



**Sadovaya Group**  
ANNUAL REPORT 2016



This page was intentionally left blank



Dear Sirs,

Sadovaya Group thanks its shareholders, colleagues and partners for their patience and understanding in this situation. Unfortunately, in the year of 2016 there were no significant changes or events in the Company that had a positive impact on its activities.

Due to the difficult financial situation, the impossibility of restarting of its subsidiaries activities located in the territory in Ukraine where the armed conflict takes place, in 2016 Sadovaya Group incurred hard losses and was bound to postpone the audit of the report 2016 until the full completion of military operations. Despite constant political negotiations and meetings of contact groups (Minsk agreements - 2), any single decision concerning the resolving of Donbass conflict was not adopted.

The Company's management does its best to preserve all assets of the group. Up to date, due to the continuous ongoing-armed actions, Sadovaya Group has not been able to determine the exact amount of material damage and losses incurred by the Company, which can be determined only after the end of the anti-terrorist operation in the east of Ukraine.

The settlement of the current situation and the beginning of the operations restarting directly depends on the finishing of the conflict, political and economic stability in the country. Demand for coal continues to remain high, which allows us to hope for soon resolution of the situation and the renewal of activities in the coming periods.

The company's management continues to negotiate with Sadovaya Group creditors and counterparties, works out all possible options for restructuring existing financial obligations. We are in constant search of new investors and partners, and we are developing new variants for the resumption of the Group's operation. We carefully consider all possible ways of crisis getting out.

Sincerely yours,



Aleksandr Tolstoukhov

## Contents

1. Management report
  - a. Coal market
  - b. Business description and principal activities of the Group
  - c. Highlights of 2016
  - d. Review of financial results of 2016
  - e. Related party transactions
  - f. Principal risk and uncertainties
  - g. Future developments of the Group
  - h. Events after the end of reporting period
  - i. Corporate governance report
2. Management statement
3. Consolidated unaudited financial statement for the year ended 31 December 2016
4. Notes to the consolidated unaudited financial statements



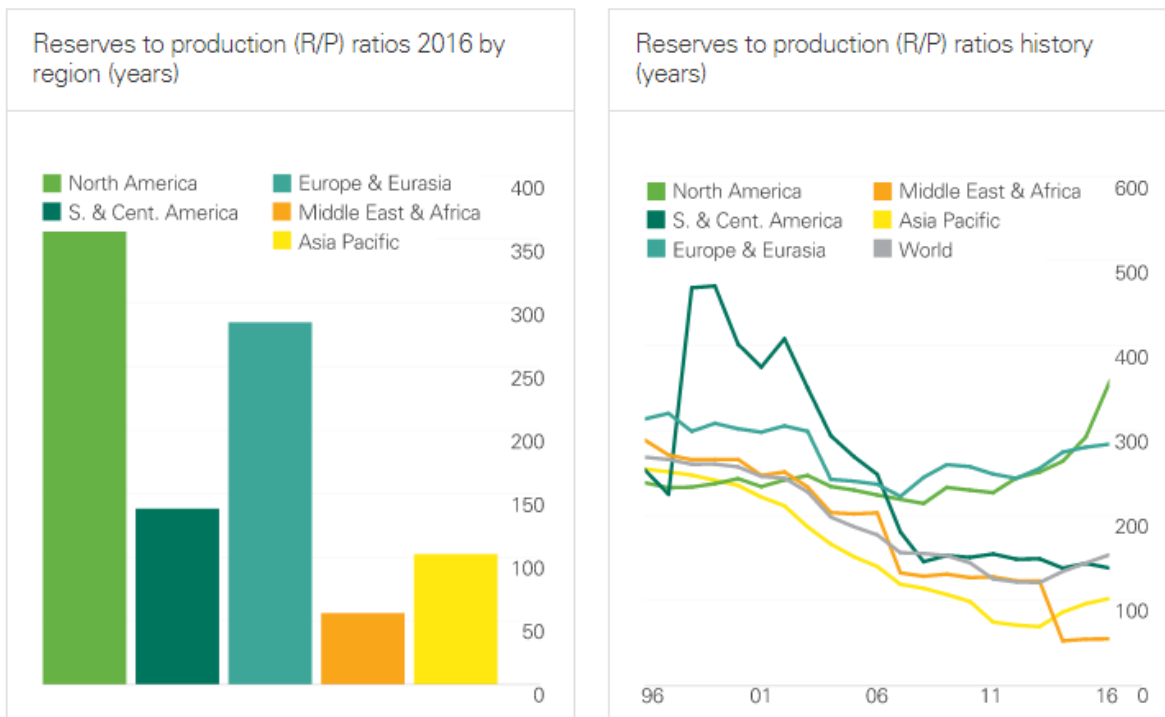
## Coal market

Coal plays an important role in the security of supply in developed countries, and is a key enabler for economic growth and development in developing countries. Coal resource exists in developing countries (including those with significant energy challenges). Therefore, coal has a key role to play in assisting the development of baseload electricity it is most needed. It is likely to remain the most affordable fuel for power generation in many developing and industrialized countries for decades.

In 2016, coal industry was undergoing a slow growth since the developing countries will continue refusing from this energy source due to its eco-aggressive nature. Coal generates almost 30% of the global electricity but its share is anticipated to drop at 27% in 2021 because 45% of all carbon emissions in the energy sector are connected with the coal, and it is also a source of other types of pollution. However, the reduced demand for coal in the developed countries will be compensated by an increasing demand in the developing countries, particularly from India and South-East Asia.

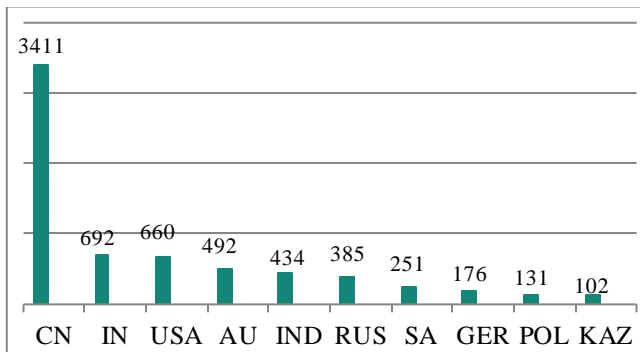
World proved coal reserves are currently sufficient to meet 153 years of global production, roughly three times the R/P ratio for oil and gas. Total proved coal reserves are shown for anthracite and bituminous (including brown coal) and sub-bituminous lignite.

**Fig.1 World Coal Reserves**



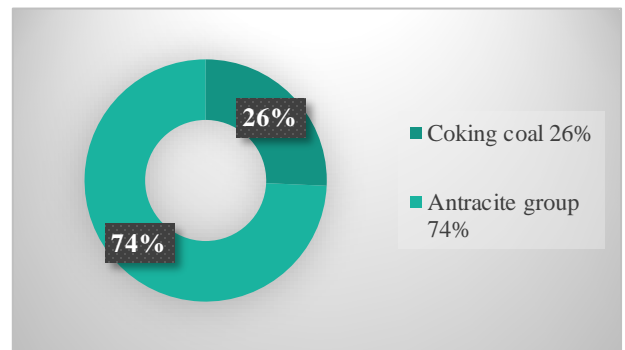
Source: BP Statistical Review of World Energy 2017

**Fig.2 Top coal producing countries 2016, Mt**



Source: BP Statistical Review of World Energy 2017

**Fig.3 Ukraine's coal production structure, in 2016**



Report 2/2017 of Ministry of Energy and Coal Industry

In the top ten, the only amendment is that the United States and India have been replaced by places, mainly due to a significant decline in US production (for the second consecutive year).

China is gradually reducing production. The reason for this is a series of measures put in place by the government at the beginning of the year to reduce excess capacity in the sector of domestic coal production and increase the productivity and profitability of the remaining mines. These measures were aimed, among other things, at encouraging the consolidation of coal companies. In addition, the government limited the number of working days in the mines to 276 days (previously there were 330). As a result, domestic production of coal sharply decreased, and prices sharply increased. For the year, the price for coal has increased by more than 60%.

**Fig.4 Coal basins in Ukraine**



Source: Extractive Industries Transparency Initiative of Ukraine

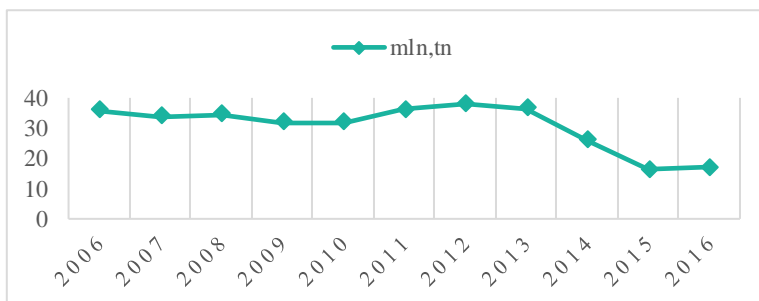
Ukraine has a favorable geographical location between Europe and Asia at the crossroads of major international trade routes and benefits from access to river and sea ports, developed railway and road networks.

