elected.

As of December 23, 2013 Mr.Eriks Martinovskis and Mr.Douwe TERPSTRA, the Directors B of Sadovaya Group informed about termination of their employment.

Audit Committee

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

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

In the course of 2013 year members of the Audit Committee of the Company was not appointed, the entire Board of Directors dealt with the tasks and responsibilities of the Audit Committee in close collaboration with the internal and external auditors.

Nominations and Remuneration Committee

Currently the Company does not have Nominations or Remuneration committees; the need to create Nominations and/or Remuneration committees is assessed annually. The tasks and duties contemplated by the Remuneration committee and Nominations committee are performed by the entire Board of Directors. The Company does not have formal policies on board and top-management performance evaluation and remuneration at the moment.

Internal Control/Risk Management

In the course of 2013 year the Board of Directors of the Company was responsible for the system of internal risk management and control and reviewing at least annually the internal control and risk management systems, with a view to ensuring that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed.

Financial reporting process

The Group has in place common accounting policies and procedures on financial reporting and closing. Also, prepares budgets for review and approval of Board of Directors, as well as forecast of financial performance during the year. The management monitors the publication of the new reporting standards and works closely with external auditors in evaluating in advance the potential impact of these standards.

The entities of the Group maintain their accounting records in accordance with accounting standards and other statutory requirements to financial reporting in the country of their incorporation. Local statutory accounting principles and procedures differ from accounting principles generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group entities' statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS. Stand alone financial statements is issued based on maintained accounting records in accordance with local (Luxembourg) accounting standards.

Management of the Group is paying adequate attention and efforts in designing, implementing and maintaining an effective system of internal controls on financial reporting process. Financial reports are analyzed, reviewed and discussed before issuance.

The remuneration of the members of the Board of Directors

The remuneration of the members of the Board of Directors is determined by the Board of Directors and ratified by the General Meeting of shareholders.

The objective of the Group's remuneration policy is to provide a compensation program allowing for the attraction, retention and motivation of members of the Board of Directors who have the character traits, skills and background to successfully lead and manage the Company.

General Meeting practices

The General Meeting of shareholders is vested with the powers expressly reserved to it by law and by the Company's Articles of incorporation. The General Meeting of shareholders of the Company

may at any time be convened by the Board of Directors. It shall also be convened upon written request of shareholders representing at least ten percent (10%) of the Company's share capital. In such case, the General Meeting of shareholders must be convened and shall be held within a period of one (1) month from receipt of such request. Further, shareholder(s) representing at least five percent (5%) of the Company's share capital may request the adjunction of one or several items to the agenda of any General Meeting of shareholders.

The annual General Meeting of shareholders shall be held in Luxembourg, at the registered office of the Company or at such other place as may be specified in the notice of such meeting, on the third Wednesday of June at 5 p.m. If such day is a legal holiday, the annual General Meeting of shareholders must be held on the next following business day. Other meetings of shareholders may be held at such place and time as may be specified in the respective notices of meeting.

Where the shares are recorded in the register of shareholders in the name of a depository or sub-depository of the former, the certificates must be received at the Company no later than the day precedent the fifth (5th) working day before the date of the general meeting unless the Company fixes a shorter period.

All proxies must be received at the Company by the same deadline.

Voting rights

Each share entitles to one (1) vote, subject to the provisions of the law. Unless otherwise required by law or by the Company's Articles of incorporation, resolutions at a General Meeting of shareholders duly convened are adopted at a simple majority of the votes validly cast, regardless of the portion of capital represented. Abstention and nil votes will not be taken into account.

A shareholder may act at any General Meeting of shareholders by appointing another person, shareholder or not, as his proxy in writing by a signed document transmitted by mail, facsimile, electronic mail or by any other means of communication. One person may represent several or even all shareholders.

Shareholder who participate in a General Meeting of shareholders by conference call, video conference or by any other means of communication which allow such shareholder's identification and which allow that all the persons taking part in the meeting hear one another on a continuous basis and may effectively participate in the meeting, are deemed to be present for the computation of quorum and majority, subject to such means of communication being made available at the place of the meeting.

Each shareholder may vote at a General Meeting of shareholders through a signed voting form sent by mail, facsimile or electronic mail to the Company's registered office or to the address specified in the convening notice. The shareholders may only use voting forms provided by the Company which contain at least the place, date and time of the meeting, the agenda of the meeting, the proposals submitted to the resolution of the meeting as well as for each proposal three boxes allowing the shareholder to vote in favour of or against the proposed resolution or to abstain from voting thereon.

by ticking the appropriate boxes. The Company will only take into account voting forms received prior to the General Meeting of shareholders which they relate to.

The Board of Directors may determine further conditions that must be fulfilled by the shareholders for them to take part in any General Meeting of shareholders.

Any amendments to the rights of shareholders require an amendment to the Articles of Association and are subject to the same quorum as for an extraordinary General Meeting. Any resolution to amend the Articles of Association must be taken before a Luxembourg notary and such amendments must be published in accordance with Luxembourg regulations.

Dividend rights

The General Meeting shall determine how the remainder of the annual net profits shall be disposed of and it may alone decide to pay dividends from time to time, as in its discretion believes best suits the corporate purpose and policy.

The dividends may be paid in euro or any other currency selected by the Board and they may be paid at such places and times as may be determined by the Board. The Board may decide to pay interim dividends under the conditions and within the limits laid down in the Luxembourg laws.

Share options

At the date of this annual report, the Company has no a share option plan and no share options have been granted to the members of the Board of Directors, members of Company's senior management or employees.

Information regarding deviation from the WSE Code of Best Practice for WSE Listed Companies

The Company has decided to observe the majority of the WSE Corporate Governance Rules included in the Code of Best Practice for WSE Listed Companies. However, certain principles apply to the Company accordingly, with due observance of Luxembourg laws and the Company's corporate structure, 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, the Board of Directors of the Company 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.

