Coal Energy S.A.

(incorporated as a public limited company (société anonyme), under the laws of Grand Duchy of Luxembourg, having its registered office at 46A, avenue J. F. Kennedy, L-1855 Luxemburg, Grand Duchy of Luxembourg, and registered with Registre de Commerce et des Sociétés in Luxembourg under number B 154.144)

Offering of 11,252,780 Shares, with a nominal value of US$ 0.01 each and admission of all the issued Offer Shares to trading

on the main market of the Warsaw Stock Exchange

This document (the "Prospectus") has been prepared for the purpose of (i) the offering (the "Offering") of 11,252,780 ordinary bearer shares in the share capital, each with a nominal value of US$ 0.01 (the "Offer Shares"), in Coal Energy S.A. (the "Issuer"), and (ii) the admission of all of the issued Offer Shares *(i.e.*, up to 11,252,780 Shares) to trading on the main market of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, the "WSE"). The Offering will consist solely of the newly issued shares to be issued by the Issuer. The Issuer will receive all the net proceeds from the sale of the Offer Shares. The Offer Shares offered in this Offering constitute a minority interest in the Issuer.

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

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

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

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

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

Prior to the Offering, there was no public market for the Shares. Based on this Prospectus, the Issuer intends to apply for all of the issued Offer Shares (*i.e*., up to 11,252,780 Shares) to be admitted to listing and trading on the main market of the WSE (the "Admission"). The Issuer expects that trading in the Offer Shares on the WSE will commence on or about August 4, 2011 (the "Listing Date"). Settlement of the Offering is expected to occur on or about July 27, 2011 (the "Settlement Date"). Prospective retail and institutional investors in Poland (other than "U.S. persons" as defined in the Regulation S) may subscribe for the Offer Shares during a period which is expected to commence on or about July 18, 2011 and is expected to end on or about July 21, 2011. The final offer price per Offer Share (the "Offer Price") will not exceed PLN 32 (the "Maximum Price"). The final Offer Price and the final number of the Ofer Shares will be determined by the Issuer upon recommendation of the managers named herein (the "Managers") after completion of bookbuilding for institutional investors on or about July 15, 2011, based on interest from investors and will, in accordance with Art. 10 of the Prospectus Act 2005 and Art. 54 of the Polish Public Offerings Act, be filed with the CSSF and the PFSA and published on the website of the Issuer www.coalenergy.com.ua, on the website of the Co-Lead Manager www.dmbzwbk.pl and on the website of the Luxembourg Stock Exchange www.bourse.lu.

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

Offer Price: To be determined in PLN and announced on or about July 15, 2011

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

Lead Manager	Co-Lead Manager
Dragon Capital (Cyprus) Limited	Dom Maklerski BZ WBK S.A.

The date of this Prospectus is July 4, 2011

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SUMMARY

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

Summary of the Business

The Issuer, Coal Energy S.A., incorporated in the Grand Duchy of Luxembourg, is a holding company for a group of companies incorporated and operating in Cyprus and in Ukraine in the mining industry (the “Group” or “Coal Energy”).

The Group’s principal business is mining, beneficiation and sale of thermal and coking coal. Coal Energy is the third largest private[1] coal producer[2] in Ukraine in terms of reserves as of end of 2010 and the seventh largest private coal producer in the country by output based on the 2010 results.

Coal Energy’s coal reserves are located in the country’s largest coal basin – Donbas. The table below provides a breakdown of the Group’s coal reserves estimated by John T. Boyd Company (Boyd) in June, 2011 according to the JORC Code.

	Total In-Place	Recoverable Reserves			Marketable Reserves		
	Resources	Proved	Probable	Total	Proved	Probable	Total
			(in millions of tonnes)				
Donbasuglerazrabotka LLC	2.95	1.28	-	1.28	1.17	-	1.17
Donprombiznes LLC	46.65	32.35	2.93	35.28	28.97	2.60	31.57
Eximenergo PEK LLC	6.76	4.38	0.82	5.20	3.94	0.76	4.70
Ugledobycha LLC	11.49	9.08	-	9.08	7.95	-	7.95
CwAL LE Sh/U Chapaeva	63.20	37.92	5.83	43.75	33.05	4.88	37.93
Nedra Donbasa LLC	4.75	1.25	1.10	2.35	1.14	1.00	2.14
Tekhinnovatsiya LLC	57.35	18.90	7.91	26.81	16.69	6.85	23.54
CwAL LE Novodzerzhynskaya Mine	34.78	20.25	-	20.25	17.46	-	17.46
Antracit LLC[3]	7.57	-	7.19	7.19	-	1.14	1.14
Total	**235.5**	**125.41**	**25.78**	**151.19**	**110.37**	**17.23**	**127.60**

Source: BOYD Mineral Experts Report

Under the Ukrainian methodology, Coal Energy has 306.7[4] million tonnes of licensed coal reserves, out of which 204.8 million tonnes are balance coal reserves and 101.9 million tonnes are off-balance. In addition to the aforementioned reserves the Group has already finished geological exploration, applied for and plans to acquire new licenses for 286.9 million tonnes of additional reserves under the Ukrainian methodology, including 197.3 million tonnes of balance and 89.6 off-balance reserves.