The Ukrainian coal industry accounts for about 4% of the world’s confirmed reserves of coal allowing it to enter the top twenty of the world’s proven reserves. According to the specialists’ estimates, the coal reserves in Ukraine were around 44,317 mln. tonnes in the beginning of 2016, of which about 70% accounted for the steam coal and about 30% — for the coking coal.

Ukraine’s key coal reserves are concentrated in two basins: Donetsk and Lviv-Volyn basins. The Donetsk coal basin is located in the territory of the Dnipro, Donetsk, Luhansk, and Kharkiv regions. The number of functioning coal beds reaches 120 with 65 of them being in service. The Lviv-Volyn basin is located in the Lviv and Volyn regions.

Starting 2001 to 2013, Ukraine extracted around 60-65 mln.t. of unprocessed coal. However, starting July 2014, after the partial loss of the Donetsk coal basin, where the largest anthracite coal deposits were located, a decline in extraction was quick to take place. Since the own coal production reduced, Ukraine gradually started increasing its imports. In particular, Russia, USA and Kazakhstan were the largest coal suppliers to Ukraine in 2016.

**Fig.5 Coal production in Ukraine, 2016**

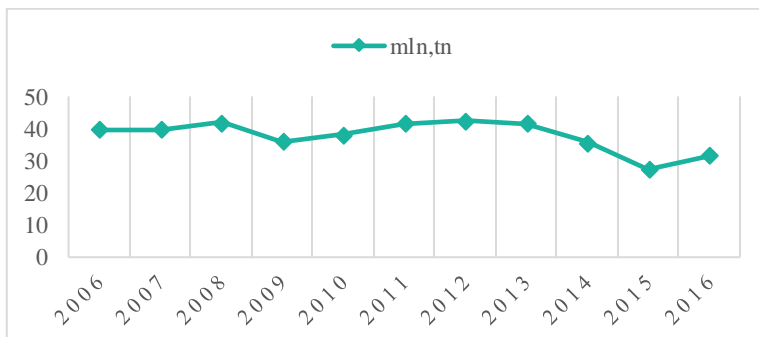


2016	Growth rate per annum		Share 2016
	2016	2005-15	
Ukraine	4.3%	-7.3%	0.5%
<b>17.1</b>			

Source: Ministry of Coal and Energy of Ukraine Ecological Centre of Ukraine

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

**Fig.6 Coal consumption in Ukraine, 2016**



2016	Growth rate per annum		Share 2016
	2016	2005-15	
Ukraine	14.9%	-3.1%	0.8%
<b>31.5</b>			

Source: Ministry of Coal and Energy of Ukraine Ecological Centre of Ukraine

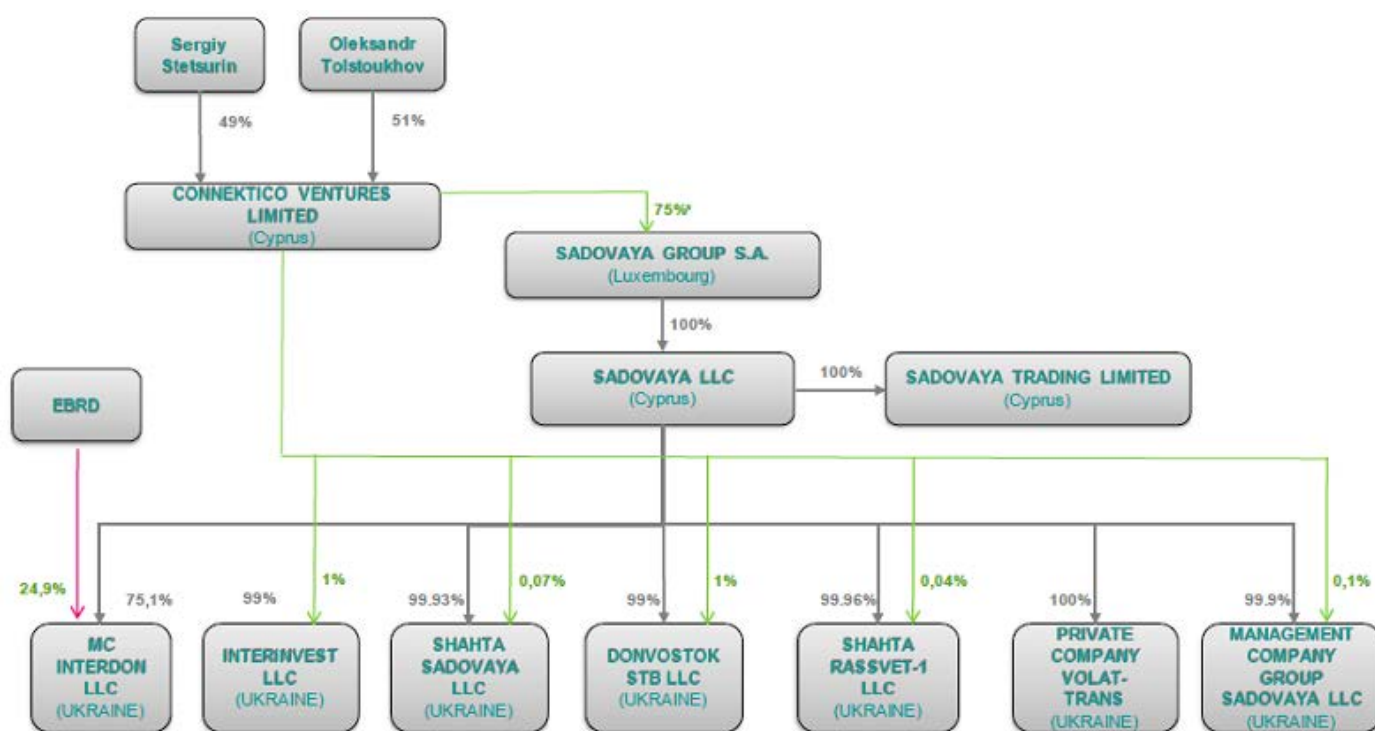
## Business description and principal activities of the Group

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.7).

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.

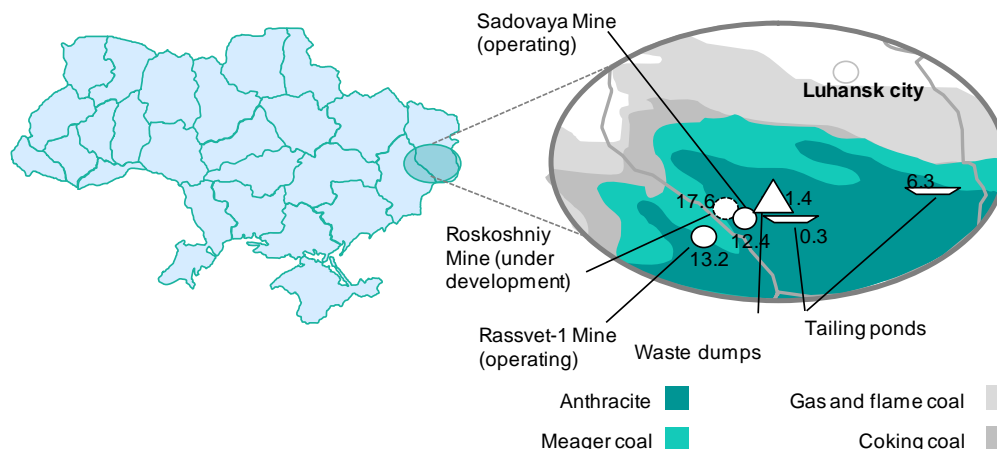
The Group’s principal activities are the preparation and marketing of coal from three main sources: own underground mining, the recovery of coal waste deposits, and third party purchases. The Group’s diversified mining and related operations are divided into the following major segments: coal mining 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.7 Sadovaya Group structure, 2016**



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 Roskoshtniy 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.



**Fig.8 Geographical location of Sadovaya Group assets, 2017**


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).

**Fig.9 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
	<b>51,128,205</b>	<b>31,198,162</b>

In October 2012 due to surplus of coal these two mining complexes have to be temporally stopped. In the beginning of the year 2013 due to the beginning of the Anti-terroristic operation in the East of Ukraine where these units are located, it was taken the decision to stop its activity until its finishing. Currently they continue working in sustaining mode to maintain safety conditions of underground mining.

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

As of the date of this report the Anti-terroristic operation is extended. Despite political negotiations and initiatives on conflict resolution (Minsk-2 Agreements) a sustainable breakthrough in conflict resolution has not yet occurred. Therefore the Management has limited capabilities to estimate inventory damage and theft probability as well as to estimate impairment of property, plant and equipment considering uncertainties of their future economic benefits and losses.

## Waste recovery

Waste heaps and dumps are an integral part of the Donbas region. One of the largest deposits of coal in the world is located in the Donetsk Basin. Coal production is carried out mostly through mining and has a 300-year history. The total basin area is about 60 000 km<sup>2</sup> and covers the territory of the Dnipropetrovsk, Donetsk and Lugansk regions. Stocks of coal up to a depth of 1800 m are about 140.8 billion tons.