In 2014 the Company did not fully comply with the following rules described in the Code of Best Practice for WSE Listed Companies as follows:

Rule	Rule status in the Company
I. Recommendations for Best Practice for Listed Companies	
<p>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 whose scope and method of presentation should be based on the model investor relations service available at http://naszmodel.gpw.pl/; - 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.</p>	<p>Complies with the reservation that the Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling on-line broadcasting. At the same time the Company supports its shareholders to exercise their voting rights by authorizing the proxies.</p>
<p>5. 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.</p>	<p>Currently the Company does not have a remuneration policy adopted; the need to create Remuneration committee is assessed annually.</p>
<p>6. 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</p> <p>7. Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular:</p> <ul style="list-style-type: none"> - 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 	<p>There is only one governing body in the Company, the Board of Directors.</p>



Rule	Rule status in the Company
case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the company.	
9. 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.	The Company supports this recommendation however the members of the Board of Directors are appointed by General Meeting of Shareholders and therefore the compliance with this recommendation depends on the shareholders' future decisions.
II. Best Practice for Management Boards of Listed Companies	
<p>1. A company should operate a corporate website and publish on it, in addition to information required by legal regulations:</p> <ol style="list-style-type: none"> 1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies; 2) professional CVs of the members of its governing bodies; 3) current and periodic reports; 4) [deleted] 5) 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; 6) 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; 7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions; 8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds; 9) information about breaks in a General Meetings and the grounds of those breaks; 10) information on corporate events such as payment of the dividend, or other events leading to the acquisition 	Complies taking into account that there is only one governing body in the Company, the Board of Directors. The Company has not adopted rules of changing the company authorised to audit financial statements. The Company may consider the rules adoption in the future.

Rule	Rule status in the Company
<p>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;</p> <p>11) 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;</p> <p>12) 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;</p> <p>13) 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;</p> <p>14) 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.</p>	
<p>3. 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.</p>	<p>Complies taking into account that there is only one governing body in the Company, the Board of Directors.</p>
<p>III. Best Practice for Supervisory Board Members</p> <p>1. In addition to its responsibilities laid down in legal provisions the Supervisory Board should:</p> <p>1) 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;</p> <p>2) once a year prepare and present to the Ordinary General Meeting an evaluation of its work;</p> <p>3) review and present opinions on issues subject to resolutions of the General Meeting.</p> <p>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</p>	<p>Complies taking into account that there is only one governing body in the Company, the Board of Directors.</p>

Rule	Rule status in the Company
<p>other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.</p> <p>3. A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.</p> <p>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.</p> <p>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.</p> <p>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 non-executive 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.</p> <p>7. [deleted]</p> <p>8. 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.</p> <p>9. 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.</p>	



Rule	Rule status in the Company
IV. Best Practices of Shareholders	
<p>10. A company should enable its shareholders to participate in a General Meeting using electronic communication means through:</p> <p>1) real-life broadcast of General Meetings;</p> <p>2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting;</p> <p>3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary.</p>	<p>Complies taking into account that the Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling on-line broadcasting. At the same time the Company supports its shareholders to exercise their voting rights by authorizing the proxies.</p>



Sadovaya Group S.A.
Consolidated Financial Statements
for the periods ended 31 December 2014,
31 December 201

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Consolidated income statement

for the year ended 31 December 2014, 2013

	Note	2014 (unaudited)	2013 (unaudited)
Revenue	6	2,541,537	2,053,218
Cost of sales	7	(3,883,402)	(3,533,874)
Gross profit/ (loss)		(1,341,865)	(1,480,656)
Selling and distribution expenses	8	(269,093)	(403,532)
General administrative expenses	9	(837,503)	(1,613,128)
Cost of idle capacity	10	(2,847,883)	(7,416,514)
Expenses from financial assets impairment	11	(3,278,725)	(9,286,210)
Other income/(expenses), net	12	(11,232,558)	(8,117,542)
Operating profit/ (loss)		(19,807,627)	(28,317,582)
Finance expenses	13	(3,746,009)	(3,681,062)
Finance income		110	59,696
Non-operating foreign currency translation gain/(loss)		(26,263,914)	(29,399)
Profit/ (loss) before tax		(49,817,440)	(31,968,347)
Income tax (expense)/benefit		(256,808)	197,550
Profit/ (loss) for the period		(50,074,248)	(31,770,797)
Weighted average number of ordinary shares		43,085,693	43,085,693
Earnings per share		(1.16)	(0.74)

Notes on pages 30-66 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

for the year ended 31 December 2014, 2013

	2014 (unaudited)	2013 (unaudited)
Profit/ (loss) for the period	<u>(50,074,248)</u>	<u>(31,770,797)</u>
<i>Other comprehensive income/(expenses)</i>		
Exchange differences on translation in presentation currency	8,538,918	(61,297)
Other comprehensive income/(expenses) for the period	<u>8,538,918</u>	<u>(61,297)</u>
Total comprehensive income/(expenses) for the period	<u>(41,535,330)</u>	<u>(31,832,094)</u>
Profit/loss attributable to:		
Equity holders of the parent	(50,067,067)	(31,748,632)
Non-controlling interests	(7,181)	(22,165)
Other comprehensive income/expenses attributable to:		
Equity holders of the parent	8,561,653	(47,876)
Non-controlling interests	(22,735)	(13,421)

Notes on pages 30-66 are an integral part of these consolidated financial statements