Coal Energy’s operations are vertically integrated. Besides coal mining, the Group is engaged in the beneficiation of coal and in the processing of waste dumps to produce saleable coal and generate greenhouse gas Emission Reduction Units (ERUs), which could be sold according to procedure established by Kyoto Protocol. During 9m FY2011 the Group produced 727 thousand tonnes of ROM (run-of-mine) coal, compared to 353

[1] *Under the term “private producer” it is meant any producer in the country non-controlled by the state*

[2] *Based on annual coal output of the mines controlled by the Group as of end of 2010*

[3] *Reserves contained in waste dumps*

[4] *The amount represents the reserves according to the Ukrainian methodology stated in the licenses excluding the reserves in the waste dumps of Antracit LLC. After the licenses were received, the total amount of reserves has decreased to the level of 303.5 million tonnes as of December 31, 2010. This amount also excludes reserves contained in the waste dupms of Antacit LLC*

thousand tonnes during 9m FY2010. The Group plans to reach production of 980 thousand tonnes of saleable coal in FY2011 and expects to increase production to 4.8 million tonnes of saleable coal per annum by the end of FY2016. Coal Energy also generated the ERUs in the amount of 80.7 and 94.2 thousand tonnes of CO2 equivalent in 2009 and in 2010 respectively.

The Group mines and sells thermal coal grades, coking coal and dual purpose coal. The Group works directly with majority of large Ukrainian power generating plants and steel mills. Benefiting from its advantageous geographic position and wide products portfolio, Coal Energy actively expands its export operations, mainly through thermal coal sales to energy generation plants in Moldova, Bulgaria, Slovakia and other counties where the Group works with major power generating plants. The share of export in the Group's sales increased from 8.2% in 9m FY2010 to 23.1% in 9m FY2011 in value terms.

The following table sets out a breakdown of the Group's sales in volume terms.

	Year ended June 30,			**Nine months ended March 31,**	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of tonnes)				
Coal sold, including:	807	1,061	901	681	1,419
Own mined coal	624	727	402	305	815
Coal processed from waste dumps	-	39	134	85	549
Coal bought from third parties	183	295	366	292	55
	(in thousands tonnes of CO2 equivalent)				
ERUs sold[5]	-	-	-	-	174

Source: The Group data

History and Development of the Group

The Group dates back to 1995 when the first company of the Group, Donprombiznes LLC, was established by a group of individuals that decided to produce mining equipment and provide construction and consultancy services to the Ukrainian entities in coal mining industry. In the 1990s, some of the Group companies operated within the so-called group Mechanic. Initially Mechanic included a number of machine-building, metalwork and spare parts production plants, and construction companies that worked with mines all over the country. Since 1995, Mechanic has developed significant expertise in all stages of coal mining, including in reviving closed mines and developing abandoned coal reserves. This expertise and access to suppliers of the mining equipment and services of Mechanic triggered the decision of the Group's shareholders to start their own mining operations in 2001. The Group's development path is summarized below:

2001	The Group acquired its first coal mine, Prepodobnogo Sergiya Radonezhskogo, which after an overhaul was put into operation in 2002.
2004	The Group acquired Svyato-Nikolaevskaya mine and completed its overhaul. A waste dump processing project, the first of such type in Ukraine, was initiated on the basis of Antracit LLC. The company started producing saleable coal from waste dumps.
2006	Coal Energy acquired Svyatitelia Vasiliya Velikogo mine. The Group acquired and arranged for modernization of the Postnikovskaya coal beneficiation plant increasing its processing capacity from 120 to 480 thousand tonnes of ROM coal per annum.
2007	Three new mines, Svyato-Serafimovskaya, Svato-Pokrovskaya and Svyato-Andreevskaya were acquired.
2008	The waste dump processing plant of Antracit LLC was integrated into the Group.
2009	The entity affiliated with the Group entered into a lease agreement for CwAL LE Sh/U Chapaeva (44 million tonnes or 29% of the Group's reserves) for 49 years.
2010 Q2	The Group's holding company, Coal Energy S.A., was established and acquired ownership of the following Operating Subsidiaries: Donbasuglerazrabotka LLC, Donprombiznes LLC, Eximenergo PEK LLC, Ugledobycha LLC, CwAL LE Sh/U Chapaeva, Nedra Donbasa LLC, Tekhinnovatsiya LLC, Donugletekhinvest LLC, and Donantracit LLC. The Group conducted mineral reserves audit according to the JORC Code.