Coal extraction results in huge waste heaps of tailings and gangue found almost everywhere in Donbas. Extraction processes at mines were in past frequently inefficient. For a long period of time it was technically not possible to extract all the coal from the excavated rocks. That is why the waste heaps in Donbas contain reasonable amounts of residual coal.

Waste heaps are frequently spontaneously igniting and burning, causing emissions of hazardous substances and green-house gases. Coal fires in the waste heap are long-lasting and can last up to 7 years or longer. Waste heaps also occupy large areas. As of 2010 the waste heaps in Donbas occupied 9,270 hectares of land and this area is still growing. The fraction of coal in the waste heaps can be as high as 28 - 32%<sup>3</sup>, so the risk of spontaneous self-heating and burning is very high. The survey shows that 78% of waste heaps in the Luhansk Region are, or have been burning at some point in time. If a waste heap has started burning, even if the fire is extinguished, it will continue burning after a while unless the fire is extinguished regularly.

Over time, almost all dumps, that contain coal, are very susceptible to spontaneous ignition and self-sustained combustion. Those dumps, that are currently burning or are at a risk of ignition, are the source of uncontrolled emission of greenhouse gases and hazardous substances. Oxidation and combustion of rocks is accompanied by emission of wide range of volatile components that are emitted from the rock mass, enriched by coal substance. Hot waste heaps produce steam, which can contain not only water but such components as: sulfuric acid (sulfate ion), carbon dioxide, nitrogen dioxide (nitrate ion). With the lack of oxygen there are hydrogen sulfide, hydrocarbons, ammonia, carbon monoxide in

the gas-vapor emissions. Water erosion of the heap results in the leaching of toxic components and contamination of the soil and subsoil waters, extending them to a considerable distance. Thus, the role of heaps in the ecology of the region is extremely negative, increasing in many times during its burning. The process of combustion of carbon in rock dumps is long lasting from 5 to 7 years.

The only way to prevent a waste heap from burning is to extract all the combustible matter (waste coal). Coal extracted from the waste heaps will substitute the coal from the mines and will be used mainly for energy production purposes at coal-fired power plants.

Taking into the account all above said the Group took a decision to receive the loan for the project of construction of the relevant Modular Enrichment complexes aimed at coal extraction from waste heaps with mining residues in the Vakhrusheve city. These waste heaps have been accumulated some time before the start of the project activity from the mining waste of underground mines.

The project activity will prevent greenhouse gas emissions into the atmosphere during uncontrolled coal fires in the waste heaps and avoid additional coal production. The Project includes the installation of coal extraction facility and the grading of the extracted coal. Extracted coal will subsequently be sold for heat and/or power production.

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 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 due to beginning of military conflict in the east of Ukraine.

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 interests 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 it was temporally captured by unknown military officers.

Currently the enterprise is under the control of the Group. In the end of 2015 it restarted its recovery activity. In 2015 Interdon changed its registered address with legal registration in Kiev.

In 2016 Interdon did not perform any recovery activity.

Currently PC Interdon LLC is on the first stage of the Restructuring agreement implementation. Due to continuous military conflict in the east of Ukraine the possibilities of PC Interdon LLC are limited and it is not able to fully restart its activity. Further conditions of the Restructuring plan with EBRD are under the discussions.

## 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 2016.

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

In 2016 Rassvet and Sadovaya mines neither perform any mining nor trading activity. They continue to operate in sustaining mode.

## Significant additional information

Since the date of publication of the Annual report 2015 the situation has not been changed. The military conflict in the region of Company subsidiaries location is continued. The most part of Donbas is still uncontrolled by Ukraine.

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.

In 2015 and till the date of this report publication Group could not restart the activity of its subsidiaries.

In 2015 the 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.

In 2016 the reservoir is still not reconstructed. Company had the negotiations and maintains continuous correspondence with OSCE who personally visited this territory. The Group makes all efforts to minimize the consequences. It tries to find the potential investors for its reconstruction to avoid possible disaster. As of the date of report publication the management in view of the ongoing military conflict has limited possibilities to estimate inventory damage and consequences, it is not able to estimate impairment of property, plant and equipment considering uncertainties of their future economic benefits.

Company's business restart is heavily dependent on finishing of military actions and of course on macroeconomic and political stabilization in Ukraine.



## Highlights of 2016

The event of force majeure continue to take place due to the continuous Anti-terroristic operation in the East of Ukraine



January-December

The shares of Sadovaya Group restarted its trading at Warsaw Stock Exchange



February

The trading of Sadovaya group shares at WSE was temporally stopped



May

The license on coal mining of Shakhta "Sadovaya" LLC, the subsidiary of Sadovaya Group, was annulled.



May

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



January-December

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



January-December

## Review of financial results for 2016

In 2016, the Group managed to cut its losses twice (to USD18.1 mln, comparing to USD38.8 mln in 2015) by putting austerity measures in place and freezing its mining operations.

Although the Group continued demonstrating considerably low results in its operating and financial performance, the Management sees positive signs of recovering demand for anthracite coal and thus the opportunity for the Group to keep going.

The top priority of the Management remained preserving business and people's safety in the adverse environment affected by military conflict in the region. The Group kept implementing cost cutting, managing accounts payable and restructuring of the existing loan facilities.

**Revenue.** In 2016, the Company reported minor revenue of USD8.9 ths, generated mainly by non-core activities, such as sales of the non-coal goods and lease-out of equipment.

**COS.** Cost of sales amounted to USD10.8 ths, comprising of the leased-out assets depreciation and fees for subcontractors' services. In order to provide fair view on the financial statements, all expenses related to idle assets were re-allocated to the Idle entry (please, refer to Note 9 of the consolidated financial statements).

In 2016, the Idle entry of the Group zoomed by 20.4% (to USD1.5 mln, comparing to USD 1.2 mln in 2015), illustrating an on-going sustaining mode of the Group.

The Idle entry of the Group includes depreciation and amortization of idle assets, salaries of the staff and other expenses related to the line.

Since 2012 the Group was forced to limit operations to the absolute minimum and to shift most of the assets into the sustaining mode. The decision was taken also in order to avoid direct threat to the lives and health of the employees.

**Gross loss.** In 2016, gross loss amounted to USD1.8 ths, comparing to USD 505.8 ths in the previous year.

The Management of the Group tends to be realistic on the trends and dynamics of current course of events thus they believe that recovery of the business level back to before crisis results will require a lot of difficult and complex decisions together with considerable time.

### **Operating expenses.**

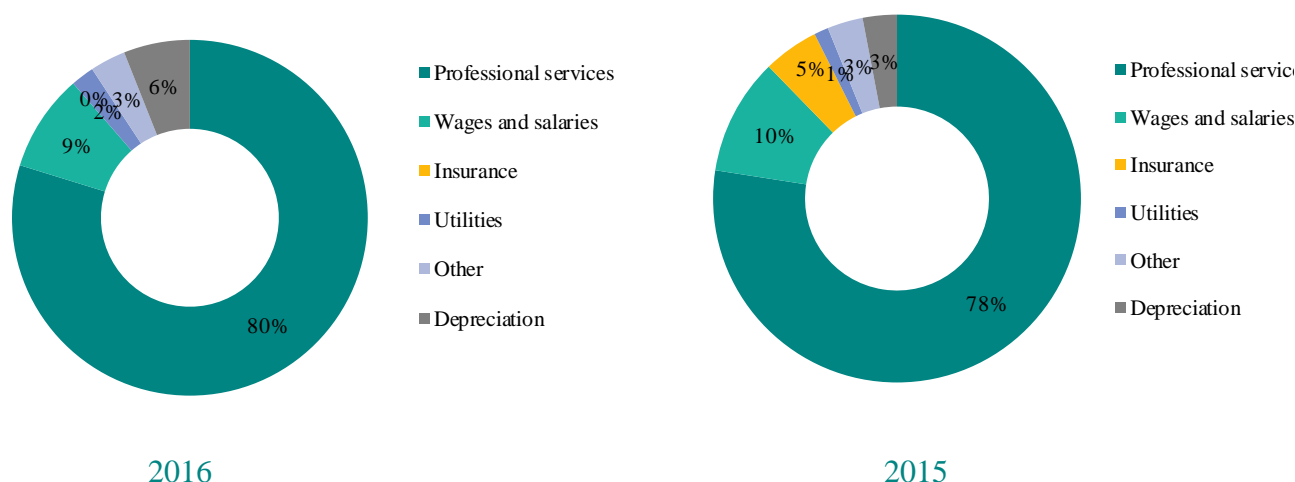
**General and administrative expenses** decreased from USD101 ths in 2015 to USD 48 ths. in 2016, a 52% year-on-year decrease.

Please see Figure 1, 2 for the main components.

The Group has frozen out major operating expenses introducing severe austerity measures in 2016. The local currency devaluation effect substantially added to the decrease.