Consolidated statement of financial position

as at 31 December 2014, 2013

	Note	as at 31 December 2014 (unaudited)	as at 31 December 2013 (unaudited)
Assets			
Non-current assets			
Property, plant and equipment	17	17,888,168	38,617,924
Intangible assets	18	444,865	940,059
Deferred tax assets	16	811,792	2,339,450
		19,144,825	41,897,433
Current assets			
Inventories	21	7,199,502	24,846,669
Trade and other receivables	22	3,574,462	4,631,376
Prepayments and deferred expenses	23	105,352	1,201,896
Income tax prepayment		26,538	37,575
Cash and cash equivalents	24	25,481	9,516
		10,931,335	30,727,032
Total assets		30,076,160	72,624,465
Equity and liabilities			
Equity			
Share capital	25	430,857	430,857
Share premium		28,525,902	28,525,902
Retained earnings		(59,747,146)	(10,484,943)
Revaluation reserve		4,483,644	5,288,508
Effect of foreign currency translation		(732,874)	(9,271,792)
		(27,039,617)	14,488,532
Equity attributable to the parent		(27,039,617)	14,488,532
Non-controlling interest		(6,843)	23,073
		(27,046,460)	14,511,605
Non-current liabilities			
Loans and borrowings	19	15,343,403	15,395,560
Employee benefit liability	26	2,718,435	4,090,960
Provisions	28	844,009	1,597,403
Deferred tax liability		680,067	1,706,608
		19,585,914	22,790,531
Current liabilities			
Trade and other payables	27	11,266,369	10,732,217
Loans and borrowings	19	26,052,137	24,495,355
Provisions		171,318	46,004
Income tax payable	16	46,882	48,753
		37,536,706	35,322,329
		57,122,620	58,112,860
Total equity and liabilities		30,076,160	72,624,465

Notes on pages 30-66 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2014, 2013

	Share capital	Share premium	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total	NCI	Total equity
As at 01 January 2013	430,857	28,525,902	18,965,451	7,586,747	(9,210,495)	46,298,462	58,659	46,357,121
Profit for the period	-	-	(31,748,633)	-	-	(31,748,633)	(22,165)	(31,770,798)
Other comprehensive income	-	-	-	-	(61,297)	(61,297)	(13,421)	(74,718)
Depreciation transfer	-	-	2,298,239	(2,298,239)	-	-	-	-
Total comprehensive income	-	-	(29,450,394)	(2,298,239)	(61,297)	(31,809,930)	(35,586)	(31,845,516)
As at 31 December 2013	430,857	28,525,902	(10,484,943)	5,288,508	(9,271,792)	14,488,532	23,073	14,511,605
Profit for the period	-	-	(50,067,067)	-	-	(50,067,067)	(7,181)	(50,074,248)
Other comprehensive income	-	-	-	-	8,538,918	8,538,918	(22,735)	8,516,183
Depreciation transfer	-	-	804,864	(804,864)	-	-	-	-
Total comprehensive income	-	-	(49,262,203)	(804,864)	8,538,918	(41,528,149)	(29,916)	(41,558,065)
As at 31 December 2014	430,857	28,525,902	(59,747,146)	4,483,644	(732,874)	(27,039,617)	(6,843)	(27,046,460)

Notes on pages 30-66 are the integral part of these consolidated financial statements

Consolidated statement of cash flows

for the year ended 31 December 2014, 2013

	Year ended 31 December 2014 (unaudited)	Year ended 31 December 2013 (unaudited)
Operating activities		
Loss before tax	(49,817,440)	(31,968,347)
<i>Non-cash adjustment to reconcile profit before tax to net cash flows:</i>		
Depreciation and amortization	2,828,240	4,840,356
Loss on disposal of property, plant and equipment and intangible assets	14,573	1,407,492
Impairment of financial assets	3,346,239	11,262,121
Shortages and losses from impairment of inventory	5,615,603	6,018,352
Currency exchange differences	25,954,991	(23,463)
Finance expenses	3,745,790	3,680,843
Finance income	(107)	(59,465)
Movements in provisions, pensions	1,039,635	1,294,591
<i>Working capital adjustments:</i>		
Movements in provisions, pensions (cash part)	(73,198)	(107,512)
Decrease/(Increase) in trade and other receivables and prepayments	1,696,295	2,653,867
Decrease/(Increase) in inventories	1,630,855	374,812
Increase in trade and other payables	3,781,926	4,783,868
Cash used in operations	(236,598)	4,157,515
Interest received	109	59,467
Income tax paid	9,440	(8,649)
Net cash flows used in operating activities	(227,049)	4,208,333
Investing activities		
Proceeds from sale of property, plant, equipment and intangible asset	(56,034)	-
Net cash flows used in investing activities	(56,034)	-
Financing activities		
Proceeds from borrowings	299,154	843,799
Repayment of borrowings	-	(1,905,290)
Interest paid	-	(3,393,475)
Net cash flows from/(used in) financing activities	299,154	(4,454,966)
Net increase/(decrease) in cash and cash equivalents	16,071	(246,633)
Net foreign exchange difference	(106)	(74)
Cash and cash equivalents at 1 January	9,516	256,223
Cash and cash equivalents at 31 December	25,481	9,516

Notes on pages 30-66 are the integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General information

SADOVAYA GROUP S.A. (the Parent or "SADOVAYA GROUP S.A."), a public limited company registered under the laws of Luxembourg, was formed on 31 May 2010 for an unlimited period of time. SADOVAYA GROUP S.A. was formed to serve as the ultimate holding company of SADOVA LIMITED (Cyprus) and its subsidiaries. The registered address of SADOVAYA GROUP S.A. is 10, Boulevard de la Foire, L-1528 Luxembourg, Grand Duchy of Luxembourg.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.1 Basis of preparation

This report is intended solely for the purpose of performing and provisions the Consolidated financial statements for year 2014 of Sadovaya Group S.A. to the Warsaw Stock Exchange.