[5]*During the period under review, the Group has completed one transaction on ERUs sale on November 29, 2010 via a tender in the volume of 174,411 tonnes of CO2 equivalent for US$2.3 million. The ERUs were generated during 2008 and 2009.*

2010 H2	The Group reached a historical production maximum of 1,040 thousand tonnes of ROM coal per calendar year (2010). Coal Energy upgraded the Postnikovskaya coal beneficiation plan increasing its capacity to 720 thousand tonnes per annum. The Group sold the ERUs generated as a result of the Joint Implementation Project under the Kyoto Protocol, in the amount of 174 thousand tonnes of CO2 equivalent for US$ 2.3 million.
2011 Q1	CwAL LE Novodzerzhynskaya Mine with coking coal reserves and CwAL LE Sh/U Chapaeva were consolidated into the Group.

Strengths

Coal Energy believes that the competitive strengths of its business are as follows:

Substantial under-exploited coal reserves and significant reserve growth potential. Coal Energy mines have approximately 150 years of reserves as at the expected FY2011 level of production, based on the existing 151 million tonnes of proved and probable recoverable coal reserves under the JORC Code. Even the expected production increase of up to 4.8 million tonnes of saleable coal per annum by FY2016 will nonetheless allow for a sufficient production life of the Group's mines, which would be more than 30 years based on the current reserves. Moreover, Coal Energy believes that its reserves will be increased going forward. The Group has already applied for new licenses that will add 286.9 million tonnes of additional reserves based on the Ukrainian reserve valuation methodology.

Brownfield expansion capability. The Group's current production growth strategy is based solely on the performance of the Group's existing mines. Coal Energy plans to increase its coal reserves as described above and that increase will be achieved on the basis of the Group's exiting mines. Hence, the Group will be able to use the existing production and transportation infrastructure to increase the production. The Group also intends to increase the coal beneficiation capacity of the Postnikovskaya coal beneficiation plant.

Diversified product portfolio. The Group sells a wide range of thermal coal grades, including lean coal that is scarce in Ukraine as well as exceptionally scarce coking coal. Such a diversified product portfolio enables the Group to attract new clients both in Ukraine and abroad. As a result, the Group is able to choose clients and markets depending on the situation in the market and expected profitability of sales.

Established export sales position. The Group's export sales stood at 23.1% of the total sales in 9m FY2011. The Group considers a further increase of coal sales to its existing foreign clients, mostly power generation plants in Turkey, Moldova, Bulgaria, and Slovakia, which prefer Ukrainian supplies to supplies from other destinations. The Group has an advantageous geographical location to expand its sales to the CEE markets. A significant export sales exposure decreases the Group's dependence on the Ukrainian coal market and reduces the national currency risks.

Own coal beneficiation facility. Coal Energy's Postnikovskaya coal beneficiation plant fully satisfies the Group's existing demand in coal beneficiation enabling the Group to save costs on third-party coal beneficiation services. The Group intends to expand the current capacity of the plant in order to simultaneously process different coal grades.

Unique waste dump enrichment operations. The Group was a pioneer in the Ukrainian coal mining industry in waste dump processing. By processing waste dumps, the Group produces saleable coal and generates emission reduction units (ERUs) for further sale. Coal Energy has already sold first ERUs. The Group plans to expand its waste processing operations both on the existing waste dump fields and on the new ones that the Group plans to acquire.

Experienced management team with unique knowledge of the sector. The Group's founder and CEO, Mr. Viktor Vyshnevetskyy, PhD in Techniques, has more than 16 years of experience in mining, mine management and mining equipment. He is the author of eight patented inventions related to improvements in the mining methods and the mining equipment. Mr. Vyshnevetskyy developed unique methodologies required for dormant mines selection, acquisition and reconstruction, utilized in the course of establishment of the Group. Besides Coal Energy, Mr.Vyshnevetskyy is the founder of several machine building plants and companies that provide equipment, construction and engineering services to coal mines all over the country. Other members of the Group's management team have significant experience in Ukrainian coal mining industry.