For detailed information about general and administrative expenses structure please refer to Note 8 of the condensed consolidated financial statements.

Fig.1, 2 General and administrative expenses in 2016, 2015



### Operating expenses

**Selling and distribution costs.** The Group did not incur distribution costs in the year 2016, 2015.

**Cost of idle capacity** totaled USD1.5 mln. in 2016, comparing to USD1.2 mln. in the year 2015 as the Company had to switch its operations into the sustaining mode.

**Accrued fines & lawsuit loss** comprise of amounts which were due by the Group under legal or constructive obligations totaled USD446 ths (USD45 in the year 2015). Half of the line is made of the default penalty accrued by EBRD (USD211 ths).

**Expenses from financial assets impairment** totaled USD1,149 ths. in the year ended 2015. The Group did not accrue provision for impairment of financial assets in 2016.

**Other operating income/expenses, net** shows income of USD181 ths in 2016 compared to loss USD292 ths in 2015 as there were no expenses from the inventory and VAT assets impairment in 2016 and the Group made cost optimization by writing-off some doubtful trade payables.

### Finance income and expenses

**Finance expenses** increased from USD 3,007 ths. in 2015 to USD 3,677 ths. in 2016, a 22% increase. This is explained mainly by additional interest expenses accrued under the Loan agreement #42621 dated 30/12/2011 with EBRD. For additional information on Group's loan portfolio please refer to Notes 18 of the consolidated financial statements.

**Net loss.** Net loss for the financial year 2016 comprised USD 18.1 million, decreasing from USD38.8 million for the FY2015. More than 65% of the net loss compose of the non-operating foreign currency translation losses resulted from the devaluation of the local currency.

## Related party transactions

Information in respect of related parties transactions is disclosed in Note 28 of the consolidated report. Total amount of proceeds from goods and services arising from such transactions does not exceed 1% of total revenue.

Accounts payable are interest-free at each date. Such liabilities arose due to machinery lease from related parties and purchases of goods. 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

The Group's business and financial position depends on the coal mining, enrichment and realization. In 2016, continuous military conflict in the east of Ukraine resulted in impossibility of coal mining and limited coal realization.

In 2016, the impossibility of coal supply from this region significantly increased the level of coal prices in Ukraine reflecting the increasing demand and currently Ukraine is among the highest prices of steam coal globally.

As is known, A-grade coal (anthracite) is extracted almost solely in the controlled and uncontrolled territories of the Donetsk and Luhansk regions and Ukraine had to enter the winter 2016 season with virtually no coal stocks. The coal was imported from South Africa, China, Russia.

It is not possible for the Group to renew the coal mining and coal supply until the end of armed conflict.

### *Risk of mines flooding and gas explosions*

Due to military actions, the major part of the mining infrastructure was destroyed. In the majority mines, neither safety nor technical regulations are met. No training and education initiatives for miners are taken which can result

limited the flooding, gas explosions, cave-ins, any chemical leakages.

Floods are a big risk for both underground and above-ground mining sites. They can come about because of ground water ingress or uncontrolled surface runoff, such as flash flooding following heavy rains. Floods can compromise the stability of pit walls, bringing about a collapse that kills miners and wrecks equipment. Water must be pumped out of the flooded pits, mud removed and levees rebuilt.

A methane gas buildup can lead to an explosion in a coal mine. As such, a work area must be properly ventilated in order to reduce gas pocket formation. Coal mining equipment must be monitored on a regular basis to look for faults that can cause sparks and set off explosions.

Chemicals are used in mines to transform ores from a natural state into usable commodities. When chemicals are not stored properly and/or miners do not adhere to safety procedures, accidents happen. It is also critical for miners who work with these chemicals to have appropriate ventilation to reduce the incidence of inhaling hazardous dust and fumes – these dangerous substances can result in long-term physical damage.

### *Risk of destruction of any production units*

Due to the continuous military events in the east of Ukraine, the Production units can be destroyed partially and full.

The risk of mine-laying as well as of unexploded ordnance is also high. Under the conditions of maintaining the cease-fire mode the Group does its best to save all assets, property and equipment.

Due to Minsk agreements (Minsk agreements-2) the threat of armed conflict is minimized but it still exists.

### *Environmental risk*

Coal mining has been the backbone of the economy of the Donbas region since the nineteenth century. With the intermittent collapse of the electricity supply across the entire conflict area, ventilation systems and water pumps in coal mines failed, resulting in the release of accumulated gases after ventilation restarted. The often irreparable flooding of mines not only damages installations but also waterlogs adjacent areas and pollutes groundwater. As of the date of the report completion, permanent or temporary flooding has been reported at more than ten mines, yet due to the lack of uninterrupted monitoring and fieldwork to assess the damage, the exact extent of the risks to environmental and public health is unclear.

### *Business environment*

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. Any investments to this region are also impossible.

### *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.

## Future developments of the Group

In 2017 military confrontation in the East of Ukraine is continued. The Management is not able to make any cashflow projections for the year 2017-2018 based on the current market uncertainties and current impossibility of coal mining renewal. Currently the Group makes all efforts to restart the activity of all subsidiaries but it is possible only after military conflict finishing.



### *Development of mining segment*

On February 16, 2017, the President of Ukraine adopted the Law on the Complete Blockade of the Donbass (the Decree on Urgent Measures to neutralize threats to energy security of Ukraine and strengthening of critical infrastructure protection), according to which any sales and transportation of goods from uncontrolled territory of Ukraine to the controlled one are prohibited.

Ukraine has been experiencing anthracite shortages since 2014 till nowadays. To cover the demand for electricity generation (about 8.5 million tons of anthracite which was mined in Donbass region) is exported.

Under the conditions of military uncertainty of the future of coal mining in Eastern Ukraine, priority is shifted to the development of Lviv-Volyn coal basin, development of brown coal deposits and combustible shale deposits in Central Ukraine, as well as conducting an independent audit of mine assets and creating an open registry of coal reserves.

At the date of this report Sadovaya mine and Rassvet-1 are continued to be stopped. The dates of their restarting depend on current events in region, Ukrainian control recovery 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.

### *Development of waste recovery segment.*

Global waste heat recovery market size is projected to achieve a value of \$70.5 billion by 2022, continuously growing (CAGR data, 2017). The market is growing mainly due to the massive unexplored market for waste heat recovery across the globe, and high rate of depletion of fossil fuels and increasing demand for reduction of greenhouse gases.

The major factors driving the growth of the global market include increased government initiatives and stringent regulations, increasing energy and electricity cost, and technological advancements and increasing investment by large scale industries for the installation and development of waste heat recovery systems. The different governments across the globe have initiated several projects and schemes to promote and encourage the conservation and efficient utilization of energy lost in industrial sectors.

Among the first leaders are USA, U.K., China, Germany, Canada and others. Ukraine has decreased its small volumes of waste recovery as most all waste heaps are located in Donbass.

The first enrichment complex MEC “Vakhrushevskiy” (Interdon LLC) 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. In 2016, it did not perform any activity due to military conflict.

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 military conflict in the east of Ukraine.

*Development of the coal trade segment.*

Coal in Ukraine is sold through direct contracts between mining companies and consumers or via state company which operates the wholesale market for around one third of the output from state-owned mines. Wholesale coal prices are fixed, so loss-making state-owned mines are cross-subsidized by profitable mines. In 2016, the wholesale price of coal was increased. Private companies price coal based on supply and demand, having regard to international coal market price trends. The Ministry of Energy and Coal Industry is responsible for coal policy, acting in accordance with the goals and tasks set out in the Action Plan of the Cabinet of Ministers of Ukraine.

This blockade was resulted in a high shortage of coal in Ukraine in its enriched form, and Ukraine had to buy coal abroad (Russia, USA, China, SA etc.), affecting also the Ukrainian metallurgical and steel sectors.

As the result of the crisis, Ukraine, which used to be one of Europe's largest coal makers, producing about 80 million tons of coal per year, turned into a coal importer. In 2016, Ukraine has imported 15.6 million tons of coal to ensure the functioning of its coal-fired power plants.

In 2016, the Group could not secure any trading activity. Due to approved Decree on blockade any sales from the east of Ukraine are forbidden. All production facilities are working in sustaining mode.

*The gross data about the Company after the reporting date.*

In 2016, the situation in the east of Ukraine was not changed, the “freezing” of military conflict was taken place. All Banks, Financial institutions, Superannuation and pension funds were moved out from this territory and are still closed within the uncontrolled territory. Shooting and bombardment are rare but the access to this area is still limited and the territory is surrounded by checkpoints. Any export or import operations are prohibited within this area.

Military people leaved all Group’s subsidiaries. The financial consequences will be known only after military operations finishing. The mining activity will be restored after the anti-terroristic operation ending and renewal of the territory control from Ukrainian side.

As of February 16, 2017, the President of Ukraine adopted the Law on the Complete Blockade of the Donbass (the Decree on Urgent Measures to neutralize threats to energy security of Ukraine and strengthening of critical infrastructure protection).