Statement of compliance

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

Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair

value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Preparation of financial statements on a going concern basis

The consolidated financial statements have been prepared on a going concern basis. At the date of signing of consolidated financial statements there are material uncertainties about conditions that cast substantial doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Group has recognized net loss after tax to USD 50,074 thousand and suffers from significant sales decrease starting the year 2012. Sadovaya and Rassvet-1 mines have temporary discontinued mining operations. Due to technological problems waste coal reprocessing plant located at Vakhrushevsky has not succeeded in achievement of planned production capacity. Management of the Group is intending to sale the non-core assets and use the proceeds to refit the equipment and increase the effectiveness of production process. Future development and performance of the Group substantially depends of sales to key customers.

Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual consolidated financial statements of 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 consolidated financial statements is the US Dollar.

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

Average 2014	31 December 2014	Average 2013	31 December 2013
11,740	15,769	7,993	7,993

i) Transactions and balances

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

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

All differences are taken to the income statement.

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

ii) Translation into presentation currency

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

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

b) Revenue recognition

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

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

Sale of goods

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

Rendering of services

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

Interest income

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

Rental income

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

c) Taxes***Current income tax***

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

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

Deferred tax

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

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

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

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

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

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

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

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

Value added tax

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

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

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

d) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

e) Intangible assets

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

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

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

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

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

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

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

f) Leases

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

Group as a lessee

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

Group as a lessor

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

g) Borrowing costs

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

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

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

h) Financial instruments – initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

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

Available-for-sale financial investments

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

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

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

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

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

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

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

Derecognition

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

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

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and borrowings

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

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

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

Derecognition

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

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

iii) Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement in other operating expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases

because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in other operating expenses in the income statement. In year 2012, the impairment loss is recognised as separate item that does not alter previous year results.

Available-for-sale financial investments

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

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

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

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

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

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

iv) Offsetting of financial instruments

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

v) Fair value of financial instruments

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

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

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

i) Advance payments

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

j) Inventories

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

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

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

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

l) Impairment of non-financial assets

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

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

m) Obligations on employee benefits***i) Defined contribution plans***

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

ii) Defined benefit plans

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

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

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

n) Cash and cash equivalents

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

o) Accounts payable

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

p) Provisions***General***

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

Land restoration and abandoning of mines

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

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

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

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

3. Significant accounting judgments, estimates and assumptions

Estimates and assumptions

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

Revaluation of property, plant and equipment

The Group measures its property, plant and equipment at revalued amounts with changes in fair value being recognised in other comprehensive income. The Group engaged an independent valuation expert to assess the fair value as at 31 December 2008 and at 31 December 2012. Comparative method was used for valuation of the machinery, substitution method– for valuation of buildings. Revaluation of property, plant and equipment at 31 December 2014 was not performed.

Impairment of non-financial assets

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

Net realisable value of inventories

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

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

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

Taxes

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

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

Pension benefits

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

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

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. New and amended standards and interpretations

Adoption of new IFRS standards, amendments and interpretations applicable in 2014 did not have any material impact on the consolidated financial statements of the Group.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since none of the entities in the Group qualify to be an investment entity.

- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of «currently has a legally enforceable right to set-off» and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Group's financial position.

- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. This amendment is not relevant to the Group.

- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period.

This amendment is not relevant to the Group.

5 Geographic information

Revenue from external customer:

	2014	2013
Ukraine	2,202,578	1,306,331
Export	338,959	746,887
	2,541,537	2,053,218

6. Revenue

	2014	2013
Revenue from sales of finished goods	2,423,699	1,723,288
Revenue from sales of merchandise	18,799	158,880
Revenue from rendering of services	99,039	171,050
	2,541,537	2,053,218

7. Cost of sales

	2014	2013
Change in finished goods and work-in-progress	(849,441)	(36,728)
Raw materials	(908,589)	(1,405,088)
Wages and salaries of operating personnel	(256,449)	(380,578)
Depreciation of non-current assets	(1,362,589)	(1,267,506)
Energy supply	(111,521)	(174,925)
Held for resale merchandise	(24,769)	(56,513)
Subcontractors services	(298,153)	(180,084)
Taxes and obligatory payments	(5,230)	(20,053)
Repair and current maintenance	(66,661)	(12,399)
	(3,883,402)	(3,533,874)

8. Selling and distribution expenses

	2014	2013
Delivery costs	(9,441)	(72,644)
Raw materials	(197,217)	(253,244)
Repair and current maintenance	(7,738)	(8,554)
Depreciation of non-current assets	(9,901)	(17,800)
Wages and salaries of distribution personnel	(37,938)	(44,270)
Other expenses	(6,858)	(7,020)
	(269,093)	(403,532)

9. Administrative expenses

	2014	2013
Professional services	(691,686)	(1,267,797)
Wages and salaries of administrative personnel	(80,369)	(168,283)
Insurance	(32,042)	(82,904)
Utilities	(18,877)	(28,655)
Other expenses	(5,056)	(9,739)
Depreciation of non-current assets	(2,586)	(42,466)
Tax other than income tax	(6,887)	(13,284)
	(837,503)	(1,613,128)

10. Cost of idle capacity

	2014	2013
Depreciation of idle assets	(1,432,315)	(3,481,966)
Wages	(859,407)	(1,676,210)
Other	(556,161)	(2,258,338)
	(2,847,883)	(7,416,514)

11. Expenses from financial assets impairment

	2014	2013
Impairment of accounts receivable	(3,278,725)	(9,286,210)
	(3,278,725)	(9,286,210)