Strategy

The Group's strategy is to commercialise its significant unexploited coal reserves and to increase its profitability by improving its operational efficiency as well as by leveraging the Group's advantageous logistics position. Coal Energy intends to pursue this strategy through the following initiatives:

Increasing the production. Coal Energy plans to increase the production volumes at its mines, in particular, at Tekhinnovatsiya LLC (Svato-Pokrovskaya mine), CwAL LE Sh/U Chapaeva (Chapaeva mine), Donprombiznes LLC (Prepodobnogo Sergiya Radonezhskogo mine), Ugledobycha LLC (Svyato-Nikolaevskaya mine) and Antracit LLC (waste dumps processing unit). The Group plans to achieve production of approximately 4.8 million tonnes of saleable coal per annum from its mines by the end of FY2016. Such an increase in the extraction will be achieved by launch of additional mining faces (Coal Energy plans to increase the number of the mining faces by 45% by the end of FY2016), mechanization of the mining process and equipment upgrade. Coal Energy plans to produce 864 thousand tonnes of saleable coal from waste dumps in FY2012 and keep similar production volumes in the following years. The Group expects that waste dumps processing operations will generate totally 822 thousand tonnes of CO2 equivalent of the ERUs during the period 2011-2017.

Expanding the reserve base. The Group has finished exploration works at its existing mines and has applied for new licenses that, according to Ukrainian standards, will add 286.9 million tones of coal reserves, out of which 197.3 million and 89.6 million tonnes are balance and off-balance coal reserves respectively. The Group's current licenses provide for 201.6 million tonnes of balance and 101.9 million tonnes of off-balance coal reserves according to the Ukrainian reserves valuation methodology (151.2 million tonnes of proved and probable recoverable coal reserves according to the JORC Code). Coal Energy expects to have the pre-emptive right to buy such additional licenses from the state during FY2012-FY2013. The Group will continue geological exploration works and selective acquisitions of licenses both at existing fields and new ones to increase its reserve base.

Increasing operational efficiency. The Group plans to continue further mechanization of the mining process and to upgrade the existing mining equipment in order to increase efficiency of operations and to apply the best practices of mining operations. These measures are expected to reduce cash cost of mining per tonne due to lower labour and materials expenses and also reduce fixed costs per tonne due to scale effect from increased production. Coal Energy will continue to develop its logistics to match the Group's growing production volumes, in particular by building additional railway lines, reloading and coal storage facilities to better manage the transportation costs. The planned upgrade of the Group's coal beneficiation facilities, including the use of the more advanced and less environment harmful coal beneficiation methods, will decrease coal losses during processing and improve the final product quality.

Strengthening the Group's market position on the Ukrainian and export markets. Coal Energy is a leading independent[6] supplier of coal in Ukraine that works directly with the largest power generation companies and domestic metallurgical holdings and has been rapidly increasing its export sales recently. By FY2016, the Group intends to sell up to 100% of its coal under framework contracts (sales under such framework contracts in the forth quarter of FY2011 are expected to amount to 57% of the total sales in volume terms). In addition, the Group intends to switch completely to the direct sales by FY2016 (approximately 30% of sales in volume terms was done through coal traders during 9m FY2011). This will allow the Group to provide the improved price terms for its clients and to better manage the quality of logistics.

Development of better health, safety and environmental (HSE) standards. The Group intends to improve its existing HSE standards. This is expected to include the upgrade of the means of individual protection and special equipment, the upgrade of the underground ventilation system, necessary for deeper mining, the introduction of the personnel motivation system upon the fulfilment of certain HSE indicators, the promotion among the miners of responsible attitude towards their personal safety, the introduction of regular internal HSE audits and a certification of the safety management system according to ISO/OHSAS.

Use of Proceeds

Depending on the final number of the Offer Shares and final Offer Price, the Group intends to raise up to USD$130 million of gross proceeds from the issue of the Offer Shares in the Offering. After deducting the estimated commissions, costs and expenses associated with the Offering, the net proceeds are to be approximately US$125 million.

The Group intends to use the net proceeds from the Offering for the purposes of:

1. *Development of the existing mines, waste dumps processing and coal beneficiation plants.* The Group plans to spend approximately US$62 million from the net proceeds to finance the first stage of its five-year development program totaling US$287 million.

[6] The term "independent supplier" means a mining company that is neither state owned nor is a part of a metallurgical or energy generation holding

2. *Acquisition of licenses the Group has applied for*. Coal Energy plans to use part of the net proceeds to finance acquisitions of the licenses that it has applied for earlier. Through these expected acquisitions the Group plans to increase its reserves at 286.9 million tonnes of coal according to the Ukrainian reserves valuation methodology. The exact amount of the net proceeds to be used for the acquisition of the new licenses will depend on the acquisition price established by the Ukrainian Government.

3. *Partial repayment of the existing bank loans and other financial liabilities.* The Group plans to consider partial repayment of its short term and the most expensive bank loans and financial liabilities using the net proceeds.

4. *Increase in working capital needs following the expansion of operations.*

5. *Financing other projects in line with the Group's strategy.*

Summary Financial and Operating Data

The summary financial and operating data presented below refers to the financial years ended on June 30, 2008, June 30, 2009 and June 30, 2010, and 9 months ended March 31, 2011 respectively. It has been extracted from the Consolidated Financial Statements of the Group, without material adjustment, and should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Group and the notes thereto included in this Prospectus and the information in the section titled "Operating and Financial Review". The Issuer is a holding company which does not have any operating assets, except for the equity interests in its subsidiaries.