## Events after the end of the reporting period

In May 2017 in the result of failure to publish Annual report 2016 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 2016 that is in April, 2018.

In June 2017 Shakhta “Sadovaya” LLC, the subsidiary of Sadovaya Group lost the previously submitted suitcase concerning the renew of the license on coal mining of Shakhta “Sadovaya” LLC, which was temporally stopped in June 2015.

In October 2017 in Loan agreement between OTP Bank and Sadovaya Mine LLC & Rassvet-1 Mine LLC, the subsidiaries of Sadovaya Limited, the principal creditor was changed. OTP Bank assigned its receivables to “Financial Institution “European Factoring Company of Development” Limited Liability Company.

Sadovaya Group also could not meet its obligations to other creditors but it makes every effort to find the resolution of each matter. It tries to find the agreements with all its 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 was held on 03 March 2016, the Board of Directors was comprised of:

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

The mandate of the Directors was prolonged until the Annual General Meeting of the year 2019 or until their successors have been duly elected.

## 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 2016 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 2016 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 2016 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 <a href="http://naszmodel.gpw.pl/">http://naszmodel.gpw.pl/</a>; - 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</p>	<p>Currently the Company does not have a remuneration policy adopted; the need to create Remuneration committee is assessed annually.</p>

Rule	Rule status in the Company
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>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"> <li>- refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments;</li> <li>- raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the company.</li> </ul>	There is only one governing body in the Company, the Board of Directors.
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"> <li>1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;</li> <li>2) professional CVs of the members of its governing bodies;</li> <li>3) current and periodic reports;</li> <li>4) [deleted]</li> <li>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</li> </ol>	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>within a timeframe enabling a review of the documents and an informed decision on a resolution;</p> <p>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;</p> <p>7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;</p> <p>8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;</p> <p>9) information about breaks in a General Meetings and the grounds of those breaks;</p> <p>10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;</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</p>	<p>Complies taking into account that there is only one governing body in</p>



Rule	Rule status in the Company
<p>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>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 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</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>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>	
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> <ol style="list-style-type: none"> <li>1) real-life broadcast of General Meetings;</li> <li>2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting;</li> <li>3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary.</li> </ol>	<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 2016,*  
*31 December 2015*

## Contents

Consolidated income statement	33
Consolidated statement of comprehensive income	34
Consolidated statement of financial position	35
Consolidated statement of changes in equity	36
Consolidated statement of cash flows	37
Notes to the consolidated financial statements	38
1. General information	38
2.1 Basis of preparation	39
2.2 Summary of significant accounting policies	41
3. Significant accounting judgments, estimates and assumptions	51
4. New and amended standards and interpretations	53
5. Geographic information	54
6. Revenue	55
7. Cost of sales	55
8. Administrative expenses	55
9. Cost of idle capacity	55
10. Expenses from financial assets impairment	56
11. Other income/(expenses), net	56
12. Finance expenses	56
13. Depreciation of non-current assets	56
14. Employee benefit expenses	57
15. Income tax	57
16. Property, plant and equipment	58
17. Intangible assets	60
18. Loans and borrowings	61
19. Fair value	62
20. Inventories	62
21. Trade and other receivables	63
22. Prepayments and deferred expenses	64
23. Cash and cash equivalents	64
24. Share capital	64
25. Employees benefits obligations	64
26. Trade and other payables	65
27. Provisions	66
28. Related parties	67
29. Financial risk management objectives and policies	67
30. Events after the reporting date	70
31. Approval of the financial statements	70

**Consolidated income statement**

for the year ended 31 December 2016, 2015

	Note	2016 (unaudited)	2015 (unaudited)
Revenue	6	8,954	1,036,523
Cost of sales	7	(10,769)	(1,542,319)
<b>Gross loss</b>		<b>(1,815)</b>	<b>(505,796)</b>
General administrative expenses	8	(48,109)	(100,975)
Cost of idle capacity	9	(1,476,471)	(1,226,027)
Accrued fines & lawsuit loss		(446,438)	(45)
Expenses from financial assets impairment		-	(1,149,161)
Other income/(expenses), net	11	180,805	(291,520)
<b>Operating loss</b>		<b>(1,792,028)</b>	<b>(3,273,524)</b>
Finance expenses	12	(3,677,409)	(3,006,968)
Non-operating foreign currency translation gain/(loss)		(12,322,178)	(32,420,341)
<b>Loss before tax</b>		<b>(17,791,615)</b>	<b>(38,700,833)</b>
Income tax (expense)/benefit	15	(278,715)	(93,728)
<b>Loss for the period</b>		<b>(18,070,330)</b>	<b>(38,794,561)</b>
Weighted average number of ordinary shares		43,085,693	43,085,693
<b>Earnings per share</b>		<b>(0.42)</b>	<b>(0.90)</b>

Notes on pages 38-70 are an integral part of these consolidated financial statements

**Consolidated statement of comprehensive income**

for the year ended 31 December 2016, 2015

	<u>2016</u> <u>(unaudited)</u>	<u>2015</u> <u>(unaudited)</u>
<b>Profit/ (loss) for the period</b>	<b><u>(18,070,330)</u></b>	<b><u>(38,794,561)</u></b>
<i>Items that may subsequently be reclassified to profit or loss:</i>		
Exchange differences on translation in presentation currency	11,580,081	25,551,669
<b>Other comprehensive income/(expenses) for the period</b>	<b><u>11,580,081</u></b>	<b><u>25,551,669</u></b>
<b>Total comprehensive income/(expenses) for the period</b>	<b><u>(6,490,249)</u></b>	<b><u>(13,242,892)</u></b>
<b>Profit/loss attributable to:</b>		
Equity holders of the parent	(18,064,012)	(38,790,001)
Non-controlling interest	(6,318)	(4,560)
<b>Other comprehensive income/expenses attributable to:</b>		
Equity holders of the parent	11,579,888	25,574,190
Non-controlling interest	193	(22,521)

Notes on pages 38-70 are an integral part of these consolidated financial statements

**Consolidated statement of financial position**

as at 31 December 2016, 2015

	Note	as at 31 December 2016 (unaudited)	as at 31 December 2015 (unaudited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	6,788,914	9,360,627
Intangible assets	17	220,483	271,815
Deferred tax assets	15	-	414,334
		<b>7,009,397</b>	<b>10,046,776</b>
<b>Current assets</b>			
Inventories	20	3,693,769	4,189,680
Trade and other receivables	21	2,861,711	2,922,330
Prepayments and deferred expenses	22	35,605	40,339
Income tax prepayment		2,798	3,170
Cash and cash equivalents	23	2,009	1,728
		<b>6,595,892</b>	<b>7,157,247</b>
<b>Total assets</b>		<b>13,605,289</b>	<b>17,204,023</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	24	430,857	430,857
Share premium		28,525,902	28,525,902
Retained earnings		(115,552,130)	(97,953,889)
Revaluation reserve		3,434,615	3,954,844
Effect of foreign currency translation		36,453,335	24,818,795
		<b>(46,707,421)</b>	<b>(40,223,491)</b>
Equity attributable to the parent		<b>(40,049)</b>	<b>(33,924)</b>
Non-controlling interest		<b>(46,747,470)</b>	<b>(40,257,415)</b>
<b>Non-current liabilities</b>			
Employee benefit liability		2,016,029	2,216,943
Provisions	27	562,263	601,995
Deferred tax liability	15	251,841	412,972
		<b>2,830,133</b>	<b>3,231,910</b>
<b>Current liabilities</b>			
Trade and other payables	26	16,093,682	12,806,470
Loans and borrowings	18	41,216,493	41,212,939
Provisions	27	167,510	164,822
Income tax payable		44,941	45,297
		<b>57,522,626</b>	<b>54,229,528</b>
		<b>60,352,759</b>	<b>57,461,438</b>
<b>Total equity and liabilities</b>		<b>13,605,289</b>	<b>17,204,023</b>

Notes on pages 38-70 are an integral part of these consolidated financial statements



**Consolidated statement of changes in equity**  
for the year ended 31 December 2016, 2015

	Share capital	Share premium	Retained earnings	Revaluation reserve	Effect of foreign currency translation	Total	NCI	Total equity
<b>As at 01 January 2015</b>	<b>430,857</b>	<b>28,525,902</b>	<b>(59,747,146)</b>	<b>4,483,644</b>	<b>(732,874)</b>	<b>(27,039,617)</b>	<b>(6,843)</b>	<b>(27,046,460)</b>
Profit for the period	-	-	(38,790,001)	-	-	<b>(38,790,001)</b>	(4,560)	<b>(38,794,561)</b>
Other comprehensive income	-	-	-	-	25,606,128	<b>25,606,128</b>	(22,521)	<b>25,583,607</b>
Depreciation transfer	-	-	583,258	(583,258)	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(38,206,743)</b>	<b>(583,258)</b>	<b>25,606,128</b>	<b>(13,183,873)</b>	<b>(27,081)</b>	<b>(13,210,954)</b>
<b>As at 31 December 2015</b>	<b>430,857</b>	<b>28,525,902</b>	<b>(97,953,889)</b>	<b>3,900,386</b>	<b>24,873,254</b>	<b>(40,223,490)</b>	<b>(33,924)</b>	<b>(40,257,414)</b>
Profit for the period	-	-	(18,064,012)	-	-	(18,064,012)	(6,318)	<b>(18,070,330)</b>
Other comprehensive income	-	-	-	-	11,580,081	11,580,081	193	<b>11,580,274</b>
Depreciation transfer	-	-	465,771	(465,771)	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(17,598,241)</b>	<b>(465,771)</b>	<b>11,580,081</b>	<b>(6,483,931)</b>	<b>(6,125)</b>	<b>(6,490,056)</b>
<b>As at 31 December 2016</b>	<b>430,857</b>	<b>28,525,902</b>	<b>(115,552,130)</b>	<b>3,434,615</b>	<b>36,453,335</b>	<b>(46,707,421)</b>	<b>(40,049)</b>	<b>(46,747,470)</b>