12. Other income/(expenses), net

	2014	2013
Income from sale of foreign currency	5,922	12,839
Net income/(expenses) from operational exchange differences	(5,508,773)	52,862
Loss from sale of property, plant and equipment	-	(957,059)
Fines and penalties accrued	(5,322)	(161,511)
Shortages and losses from impairment of inventories	(5,615,603)	(6,018,352)
Charity	(35,558)	(94,122)
Writing-off of non-current assets	(1,227)	(813,923)
Other income/(expenses)	(71,997)	(138,276)
	(11,232,558)	(8,117,542)

13. Finance expenses

	2014	2013
Interest expenses	(3,675,084)	(3,393,693)
Borrowing costs	-	(41,588)
Effect of provision discounting	(70,925)	(245,781)
	(3,746,009)	(3,681,062)

14. Depreciation of non-current assets

	2014	2013
<i>Depreciation of property, plant and equipment, recognized in:</i>		
cost of sales	(1,337,897)	(1,232,252)
administrative expenses	(1,398)	(29,452)
selling and distribution expenses	(9,901)	(17,800)
other expenses (incl temporarily idle capacity)	(1,437,082)	(3,488,967)
<i>Amortization of intangible assets, recognized in:</i>		
cost of sales	(24,692)	(35,254)
administrative expenses	(1,188)	(13,014)
other expenses (incl temporarily idle capacity)	(16,079)	(23,617)
	(2,828,237)	(4,840,356)

15. Employee benefit expenses

	2014	2013
Wages and salaries	(1,030,701)	(2,189,343)
Social security contributions and similar taxes	(410,839)	(905,941)
Net plan expenses	(1,486,035)	(1,486,035)
	(2,927,575)	(4,581,319)

Average number of employees, persons	159	947
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	2014	2013
Wages and salaries of operating personnel	(256,449)	(179,144)
Wages and salaries of administrative personnel	(80,369)	(168,283)
Wages and salaries of distribution personnel	(37,938)	(64,270)
Wages and salaries of non-operating personnel	-	-
Wages related to idle periods	(859,407)	(1,676,210)
Wages and salaries of personnel involved in production of property, plant and equipment	(196,027)	(991,027)
Wages and salaries of personnel recognized as deferred expenses	(11,350)	(16,350)
Net plan expenses	(1,486,035)	(1,486,035)
	(2,927,575)	(4,581,319)

16. Income tax

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

Consolidated income statement

	2014	2013
Current income tax charge	(2,877)	(12,998)
Deferred income tax benefit/(loss) relating to origination and reversal of temporary differences	(253,931)	210,548
Income tax expense reported in the income statement	(256,808)	197,550

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	Consolidated statement of comprehensive income
	2014	2013	2014	2014
<i>Deferred tax assets</i>				
Inventories	368,892	1,353,634	(426,123)	
Other financial assets	-	1,342	(914)	
Provisions	75,080	255,585	(73,167)	-
Defined benefit plan obligations	359,713	686,844	15,520	-
Charged vacation expenses	8,107	42,045	(17,737)	-
<i>Deferred tax liabilities</i>				
Property, plant and equipment and intangible assets	(629,037)	(1,706,608)	317,027	
Other financial assets	(51,030)		(68,538)	-
Deferred income tax (expenses)/benefits			(253,931)	-
Net deferred tax asset/(liability)	131,725	1,986,476		

	Consolidated statement of financial position		Consolidated income statement	Consolidated statement of comprehensive income
	2013	2012	2013	2013
Deferred tax assets				
Inventories	1,353,634	424,970	928,664	-
Other financial assets	1,342	173,136	(171,794)	-
Provisions	255,585	216,111	39,474	-
Defined benefit plan obligations	686,844	480,543	206,301	-
Charged vacation expenses	42,045	201,798	(159,753)	-
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(1,706,608)	(1,074,261)	(632,344)	-
Deferred income tax (expenses)/benefits			210,548	
Net deferred tax asset/(liability)	632,842	422,297		

Reconciliation of deferred tax assets/ (liabilities):

As at 31 December 2012	422,297
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	210,548
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	-
Effect of translation into presentation currency	(3)
As at 31 December 2013	632,842
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	(253,931)
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	-
Effect of translation into presentation currency	(247,186)
As at 31 December 2014	131,725

17. Property, plant and equipment

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

As at 31 December 2014, the Group did not perform revaluation procedure.

Movement of property, plant and equipment for the period ended 31 December 2014 and 2013 was as follows:

	Land and Buildings	Machinery	Vehicles	Furniture and fittings	Other assets	Construction in- progress	Total
<i>Cost</i>							
As at 31 December 2012	32,365,260	20,079,309	3,876,729	276,717	159,738	3,185,934	59,943,687
Additions	-	-	-	192,320	-	-	192,320
Transfers	40,411	125,600	170,572	-	12,564	(349,147)	-
Disposals	-	(1,939,180)	(409,340)	(58,621)	(53,042)	-	(2,460,183)
Effect of translation into presentation currency	-	-	-	-	-	-	-
As at 31 December 2013	32,405,671	18,265,729	3,637,961	410,416	119,260	2,836,787	57,675,824
Additions	-	-	-	-	-	12,815	12,815
Transfers	12,815	-	-	-	-	(12,815)	-
Disposals	-	-	(16,838)	-	(118,295)	-	(135,133)
Effect of translation into presentation currency	(15,971,580)	(9,012,069)	(852,696)	(203,246)	6,761	(1,796,060)	(27,828,890)
As at 31 December 2014	16,446,906	9,253,660	2,768,427	207,170	7,726	1,040,727	29,724,616
<i>Accumulated depreciation</i>							
As at 31 December 2012	(5,844,414)	(7,830,699)	(1,260,903)	(103,349)	(41,295)	-	(15,080,660)
Charge for the period	(2,190,664)	(1,757,691)	(248,580)	(97,503)	(13,120)	-	(4,307,558)
Disposals	-	253,628	62,365	5,672	8,653	-	330,318
Effect of translation into presentation currency	-	-	-	-	-	-	-
As at 31 December 2013	(8,035,078)	(9,334,762)	(1,447,118)	(195,180)	(45,762)	-	(19,057,900)
Charge for the period	(1,190,572)	(1,384,749)	(211,569)	(28,535)	(6,690)	-	(2,822,115)
Disposals	-	-	5,269	-	30,568	-	35,837
Effect of translation into presentation currency	4,226,655	4,901,893	757,500	102,493	19,189	-	10,007,730
As at 31 December 2014	(4,998,995)	(5,817,618)	(895,918)	(121,222)	(2,695)	-	(11,836,448)
<i>Net carrying amount</i>							
As at 31 December 2012	26,520,846	12,248,610	2,615,826	173,368	118,443	3,185,934	44,863,027
As at 31 December 2013	24,370,593	8,930,967	2,190,843	215,236	73,498	2,836,787	38,617,924
As at 31 December 2014	11,447,911	3,436,042	1,872,509	85,948	5,031	1,040,727	17,888,168