Income statement data

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
			(in thousands of US$)		
Revenue	65,711	91,756	55,776	38,585	109,220
Gross profit	6,593	29,172	18,345	13,326	42,570
Operating profit/(loss)	(98)	18,980	10,950	7,760	36,200
Profit (loss) before tax	(2,435)	13,265	4,083	3,194	30,634
Profit (loss) for the year/period	(1,545)	14,343	4,781	3,316	29,644

Source: Consolidated Financial Statements

EBITDA reconciliation data

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
			(in thousands of US$)		
Operating profit/(loss)	(98)	18,980	10,950	7,760	36,200
Depreciation and amortization	1,270	1,827	1,762	1,287	4,221
EBITDA[7]	1,172	20,807	12,712	9,047	40,421
EBITDA margin, %	1.8%	22.7%	22.8%	23.4%	37.0%

Source: Consolidated Financial Statements

[7]*EBITDA represents operating profit before finance (income) costs, income taxes, depreciation and amortisation, foreign exchange (gains) losses and other (income) expense and is calculated as operating profit after adding back depreciation and amortisation. EBITDA provides additional performance measure to show effects of the Company's operations which are difficult to recognize directly from the consolidated financial statements of the Group. EBITDA calculations have not been subject to separate auditor's review although items used for calculation of EBITDA have been derived from the audited or reviewed the consolidated financial statements of the Group. This measure should not be considered in isolation or as an alternative to net profit for the period or other data presented in the consolidated financial statements of the Group as indicators of financial performance. EBITDA measure is not determined in accordance with generally accepted accounting principles, and thus is susceptible to varying calculations.*

Balance sheet data

	As at June 30, 2008	As at June 30, 2009	As at June 30, 2010	As at March 31, 2011
	(in thousands of US$)			
Total assets	55,722	64,912	87,715	87,223
Total equity	16,078	15,164	16,188	150
Total non-current liabilities	12,143	21,668	28,758	38,976
Total current liabilities	27,501	28,080	42,769	48,097
Loans and borrowings, non-current	5,720	15,975	13,079	8,902
Loans and borrowings, current	6,555	9,354	21,527	27,293
Cash and cash equivalents	1,098	436	108	1,976

Source: Consolidated Financial Statements

Cash flow data

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
Net cash flows from operating activities	11,317	13,252	19,293	13,267	54,169
Net cash flows used in investing activities	(13,882)	(19,458)	(18,152)	(10,455)	(38)
Net cash flows from/(used in) financing activities	3,650	5,886	(1,457)	(2,735)	(52,257)
Net increase in cash and cash equivalents	**1,085**	**(320)**	**(316)**	**77**	**1,874**

Source: Consolidated Financial Statements

Summary of Risk Factors

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

Risks Relating to Our Business and Industry

- The Group's financial performance is dependent on the global price of and demand for coal
- Electricity prices may significantly increase
- The Group's business is subject to a number of risks and hazards, including the significant risk of disruption or damage to persons, property and environment
- The Group is subject to particular demands from customers, which vary from customer to customer and from time to time
- The Group's production costs and costs of technologies applied by the Group may increase
- The Group's future financial and operational performance depends on its ability to increase volumes of coal extraction and coal beneficiation, improve quality of products, decrease costs, upgrade technologies currently used and develop currently unexploited mining assets in accordance with its plans, on time and to budget
- Unexpected stoppages due to technological malfunctions may impact the Group's sales and revenues
- The Group depends on relations with third parties
- The volume and grade of the Group's reserves and its rate of production may not conform to current expectations
- Title to the Group's mineral properties or production facilities, or to any assets acquired by the Group from the State, may be challenged
- The Group may not have properly documented title to some of the properties it currently uses
- Customers may not pay their debts toward the Group companies and may become insolvent
- The Group is dependent on key personnel