Notes on pages 38-70 are the integral part of these consolidated financial statements

**Consolidated statement of cash flows**  
for the year ended 31 December 2016, 2015

	<b>Year ended 31 December 2016 (unaudited)</b>	<b>Year ended 31 December 2015 (unaudited)</b>
<b>Operating activities</b>		
Loss before tax	(17,791,615)	(38,700,833)
<i>Non-cash adjustment to reconcile profit before tax to net cash flows:</i>		
Depreciation and amortization	1,494,557	1,753,767
(Profit) /Loss on disposal of property, plant and equipment and intangible assets	8,612	5,202
Impairment of financial assets	-	1,485,217
Currency exchange differences	11,187,549	29,780,559
Finance expenses	3,677,409	3,006,968
Movements in provisions, pensions	292	521,118
<i>Working capital adjustments:</i>		
Movements in provisions, pensions	65,756	(39,397)
Decrease/(Increase) in trade and other receivables and prepayments	(112,140)	(1,178,826)
Decrease/(Increase) in inventories	4,630	594,646
Increase in trade and other payables	1,348,217	2,752,224
<b>Cash used in operations</b>	<b>(116,733)</b>	<b>(19,355)</b>
<b>Net cash flows used in operating activities</b>	<b>(116,733)</b>	<b>(19,355)</b>
<b>Investing activities</b>		
Proceeds from sale of property, plant, equipment and intangible asset	96,669	(4,126)
<b>Net cash flows used in investing activities</b>	<b>96,669</b>	<b>(4,126)</b>
<b>Financing activities</b>		
Proceeds from borrowings	19,843	-
<b>Net cash flows from/(used in) financing activities</b>	<b>19,843</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(221)</b>	<b>(23,481)</b>
Net foreign exchange difference	502	(272)
<b>Cash and cash equivalents at 1 January</b>	<b>1,728</b>	<b>25,481</b>
<b>Cash and cash equivalents at 31 December</b>	<b>2,009</b>	<b>1,728</b>

Notes on pages 38-70 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 OJSK GP SHC "Zhovtenuhillya" and was registered on 18 May 2007. Basic activity of the Company is mining and coal cleaning. The Company does not have its own processing plant, that's why in future it plans to buy a dry cleaning coal machine that will give possibility to dispatch qualitative coal in competitive prices.

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

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

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

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

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

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

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

## **2.1 Basis of preparation**

This report is intended solely for the purpose of performing and provisions the Consolidated financial statements for year 2016 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 of USD 18,070 thousand in the year 2016. Sadovaya and Rassvet-1 mines have not recovered mining operations.

However, despite of military actions in the east of Ukraine management succeeded to save the assets of the company and tries to keep them in the sustaining mode until the end of armed operations. In Management's opinion Sadovaya Group has all chances to restart its activity due to high deficit of anthracite and its constantly growing price. Management is in attempt to find the agreements with current creditors being in discussion of possible discounts.

Thus management continues 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.

The group has not applied the following standards and IFRIC interpretations and also amendments to them that have been issued but are not yet effective:

IFRS 9 Financial Instruments: Classification and Measurement - accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement (effective from 1 January 2018);

IFRS 15 Revenue from contracts with customers - establishes the principles for the disclosure of useful information in the financial statements in respect of contracts with customers (effective from 1 January 2017);

IFRS 11 Joint arrangements – accounting standard provides guidance in respect of the accounting for acquisition of interests in joint operations (effective from 1 January 2016);

IAS 1 Presentation of Financial Statements – disclosure a number of smaller projects aiming to improve the presentation and disclosure principles and requirements in existing standards (effective from 1 January 2016);

IAS 16 Property, plant and equipment and IAS 38 Intangible assets – clarification of acceptable methods of depreciation and amortization the amendment to the two standards (effective from 1 January 2016);

IAS 27 Separate financial statements – equity method - the amendment to the standard allows the use of the equity method to account for investments in subsidiaries, associates and joint ventures in an entity’s separate IFRS financial statements if local regulation requires using the equity method (effective from 1 January 2016).

The Group anticipates that the adoption of these standards and amendments in future periods will have material impact on its financial statements. The Group currently does not plan early application of the above standards and interpretations.

## 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 2016	31 December 2016	Average 2015	31 December 2015
25,587	27,191	21,812	24,001

### 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 2016 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 2016 did not have any material impact on the consolidated financial statements of the Group.

- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28.

The amendments address three issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28.

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11.

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 Business Combinations and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

- IFRS 14 Regulatory Deferral Accounts.

IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of

IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rateregulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

- IAS 1 Disclosure Initiative – Amendments to IAS 1.

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38.

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27.

The amendments to IAS 27 Separate Financial Statements allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments: • At cost • In accordance with IFRS 9 (or IAS 39) Or • Using the equity method. The entity must apply the same accounting for each category of investment. A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

## 5 Geographic information

Revenue from external customer:

The Group revenue was generated from local customers in years 2016, 2015.

## 6. Revenue

	2016	2015
Revenue from sales of finished goods	-	1,036,402
Revenue from sales of merchandise	1,636	-
Revenue from rendering of services	7,318	121
	<b>8,954</b>	<b>1,036,523</b>

## 7. Cost of sales

	2016	2015
Change in finished goods and work-in-progress	-	(133,781)
Raw materials	-	(137,320)
Wages and salaries of operating personnel	-	(114,150)
Depreciation of non-current assets	(7,809)	(516,052)
Energy supply	-	(56,002)
Held for resale merchandise	-	-
Subcontractors services	(2,960)	(549,797)
Taxes and obligatory payments	-	(2,563)
Repair and current maintenance	-	(32,654)

## 8. Administrative expenses

	2016	2015
Professional services	(38,377)	(78,215)
Wages and salaries of administrative personnel	(4,255)	(10,364)
Insurance	-	(4,929)
Utilities	(1,023)	(1,275)
Other expenses	(1,555)	(1,901)
Depreciation of non-current assets	(2,899)	(3,034)
Tax other than income tax	-	(1,256)
	<b>(48,109)</b>	<b>(100,975)</b>

## 9. Cost of idle capacity

As at 31 December 2016 cost of idle capacity amounts to USD 1,476,471 USD (as at 31 December 2015: USD 1,226,027). This includes depreciation of idle assets and other expenses.

### 10. Expenses from financial assets impairment

	2016	2015
Impairment of accounts receivable	-	(1,149,161)
	-	<b>(1,149,161)</b>

### 11. Other income/(expenses), net

	2016	2015
Net income/(expenses) from operational exchange differences	428	(40,290)
Income from sale of property, plant and equipment	94,290	1,335
Cost of property, plant and equipment sold	(92,394)	-
Writing-off of non-current assets	(278)	-
VAT expenses (impairment of VAT assets)	-	(336,056)
Other income/(expenses)- writing-off accounts payable	178,759	83,491
	<b>180,805</b>	<b>(291,520)</b>

### 12. Finance expenses

	2016	2015
Interest expenses	(3,644,867)	(2,968,794)
Effect of provision discounting	(32,542)	(38,174)
	<b>(3,677,409)</b>	<b>(3,006,968)</b>

### 13. Depreciation of non-current assets

	2016	2015
<i>Depreciation of property, plant and equipment, recognized in:</i>		
cost of sales	(7,809)	(501,113)
administrative expenses	(1,726)	(1,657)
idle capacity	(1,476,471)	(1,226,027)
<i>Amortization of intangible assets, recognized in:</i>		
cost of sales	-	(14,939)
administrative expenses	(1,173)	(1,377)
idle capacity	(7,378)	(8,654)
	<b>(1,494,557)</b>	<b>(1,753,767)</b>



## 14. Employee benefit expenses

	<b>2016</b>	<b>2015</b>
Wages and salaries	(15,407)	(794,602)
Social security contributions and similar taxes	(2,399)	(325,693)
Average number of employees, persons	118	139
Wages and salaries of operating personnel	-	(114,150)
Wages and salaries of administrative personnel	(4,255)	(10,364)
Wages related to idle periods	(13,551)	(956,875)
Wages and salaries of personnel involved in production of property, plant and equipment	-	(25,364)
	<b>(17,806)</b>	<b>(1,188,423)</b>
Net plan expenses	-	(68,128)