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 2012							
Cost	29,199,199	13,633,768	3,058,427	247,008	247,388	3,332,439	49,718,229
Accumulated depreciation	(4,260,252)	(3,871,469)	(927,405)	(81,045)	(40,702)	-	(9,180,873)
As at 31 December 2013							
Cost	29,235,657	12,402,355	2,870,058	366,353	184,699	2,967,236	48,026,358
Accumulated depreciation	(5,857,124)	(4,615,072)	(1,064,368)	(153,058)	(45,105)	-	(11,734,727)
As at 31 December 2014							
Cost	17,537,617	9,432,415	1,570,038	126,513	54,618	1,467,130	30,188,331
Accumulated depreciation	(9,109,456)	(4,899,421)	(815,515)	(65,714)	(28,370)		(14,918,475)
Net carrying amount							
As at 31 December 2012	24,938,947	9,762,299	2,131,022	165,963	206,686	3,332,439	40,537,356
As at 31 December 2013	23,378,533	7,787,282	1,805,691	213,295	139,594	2,967,236	36,291,632
As at 31 December 2014	8,428,161	4,532,994	754,523	60,799	26,248	1,467,130	15,269,856

Carrying amount of temporarily idle capacity as at 31 December 2014 was USD 18,193,971 (as at 31 December 2013 – USD 34,143,572).

18. Intangible assets

Intangible assets of “Shahta “Sadovaya” LLC as at 31 December 2014 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 2014 equals to USD 47,444 (as at 31 December 2013 equals to USD 96,250).

- special permission for subsurface use #5259 dated 27 December 2010 issued by the Ministry of Ecology and Natural Resources of Ukraine for 20 years. Carrying amount at 31 December 2014 equals to USD 210,046 (as at 31 December 2013 equals to USD 416,563). *In June 2015 it was temporally suspended.* Currently the Group takes all efforts to restart its activity.

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 2014 equals to USD 116,664 (as at 31 December 2013 equals to USD 231,615).

Movement of intangible assets for the period ended 31 December 2014 and 2013 was as follows:

	Computer software	Licenses and rights to use natural resource	Expenses on acquisition of intangible assets	Total
<i>Cost</i>				
As at 31 December 2013	53,588	1,056,069	68,161	1,177,818
Additions	127	-	-	127
Disposals	-	-	-	-
Effect of translation into presentation currency	(24,073)	(510,267)	(43,681)	(578,021)
As at 31 December 2014	29,642	545,802	24,480	599,924
<i>Accumulated amortization</i>				
As at 31 December 2013	(22,161)	(215,598)	-	(237,759)
Charge for the period	(3,990)	(37,969)	-	(41,959)
Disposals	-	-	-	-
Effect of translation into presentation currency	10,654	114,005	-	124,659
As at 31 December 2014	(15,497)	(139,562)	-	(155,059)
<i>Net carrying amount</i>				
As at 31 December 2013	31,427	840,471	68,161	940,059
As at 31 December 2014	14,145	406,240	24,480	444,865

19. Loans and borrowings

The balances of the Group's loans and borrowings were as follows:

	at 31/12/2014	at 31/12/2013
Non-current loans and borrowings		
Bank loans	16,912,123	21,399,494
	16,912,123	21,399,494
Deducting current portion of long-term borrowings		
Current portion of long-term bank loans	(1,568,720)	(6,003,934)

Total non-current loans and borrowings**15,343,403****15,395,560****Current loans and borrowings**

Bank loans	24,356,582	18,241,202
Interest free financial liabilities	126,835	250,219
Promissory notes	-	-
Current portion of long-term bank loans	1,568,720	6,003,934
	26,052,137	24,495,355
	41,395,540	39,890,915

	at 31/12/2014			at 31/12/2013	
	Currency	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	USD	3M LIBOR+6.5%	18,299,000	3M LIBOR+6.5%	18,000,000
Loan 2	USD	1M LIBOR+8.5%	21,293,720	1M LIBOR+8.5%	21,293,720
Loan 3	UAH	16%	53,617	16%	105,774
Loan 4	UAH	18%	122,051	18%	240,781
Loan 5	USD	0%	1,500,000	-	-
Loan 7	UAH	0%	126,835	0%	250,219
Bank overdrafts	UAH	0%	317	0%	421
			41,395,540		39,890,915

Loan 1

Loan was received in March 2012 from European Bank for Reconstruction and Development regarding to Loan agreement #42621 dated 30/12/2011. The borrower is "PC Interdon" LTD. Maturity date is 28 December 2018. In September 2013, the Group failed to pay interests due as required by loan Agreement. As a result EBRD declared all of the principal and accrued interests due and payable on demand due to Event of Default. Pursuant to the share pledge agreement as of February 15, 2012, the main shareholder of the Group, Connektico Ventures Ltd, has pledged 17.50% of its shares held in the Group in favor of EBRD.