- The Group’s business depends on mining licenses issued by the Government of Ukraine and such licenses may be withheld, revoked or not prolonged
- The Group’s failure to reach the production levels established in the production projects for their licenses may serve as a ground for such licenses may be withheld, revoked or not prolonged
- The Group has not yet obtained all necessary environmental permits
- Risk associated with reclamation and mining damage
- If the Antimonopoly Committee of Ukraine were to conclude that any transaction(s) pertaining to the establishment of the current structure of the Group required obtaining of the respective approval of the Antimonopoly Committee of Ukraine and such approval was not obtained, the Issuer, the Group and/or its Beneficial Owners, and the entities related to them by control could face sanctions.
- Decrease of demand for coal may result from Post – Kyoto Protocol regulations on greenhouse gas emissions
- Decrease of demand for coal may result from selling the CO2 emissions
- Decrease of demand for coal may result from development of alternative energy sources
- The Group’s business may be affected by labour disruptions
- Labour costs may increase
- The coal industry is intensely competitive and the Group may have difficulty effectively competing with other coal mining companies
- The Group’s compliance with health and safety laws may require increased capital expenditures, and non-compliance may subject the Group to significant penalties
- Due to a short-term nature of the contracts with the majority of customers and suppliers, extension of contractual relations with them may not be warranted
- Transfer pricing rules may potentially affect the Group's results of operations.
- The Group may be unable to obtain VAT refund for the export of goods in full
- The Group could be subject to liabilities if it is determined that the Group’s past actions violated Ukrainian corporate laws or regulations
- The credit facilities of the Group are repayable on demand
- Covenants in the debt agreements of the Group Subsidiaries may limit the Group’s flexibility to operate its business
- The Group is subject to currency-related and interest rate risks
- The Group may not have or may be unable to obtain sufficient insurance coverage
- The operating and financial results of the Group as presented in US$ may be distorted by application of the corresponding UAH/US$ exchange rate

Risks Relating to Ukraine

- Emerging markets are subject to greater risks than more developed markets
- Ukraine may continue to experience political instability or uncertainty
- Ukraine may experience economic instability
- Any unfavourable changes in Ukraine's regional relationships, especially with Russia, may adversely affect the Ukrainian economy and thus the Group's business
- A failure to develop relations with the EU might have negative effects on the Ukrainian economy and the Group's business
- Weaknesses relating to the legal system and legislation may create an uncertain environment for investment and business activity

- The judiciary's lack of independence and overall experience, difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings
- Difficulty in ascertaining the validity and enforceability of title to land or other real property in Ukraine and the extent to which it is encumbered may have a material adverse effect on the Group’s business
- There are deficiencies in corporate governance standards under Ukrainian law
- Official economic data and third-party information in this Prospectus may not be reliable
- Fluctuations in the global economy
- Ukraine’s physical infrastructure is in poor condition, which could disrupt normal business activity
- Crime and corruption could disrupt the Group’s ability to conduct its business and could materially adversely affect its financial condition and results of operations
- Ukraine's tax system is undeveloped and subject to frequent change, which may create an uncertain environment for investment and business activity
- The Group may face changes in respect of the double tax treaty regime between Ukraine and Cyprus
- Economic instability in Ukraine could adversely affect the Group’s business
- The business environment in Ukraine could deteriorate
- The potential for labour and social unrest in Ukraine could have a materially adverse effect on the Group’s ability to conduct its business effectively and on the market price of the Shares

Risks related to the Issuer

- The Issuer is a holding company with no assets other than shares of its subsidiary
- The rights of Luxembourg company shareholders differ from the rights of the shareholders of Polish listed companies
- Investors may have problems with enforcement of judgments against the Issuer
- The Issuer has been and will continue to be controlled by its majority shareholder whose interests may conflict with those of other shareholders
- Tax treatment for non-Luxembourg investors in a Luxembourg company may change

Risks relating to securities

- The Offering may be delayed, suspended or cancelled
- The market value of Shares may be adversely affected by future sales or issues of substantial amounts of Shares
- Holders of the Shares may not be able to exercise pre-emptive rights, and as a result may experience substantial dilution upon future issuances of shares
- There is no guarantee that the Company will pay dividends in the future
- Existing shareholder will continue to exert significant influence on the management following the Offering
- The Company is established and organized under Luxembourg law
- Investors in the Offer Shares will be subject to obligations resulting from various national laws
- Investors may have problems enforcing judgments against the Company
- Tax treatment for non-Luxembourg investors in a Luxembourg company may vary