## 15. Income tax

The major components of income tax expense for the years ended 31 December 2016, 2015 are:

### Consolidated income statement

<b>2016</b>	<b>2015</b>
(9,812)	-
(268,903)	(93,728)
<b>(278,715)</b>	<b>(93,728)</b>

Deferred income tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	Consolidated statement of comprehensive income
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>
<i>Deferred tax assets</i>				
Inventories	(10)	122,816	(115,211)	
Provisions	-	49,881	(46,788)	-
Defined benefit plan obligations	-	236,333	(221,678)	-
Charged vacation expenses	-	5,304	(4,975)	-
<i>Deferred tax liabilities</i>			-	
Property, plant and equipment and intangible assets	(251,831)	(412,972)	119,749	
<b>Deferred income tax (expenses)/benefits</b>			<b>(268,903)</b>	-
<b>Net deferred tax asset/(liability)</b>	<b>(251,841)</b>	<b>1,362</b>		

	Consolidated statement of financial position		Consolidated income statement	Consolidated statement of comprehensive income
	2015	2014	2015	2015
<b>Deferred tax assets</b>				
Inventories	122,816	368,892	(131,541)	-
Other financial assets				-
Trade receivables				-
Provisions	49,881	75,080	609	-
Defined benefit plan obligations	236,333	359,713	(0)	-
Charged vacation expenses	5,304	8,107	(25)	-
<b>Deferred tax liabilities</b>				
Property, plant and equipment and intangible assets	(412,972)	(629,037)	339	-
Other financial assets		(51,030)	36,891	-
<b>Deferred income tax (expenses)/benefits</b>			<b>(93,728)</b>	
<b>Net deferred tax asset/(liability)</b>	<b>1,362</b>	<b>131,725</b>		

### Reconciliation of deferred tax assets/ (liabilities):

<b>As at 31December 2014</b>	<b>131,725</b>
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	(93,728)
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	-
Effect of translation into presentation currency	(36,635)
<b>As at 31December 2015</b>	<b>1,362</b>
Deferred income tax benefits /(expenses) for the reporting period, recognised in the profit or loss	(268,903)
Deferred income tax benefits /(expenses) for the reporting period, recognised in the Other comprehensive income	-
Effect of translation into presentation currency	15,700
<b>As at 31December 2016</b>	<b>(251,841)</b>

## 16. 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.

Despite of continued military operations in the east of Ukraine the management succeeded to retain control over the assets of the company and is committed to keep them in sustaining mode until the end of armed operations. In Management's opinion Sadovaya Group has all chances to restart its activity due to high demand for anthracite and its constantly growing price.

Movement of property, plant and equipment for the period ended 31 December 2016 and 2015 was as follows:

	<b>Land and Buildings</b>	<b>Machinery</b>	<b>Vehicles</b>	<b>Furniture and fittings</b>	<b>Other assets</b>	<b>Construction in- progress</b>	<b>Total</b>
<i>Cost</i>							
<b>As at 31 December 2014</b>	<b>16,446,906</b>	<b>9,253,660</b>	<b>2,768,427</b>	<b>207,170</b>	<b>7,726</b>	<b>1,040,727</b>	<b>29,724,616</b>
Transfers	62	425				(487)	-
Disposals		(711)	(5,596)		(558)		(6,865)
Effect of translation into presentation currency	(5,641,206)	(3,430,967)	(1,416,967)	(71,059)	(839)	(320,682)	(10,881,720)
<b>As at 31 December 2015</b>	<b>10,805,762</b>	<b>5,822,407</b>	<b>1,345,864</b>	<b>136,111</b>	<b>6,329</b>	<b>719,558</b>	<b>18,836,031</b>
Additions		1,557			85		1,642
Disposals						(89,184)	(89,184)
Effect of translation into presentation currency	(1,385,512)	(601,186)	(66,285)	(15,968)	(139)	(140,857)	(2,209,947)
<b>As at 31 December 2016</b>	<b>9,420,250</b>	<b>5,222,778</b>	<b>1,279,579</b>	<b>120,143</b>	<b>6,275</b>	<b>489,517</b>	<b>16,538,542</b>
	-	-	-	-	-	-	-
<i>Accumulated depreciation</i>							
<b>As at 31 December 2014</b>	<b>(4,998,995)</b>	<b>(5,817,618)</b>	<b>(895,918)</b>	<b>(121,222)</b>	<b>(2,695)</b>	-	<b>(11,836,448)</b>
Charge for the period	(782,216)	(793,259)	(133,423)	(18,748)	(5,480)	-	(1,733,126)
Disposals		133	3,638		558	-	4,329
Effect of translation into presentation currency	1,735,951	1,990,100	319,129	43,288	1,373	-	4,089,841
<b>As at 31 December 2015</b>	<b>(4,045,260)</b>	<b>(4,620,644)</b>	<b>(706,574)</b>	<b>(96,682)</b>	<b>(6,244)</b>	-	<b>(9,475,404)</b>
Charge for the period	(958,331)	(370,797)	(126,852)	(16,549)	(743)	-	(1,473,272)
Effect of translation into presentation currency	531,129	564,444	90,380	12,319	776	-	1,199,048
<b>As at 31 December 2016</b>	<b>(4,472,462)</b>	<b>(4,426,997)</b>	<b>(743,046)</b>	<b>(100,912)</b>	<b>(6,211)</b>	-	<b>(9,749,628)</b>
<i>Net carrying amount</i>							
<b>As at 31 December 2014</b>	<b>11,447,911</b>	<b>3,436,042</b>	<b>1,872,509</b>	<b>85,948</b>	<b>5,031</b>	<b>1,040,727</b>	<b>17,888,168</b>
<b>As at 31 December 2015</b>	<b>6,760,502</b>	<b>1,201,763</b>	<b>639,290</b>	<b>39,429</b>	<b>85</b>	<b>719,558</b>	<b>9,360,627</b>
<b>As at 31 December 2016</b>	<b>4,947,788</b>	<b>795,781</b>	<b>536,533</b>	<b>19,231</b>	<b>64</b>	<b>489,517</b>	<b>6,788,914</b>

## 17. Intangible assets

Intangible assets of “Shahta “Sadovaya” LLC as at 31 December 2016 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 2016 equals to USD 22,880 (as at 31 December 2015 equals to USD 24,312).

- 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 2016 equals to USD 113,321 (as at 31 December 2015 equals to USD 115,958).

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 2016 equals to USD 55,882 (as at 31 December 2015 equals to USD 58,683).

Movement of intangible assets for the period ended 31 December 2016 and 2015 was as follows:

	Computer software	Licenses and rights to use natural resource	Expenses on acquisition of intangible assets	Total
<i>Cost</i>				
<b>As at 31 December 2015</b>	<b>20,958</b>	<b>358,594</b>	<b>16,084</b>	<b>395,636</b>
Additions	-	-	-	-
Disposals	-	-	-	-
Effect of translation into presentation currency	(1,870)	(42,071)	(1,888)	(45,829)
<b>As at 31 December 2016</b>	<b>19,088</b>	<b>316,523</b>	<b>14,196</b>	<b>349,807</b>
<i>Accumulated amortization</i>				
<b>As at 31 December 2015</b>	<b>(7,253)</b>	<b>(116,568)</b>	-	<b>(123,821)</b>
Charge for the period	(656)	(20,630)	-	<b>(21,286)</b>
Disposals	-	-	-	-
Effect of translation into presentation currency	334	15,449	-	<b>15,783</b>
<b>As at 31 December 2016</b>	<b>(7,575)</b>	<b>(121,749)</b>	-	<b>(129,324)</b>
<i>Net carrying amount</i>				
<b>As at 31 December 2015</b>	<b>13,705</b>	<b>242,026</b>	<b>16,084</b>	<b>271,815</b>
<b>As at 31 December 2016</b>	<b>11,513</b>	<b>194,774</b>	<b>14,196</b>	<b>220,483</b>

## 18. Loans and borrowings

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

	at 31/12/2016			at 31/12/2015	
	Currency	Interest rate, %	Residual debt	Interest rate, %	Residual debt
Loan 1	USD	3M LIBOR+6.5%	18,299,000	3M LIBOR+6.5%	18,299,000
Loan 2	USD	1M LIBOR+8.5%	21,293,720	1M LIBOR+8.5%	21,293,720
Loan 3	UAH	16%	31,093	16%	35,226
Loan 4	UAH	18%	70,780	18%	80,189
Loan 5	USD	0%	1,500,000	14%	1,500,000
Promissory notes & Bank overdrafts	UAH	0%	21,900	0%	4,804
			<b>41,216,493</b>		<b>41,212,939</b>

### 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.

### 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 legal proceedings against "Shahta Sadovaya" LTD, "Shahta Rassvet-1" LTD, "Donvostok STB" LTD and "Interinvest" LTD on the enforcement of the claim under the Loan Agreement. In 2016, the court decided in favour of OTP bank.