In 2014, the Group received Loans in the amount of USD 299,000 disbursement under Amendments dd 27.04.2014.

Loan 2

Loan was received in December 2011 from OTP Bank according to agreement #CR 11-321/28-2 dated 09/12/2011. The Borrowers are "Shahta Sadovaya" LTD and "Shahta Rassvet-1" LTD. Maturity date is 30 October 2016.

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

In December 2015 OTP Bank began court proceedings with Sadovaya mine, Rassvet mine, Donvostok STB and Interinvest, the subsidiaries of Sadovaya Group, concerning the indebtedness recovery according to the

Loan agreement between PJSC OTP Bank and “Sadovaya mine” LLC and “Rassvet-1 mine” LLC with total amount of USD 25,1 mln.

Loan 3

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

Loan 4

Loan was received in March 2011 from SB "Credit-Dnepr" under agreement #280311-K dated 28/03/2011. The borrower is "Volat Trans" PE. Maturity date is 28/03/2014. The Loan is secured by property rights according to sale-purchase agreement #2011/2 dated 17.02.2011, between Volat Trans PE and "Amkodor-Ukrspcmash" LLC and guaranted by Guarantee agreement of "Shakhta "Sadovaya" LLC #280311-II dated 28.03.2011.

Loan 5

Under the Cession Agreements signed by Sadovaya Limited and Hayworth Services Ltd on 03.11.2014, the former transferred the rights it has in and to the claim to "Shahta Sadovaya" LTD (Loan Agreement No 20110627U3 dd 27 June 2011) and "Shahta Rassvet-1" LTD (Loan Agreement No 20110627U4 dd 27 June 2011) in amount USD 300,000 and USD 1,200,000 respectively.

Loan 6

Loan was received in January 2012 from Gornoe Oborudovanie LLC. The loan is unsecured.

20 Fair value

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.

There were no material differences between carrying amounts and fair values of financial instruments as at the reporting date.

21. Inventories

	at 31/12/2014	at 31/12/2013
Raw materials	6,769,444	23,763,297
Finished goods	35,334	318,605
Other inventories	113,077	196,760
Merchandise	213,199	426,447
Spare parts	68,448	141,560
	7,199,502	24,846,669

During the year 2014, USD 5,615,603 (2013: USD 6,018,352) was recognised as an expense for inventories carried at net realisable value.

22. Trade and other receivables

	at 31/12/2014	at 31/12/2013
Trade receivables	5,243,929	7,020,141
Provision for impairment of trade receivables	(3,750,381)	(3,786,985)
VAT recoverable	338,588	970,283
Other receivables	1,741,033	427,144
Prepayments for other taxes	1,293	793
	3,574,462	4,631,376

For terms and conditions relating to related party receivables, refer to Note 29.

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 30 for further guidance).

	Trade receivables	Total
As at 31 December 2012	4,078,477	4,078,477
Charge for the year	3,666,986	3,666,986
Utilised	(3,958,478)	(3,958,478)
Unused amounts recovered	-	-
Effect of translation into presentation currency	-	-
As at 31 December 2013	3,786,985	3,786,985
Charge for the year	2,458,997	2,458,997
Utilised	-	-
Unused amounts recovered	-	-
Effect of translation into presentation currency	(2,495,601)	(2,495,601)
As at 31 December 2014	3,750,381	3,750,381

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

	Total	Undue and not impaired	Past due and partly impaired	Past due, but not impaired			
				< 60 days	60-180 days	180-360 days	> 360 days
2014	3,234,581	1,256,326	50,380	15,269	2,569	256,801	1,653,236

2013	3,660,300	522,598	2,783,823	26,512	36,521	106,578	184,268
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As at 31 December 2014, receivables of USD 3,750,381 (as at 31 December 2013: USD 3,786,985) were impaired by recognition of provision for impairment according to the accounting policy of the Group (Note 2.2 (h) financial instruments – initial recognition and subsequent measurement).

23. Prepayments and deferred expenses

	at 31/12/2014	at 31/12/2013
Prepayments to suppliers	2,903,473	5,245,492
Provisions for impairment of prepayments	(2,873,916)	(4,236,849)
Deferred expenses	75,795	193,253
	105,352	1,201,896

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

	2014	2013
As at 1 January	4,236,849	81,813
Charge for the year	975,497	4,236,849
Utilised	-	(81,813)
Unused amounts recovered	-	-
Effect of translation into presentation currency	(2,338,430)	-
As at 31 December	2,873,916	4,236,849

24. Cash and cash equivalents

		at 31/12/2014	at 31/12/2013
Cash at banks	UAH	3,511	8,925
	USD	21,958	455
	EUR	12	136
		25,481	9,516

25. Share capital

	2014		2013	
	%	Amount	%	Amount
Connektico Ltd	75	323,143	75	323,143
Free float	25	107,714	25	107,714
		430,857		430,857

As at 31 December 2014, 2013 all shares issued by the Group are fully paid.

26. 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.

All the parameters remain unchanged for the year 2014.

27. Trade and other payables

Trade payables are non-interest bearing and have an average term of three months.

For terms and conditions relating to related party disclosure, refer to Note 29.

For explanations on the Group's credit risk management processes, refer to Note 30.

	at 31/31/2014	at 31/12/2013
Trade payables	2,492,406	4,163,641
Accrued salaries, wages and related taxes	1,437,359	2,398,487
Provision for unused vacations	94,376	233,784
Accounts payable for other taxes	161,014	96,323
Advances from customers	280,984	359,931
Current portion of non-current liabilities on defined benefit plan	102,067	179,391
Accrued interest	6,036,099	2,738,613
Other current liabilities	662,064	562,047
	11,266,369	10,732,217

28. Provisions

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 disrupted by underground works and waste dumps.