Risks relating to listing and market

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

Summary of the Offering

The Issuer	Coal Energy S.A., a public limited company (*société anonyme*), incorporated under the laws of Grand Duchy of Luxembourg, having its registered office at 46A, avenue J. F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg.
The Principal Shareholder	Lycaste Holdings Limited, a limited liability company, incorporated under the laws of Cyprus, having its registered office at Lampousas, 1, P.C. 1095, Nicosia, Cyprus.
The Offering	The Offering consists of: (i) public offering to retail investors in Poland (the "Retail Investors"), (ii) public offering to institutional investors in Poland (the "Polish Institutional Investors"), and (iii) private placement to institutional investors in certain jurisdictions outside the United States and Poland in reliance on Regulation S under the U.S. Securities Act (the "International Investors", and together with the Polish Institutional Investors, the "Institutional Investors"), in each case in accordance with applicable securities laws.
Offer Shares	Up to 11,252,780 ordinary bearer shares each with a nominal value of US$ 0.01 to be issued by the Issuer.
Bookbuilding	Book building process will take place between July 13, 2011 and July 15, 2011 until 4 pm CET amongst the Institutional Investors invited by the Managers, during which such the Institutional Investors interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, being not higher than the Maximum Price.
Subscription Period	The subscriptions by the Retail Investors and Institutional Investors will be accepted between July 18, 2011 and July 21, 2011.
Offer Price	The final Offer Price per Offer Shares will not exceed PLN 32 (the "Maximum Price"). The final Offer Price will be determined by the Issuer upon recommendation of the Lead Manager after completion of bookbuilding for institutional investors on or about July 15, 2011. The Offer Price will be based on the results of the Bookbuilding. Moreover, the following criteria will be taken into account while determining the Offer Price: (i) the size and price sensitivity of demand, as gauged during the bookbuilding process, (ii) the current and anticipated situation of the Polish and international capital markets, and (iii) the assessment of the growth prospects, risk factors and other information relating to Issuer's activities. The Issuer will announce the Offer Price by a way of current report that will be also available at the websites of the Issuer, the Co-Lead Manager and on the website of the Luxembourg Stock Exchange (www.bourse.lu).
Allotment	Allotment will take place on or about July 25, 2011, after closing of the Subscription Period.
Settlement and Delivery of the Offer Shares	The settlement of the Offering is expected to be made on the Settlement Date, on or about July 27, 2011, after which the issue of the Offer Shares and payment of the total Offer Price will follow. The delivery of the Offer Shares will be effected through the book-entry facilities of the NDS, in accordance with the NDS's settlement procedures.
Listing and Trading	The Issuer is planning to apply for admission to listing and trading on the main market of the WSE of all the Offer Shares issued in the Offering constituting up to 25% of all the Issuer's Shares (assuming all the Offer Shares have been issued), immediately after the Settlement Date. The Issuer believes that trading on the WSE will commence on or about August 4, 2011, or as soon as possible thereafter, barring unforeseen circumstances.

Form of Offer Shares	All the Offer Shares are ordinary bearer shares and will exist in book entry form once they have been registered with the NDS. Investors may hold the Offer Shares through the NDS participants, including investment firms and custodian banks. The Issuer will apply for registration of all of the Offer Shares with the National Depository for Securities. It is expected that on or soon after the Settlement Date, all of the issued Offer Shares, will exist in book-entry form.
Shares outstanding before and after the completion of the Offering	The Issuer's issued and outstanding share capital as of the date of this Prospectus is US$337,583.4, divided into 33,758,340 registered Shares, each with a nominal value of US$0.01. The Issuer's issued and outstanding share capital as of the date of Admission will be US$450,111.2, divided into 45,011,120 Shares, each with a nominal value of US$0.01, assuming that all Offer Shares offered are subscribed for, allotted and issued. In such case the Offer Shares will constitute up to 25% of the share capital and up to 25% of the total votes at the General Meeting of Shareholders. Shares issued and outstanding as of the date of this Prospectus will be in registered form and are not intended to be admitted to trading on any stock exchange.
ISIN code	All the Offer Shares have ISIN code LU0646112838.
Dividends	All Shares carry full dividend rights if and when the distribution of profit is declared. See "*Dividends and dividend policy*".
Voting Rights	Each Share entitles its holder to one vote at the General Meeting.
Lock-up	Subject to certain exceptions, the Company and the Principal Shareholder have agreed that for the period of 12 months from the Listing Date, they will not, without the prior written consent of the Lead Manager, propose or otherwise support an offering of any of the Company's shares, announce any intention to offer new shares and/or to issue any securities convertible into Company's shares or securities that in any other manner represent the right to acquire the Company's shares, or conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling the Company's shares.
Lead Manager	Dragon Capital (Cyprus) Limited
Co-Lead Manager	Dom Maklerski BZ WBK S.A.
Offering and Listing Agent	Dom Maklerski BZ WBK S.A.
Selling Restrictions	The Offer Shares may not be offered outside Poland in any manner that would constitute public offering or would otherwise require authorization under applicable local regulations. The Offer Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or any jurisdiction in the United States and subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Regulation S) except in certain transactions exempt from the registration requirements of the US Securities Act. For information on further selling restrictions please see: "*Selling Restrictions*".

RISK FACTORS

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

Risks Relating to Our Business and Industry

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

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

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

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

Electricity prices may significantly increase

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

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

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

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

In FY2008, FY2009, FY2010, and 9m FY2011 the Group's mines experienced in total 134, 121, 134, and 40 accidents respectively, which are defined as work-related injuries that prevent the employee from working for at least one day. In FY2008, FY2009, FY2010, and 9m FY2011, they had 3, 4, 6, and 3 fatalities respectively. Any further such events could negatively affect the Group's results of operations. Moreover, the Group may be subject to investigations carried out by the authorities for non compliance with the safety measures. Consequently, the Group may be subject to potential fines, however such fines are not expected to have material adverse affect on its profits.