In 2017, OTP Bank transferred the legal claim to Finansova Ustanova EFKR LTD.

### Loan 3

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

#### **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-Ukrspecmash" LLC and guaranteed 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 dd27 June 2011) in amount USD 300,000 and USD 1,200,000 respectively.

### **19 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.

### **20. Inventories**

During the year 2016,2015 the inventories were not impaired. In 2014, USD 5,615,603 was recognised as an expense for inventories carried at net realisable value.

---

at 31/12/2016

at 31/12/2015

Raw materials	3,334,538	3,778,095
Finished goods	151,290	157,799
Other inventories	46,560	70,666
Merchandise	123,640	140,072
Spare parts	37,741	43,048
	<b>3,693,769</b>	<b>4,189,680</b>

## 21. Trade and other receivables

	<b>at 31/12/2016</b>	<b>at 31/12/2015</b>
Trade receivables	3,484,244	3,955,552
Provision for impairment of trade receivables	(2,577,227)	(2,919,795)
VAT recoverable	168,778	187,067
Other receivables	1,785,199	1,698,693
Prepayments for other taxes	717	813
	<b>2,861,711</b>	<b>2,922,330</b>

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).

	<b>Trade receivables</b>	<b>Total</b>
<b>As at 31 December 2014</b>	<b>3,750,381</b>	<b>3,750,381</b>
Charge for the year	501,502	501,502
Utilised	-	-
Unused amounts recovered	-	-
Effect of translation into presentation currency	(1,332,088)	(1,332,088)
<b>As at 31 December 2015</b>	<b>2,919,795</b>	<b>2,919,795</b>
Charge for the year	-	-
Utilised	-	-
Unused amounts recovered	-	-
Effect of translation into presentation currency	(342,568)	(342,568)
<b>As at 31 December 2016</b>	<b>2,577,227</b>	<b>2,577,227</b>

As at 31 December 2016, 2015 the ageing analysis of trade receivables is as follows:

	<b>Total</b>	<b>Undue and not impaired</b>	<b>Past due and partly impaired</b>	<b>Past due, but not impaired</b>			
				<b>&lt; 60 days</b>	<b>60-180 days</b>	<b>180-360 days</b>	<b>&gt; 360 days</b>
<b>2016</b>	<b>2,692,216</b>	<b>356,487</b>	<b>369,621</b>	<b>5,236</b>	<b>1,598</b>	<b>389,421</b>	<b>1,569,853</b>
<b>2015</b>	<b>2,734,450</b>	<b>969,820</b>	<b>45,614</b>	<b>12,580</b>	<b>1,258</b>	<b>365,400</b>	<b>1,339,778</b>

As at 31 December 2016, receivables were not impaired (as at 31 December 2015: USD 2,919,795) according to the accounting policy of the Group (Note 2.2 (h) financial instruments – initial recognition and subsequent measurement).

## 22. Prepayments and deferred expenses

	at 31/12/2016	at 31/12/2015
Prepayments to suppliers	1,668,001	1,889,715
Provisions for impairment	(1,676,351)	(1,899,173)
Deferred expenses	43,955	49,797
	<b>35,605</b>	<b>40,339</b>

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

	2016	2015
<b>As at 1 January</b>	<b>1,899,173</b>	<b>2,873,916</b>
Charge for the year	-	12,099
Utilised	-	-
Unused amounts recovered	-	-
Effect of translation into presentation currency	(222,822)	(986,842)
<b>As at 31 December</b>	<b>1,676,351</b>	<b>1,899,173</b>

## 23. Cash and cash equivalents

	at 31/12/2016	at 31/12/2015
Cash at banks	1,459	1,622
	550	106
	-	-
	<b>2,009</b>	<b>1,728</b>

## 24. Share capital

	2016		2015	
	%	Amount	%	Amount
Connektico Ltd	75	323,143	75	323,143
Free float	25	107,714	25	107,714
		<b>430,857</b>		<b>430,857</b>

As at 31 December 2015, 2016 all shares issued by the Group are fully paid.

## 25. 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.

Due to military operations and safety reasons the Group failed to engage the professional actuarial service, therefore no charge was recognised for the year 2016.

## **26. 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.

	<u>at 31/31/2015</u>	<u>at 31/12/2015</u>
Trade payables	1,148,540	1,617,890
Accrued salaries, wages and related taxes	851,023	967,265
Provision for unused vacations	45,103	50,484
Accounts payable for other taxes	553,287	602,775
Advances from customers	106,037	119,870
Current portion of non-current liabilities on defined benefit plan	-	67,059
Accrued interest	12,463,193	8,914,762
Other current liabilities	926,499	466,365
	<b><u>16,093,682</u></b>	<b><u>12,806,470</u></b>

## 27. 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.

	<u>Provision on processing waste dump</u>	<u>Provision on mine abandon and dismantling of machinery</u>	<u>Total</u>
<b>As at 31 December 2014</b>	<b>9,346</b>	<b>834,663</b>	<b>844,009</b>
Accrued obligations	342	-	342
Discounting effect	38,174	-	38,174
Effect from translation into presentation currency	(41,121)	(239,409)	(280,530)
<b>As at 31 December 2015</b>	<b>6,741</b>	<b>595,254</b>	<b>601,995</b>
Accrued obligations	292	-	292
Discounting effect	32,542	-	32,542
Effect from translation into presentation currency	(33,094)	(39,472)	(72,566)
<b>As at 31 December 2016</b>	<b>6,481</b>	<b>555,782</b>	<b>562,263</b>

All the parameters remain unchanged for the year 2016.

## 28. Related parties

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

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

	Year ended 31/12/2016	Year ended 31/12/2015
Purchase of goods and services	574	378
Revenues from goods and services	102,188	5,935
	<b>at 31/12/2016</b>	<b>at 31/12/2015</b>
Accounts payable	5,826	32,940
Accounts receivable	270,098	348,288
Loans	62,743	83,331

### *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 are not impaired.

### *Loans*

Reflects short-term loans received from related parties.

## 29. 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:

	<u>at 31/12/2016</u>	<u>at 31/12/2015</u>
Cash (see Note 24)	2,009	1,728
Trade accounts receivable, net (see Note 22)	2,692,216	2,734,450
	<u><b>2,694,225</b></u>	<u><b>2,736,178</b></u>

In 2016, the Group continued to operate in the environment affected by macroeconomic uncertainty, financial and energy crisis resulted from the military conflict in the region. However, the Group's management believes that based upon previous experience of business partnership with the customers and current negotiations, the Group's exposure to credit risk may to be kept at a satisfactory low level.

### ***Liquidity risk***

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

From the beginning of the active military confrontation the Group was forced to minimize output and shift the assets into the sustaining mode. The major priority the Group was also to seek possibilities of restructuring of the existing loan facilities. Therefore, the Company is on the constant dialog with its creditors on settlement of outstanding loan facilities and potential restructuring of the loan portfolio.

### ***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.

The Group operates in challenging environment, under the adverse effect of the macroeconomic and political factors. The coal production in Ukraine is heavily constrained by the ongoing military conflict affecting parts of Donetsk and Luhansk regions. However in 2016, the coal production in Ukraine increased by 2.8%, followed by the growth in coal consumption by 9.4%. The state-owned mines increased the wholesale price of a tonne of marketable coal products by 15.5%.

While the Group sees this as positive signs the complete settlement of the macroeconomic crisis is yet to come. The Management of the Group tends to be realistic on the trends and dynamics of current course of events thus they believe that recovery of the business level back to before crisis results will require a lot of difficult and complex decisions together with considerable time.

### **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 continues its operations in the adverse environment affected by military conflict in the region. The key priorities of the Management in these circumstances remain cost cutting, managing accounts receivable and restructuring of the existing loan facilities. On the back of positive news on implementation of Minsk Agreement-2 requirements, the Management of the Group places its hopes for the success in peace negotiations and diplomatic solution of the conflict that will directly contribute to the recovery of macroeconomic stability in Ukraine and also to Group's operations.

### **30. Events after the reporting date**

In May 2017 in the result of failure to publish Annual report 2016 of Sadovaya Group S.A. the trading of Sadovaya group shares at WSE was temporarily stopped. The trading renew will take place after the publishing of Annual report 2016 that is in April, 2018.

In June 2017 Shakhta "Sadovaya" LLC, the subsidiary of Sadovaya Group lost the previously submitted suitcase concerning the renew of the license on coal mining of Shakhta "Sadovaya" LLC, which was temporarily stopped in June 2015.

In October 2017 in Loan agreement between OTP Bank and Sadovaya Mine LLC & Rassvet-1 Mine LLC, the subsidiaries of Sadovaya Limited, the principal creditor was changed. OTP Bank assigned its receivables to "Financial Institution "European Factoring Company of Development" Limited Liability Company.

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

### **31. Approval of the financial statements**

The Consolidated Financial Statements of the Group for the year ended 31 December 2016 were approved for issue and signed on behalf of the Management Board on March 30, 2018.