	Provision on processing waste dump	Provision on mine abandon and dismantling of machinery	Total
As at 31 December 2012	14,825	1,335,865	1,350,690
Accrued obligations	933	-	933
Discounting effect	873	244,907	245,780
Effect from translation into presentation currency	-	-	-
As at 31 December 2013	16,631	1,580,772	1,597,403
Accrued obligations	635	-	635
Discounting effect	70,925	-	70,925
Effect from translation into presentation currency	(78,845)	(746,109)	(824,954)

As at 31 December 2014

9,346

834,663

844,009

All the parameters remain unchanged for the year 2014.

29. Related parties

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

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

	Year ended 31/12/2014	Year ended 31/12/2013
Purchase of goods and services	3,611	90,813
Revenues from goods and services	1,624	481,644
	at 31/12/2014	at 31/12/2013
Accounts payable	170,972	363,938
Accounts receivable	-	1,036,780
Loans	126,835	250,219

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. Accounts receivable from the related parties were fully impaired in 2014.

Loans

Reflects a short-term loan received from Gornoe Odorudovanie LLC in January 2012.
The loan is interest-free.

30. Financial risk management objectives and policies

Due to its activity, the Group is exposed to the following risks arisen from its use of financial instruments:

Credit risk

Liquidity risk

Market risk

This Note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the Group's management of capital.

The Board of directors has overall responsibility for the establishment and supervision of the risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of financial assets represents the maximum credit exposure.

Maximum exposure to credit risk was as follows:

	at 31/12/2013	at 31/12/2013
Cash (see Note 24)	25,481	9,516
Trade accounts receivable, net (see Note 22)	3,234,581	3,660,300
	3,669,816	14,442,677

In 2014, more than 70% of Group's revenue was generated from 2 Clients. However, based upon previous experience of business partnership with these companies, the Management considers Group's exposure to credit risk to be low.

For general evaluation of potential customers the Group judges ratings of companies based on public information (if any) from all available sources of information, as well previous experience of business partnership with counterparty is taken for evaluation purposes.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The average credit period on purchases of goods is 25 days.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2014	On demand	Less than 3 months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	18,299,319	-	-	7,752,818	15,343,403	41,395,540
Trade and other payables	3,417,101	1,426,300	2,568	1,250	-	4,847,219
	21,716,420	1,426,300	2,568	7,754,068	15,343,403	46,242,759

Year ended 31 December 2013	On demand	Less than 3 months	3 to 6 months	6 to 12 months	More than 1 year	Total
Loans and borrowings	18,000,000	60,616	310,414	6,124,324	15,395,561	39,890,915
Trade and other payables	2,638,297	1,807,033	5,137	3,815	-	4,454,282
	20,638,297	1,867,649	315,551	6,128,139	15,395,561	44,345,197

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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.

Interest rate risk

Interest rate risk – the risk of changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). The Group obtains borrowings with both fixed and variable rates.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's finished goods or raw materials used in production.

The selling prices for coal are largely determined by global market conditions.

If any or all of these factors depress prices, our business, results of operations and financial condition may be adversely affected.

The Group management makes monitoring of market prices of finished goods and considers new sales markets (including foreign) in order to manage exposure to changes.

The Group manages the risk of market price change for key inputs by working with reliable suppliers and by monitoring market for opportunity to get new attractive supply of resources.

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 monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents.

	2014	2013
Loans and borrowings	41,395,540	39,890,915
Trade and other payables	11,266,369	10,732,217
Cash and short-term deposits	(25,481)	(9,516)
Net debt	52,636,428	50,613,616
Equity	(27,046,460)	14,511,605
Capital and net debt	25,589,968	65,125,221
Gearing ratio	2.06	0.78

31. Events after the reporting date

As Sadovaya Group S.A. could not perform its financial liabilities to Interaudit SARL, in January 2015 the whole debt was transferred to NV Atradius Credit Insurance, the collector service. Judicial proceedings were opened. As of 28 January 2015 Sadovaya Group received the notification concerning the possibility of transfer of the judicial proceedings to the Bankruptcy court. In February 2015 the aforesaid court proceedings was ceased.

In February the shares of Sadovaya Group restarted its trading at Warsaw Stock Exchange.

In May 2015 in the result of failure to publish Annual report 2014 of Sadovaya Group S.A. the trading of Sadovaya group shares at WSE was temporally stopped. The trading renew will take place after the publishing of Annual report 2014 that is in the end of February 2016.

In July special permission for subsurface use #5259 dated 27 December 2010 issued by the Ministry of Ecology and Natural Resources of Ukraine for 20 years of Shakhta "Sadovaya" LLC, the subsidiary of Sadovaya Group, was temporally stopped. Currently the company makes negotiation concerning its continuation.

In November 2015 Annual General Meeting took place concerning the Directors mandates prolongation.

In December 2015 OTP Bank began court proceedings with Sadovaya mine, Rassvet mine, Donvostok STB and Interinvest, the subsidiaries of Sadovaya Group, concerning the indebtedness recovery according to the Loan agreement between PJSC OTP Bank and "Sadovaya mine" LLC and "Rassvet-1 mine" LLC with total amount of USD 25,1 mln.

Sadovaya Group also could not meet its obligations to other creditors but it makes every effort to find the resolution of each matter. It succeeded to find the mutual understanding almost with all creditors.

32. Approval of the financial statements

The Consolidated Financial Statements of the Group for the year ended 31 December 2014 were approved for issue and signed on behalf of the Management Board on 15 February 2016.