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

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

Energy plants worldwide, but in particular outside the CIS region, are more frequently seeking coal with higher efficiency characteristics as the need for production efficiency increases and power generation technology develops. Increased demand for higher grade coal may reduce demand and contract prices for coal with lower energy efficiency. This may require the Group to shift more to the extraction and processing of thermal coal with higher energy characteristics. Such a shift would require additional capital expenditures and may increase its processing costs. These additional expenditures may reduce the Group's margin and place it at a competitive disadvantage, in particular in relation to competitors that mine richer coal deposits. Customers may also increase demand for higher quality coal in terms of other characteristics such as moisture, ash and sulphur content. If the Group is unable to meet its customers' current requirements for higher quality coal or increase the overall quality of its coal to meet their future requirements, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. However, currently the customers are using the equipment which is suitable primarily for coal of the quality produced by the Group and it is not expected that such equipment will be upgraded in the nearest future.

The Group's production costs and costs of technologies applied by the Group may increase

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

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

The Group's future financial and operational performance depends on its ability to increase volumes of coal extraction and coal beneficiation, improve quality of products, decrease costs, upgrade technologies currently used and develop currently unexploited mining assets in accordance with its plans, on time and to budget

The Group's plans for future increase of annual volumes of coal extraction at the existing mines and volumes of coal beneficiation at the available facilities, improvement of the quality of products and decrease of the costs involves part of its business improvement programme, among others, development of the new available reserves, increase of the number of mining faces and upgrade of technological processes at the faces, reconstruction of transporting facilities. If the events outside of the Group's control were to occur, the Group may reconsider the feasibility and necessity to complete the proposed improvements, upgrades and developments.

In this Prospectus the Group has presented reserves and resources, geological exploration of which has been completed. An addition, the Group has applied for and intends to acquire the new licenses and increase its reserves. Production is not expected to commence until the economic feasibility of production at these deposits has been completed and all appropriate licenses and permits have been obtained, and therefore the viability of any project as a whole may change in the intervening period.

The Group also expects that it will need to obtain or renew a number of regulatory licenses and permits as its production and processing operations expand and there can be some cases or circumstances, outside of the Group's direct control, when such licenses will not be granted or renewed upon terms which are favourable to the

Group or at all, though the Group has title to its mining facilities. Absence of a permit may lead to suspension of a company's operation until the permit is obtained. In such a case, the Group's business may be materially adversely affected.

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

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

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various kinds of stoppages can occur due to planned and unplanned technical interruptions (e.g., malfunctions). Unplanned stoppages caused by serious malfunctions may have a material impact on the volume of production and sales and the punctuality of deliveries to the Group's customers, and consequently on the Group's financial results. The risk of adverse effect of such stoppages is minimised by the fact that the Group extracts coal by the longwall system and its target production capacity is obtained in ten mines from different walls. Therefore, in the event of stoppages in one or few mines, the planned level of extraction can be maintained by intensifying work on the other mine(s) or from the reserve or dormant walls.

The Group depends on relations with third parties

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

Most of the coal in Ukraine is transported by rail. In this respect the Group, like other coal suppliers in Ukraine, relies on the railway freight network operated by Ukrzaliznytsia, the Ukrainian state-owned railway monopoly, for transportation of its products. Railway tariffs for freight increase periodically. For example, in 2008 the railway tariffs increased by approximately 30% in UAH terms. In the year 2011, based on the order of the Ukrainian Ministry of Infrastructure, the railway cargo transportation tariffs will be increasing monthly for 2.2%. There can be no assurance that substantial additional increases will not occur in the future. Although the Group has been able to pass the higher transportation costs on to its customers through price increases and expects that this will be possible in the future, if it is unable to do so then a significant increase in rail freight or other transportation costs could materially adversely affect the Group's business, results of operations, financial condition and prospects. Whilst the Group has arrangements currently in place for these services, there can be no guarantee that these arrangements will be sufficient for the Group's future needs or that such provision of services will not be interrupted or cease altogether.

Railway transportation services and services of mine-rescue and maintenance teams, which are required for the Group's operations and strategic developments, are currently only available from one or a limited number of providers.

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

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

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

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

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

Title to the Group's mineral properties or production facilities, or to any assets acquired by the Group from the State, may be challenged

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

The Group may not have properly documented title to some of the properties it currently uses

Nedra Donbasa LLC currently has no lease or ownership rights under its buildings and facilities. The company currently is in the process of obtaining the lease rights to the land under such buildings and facilities. The rights of CwAL LE Novodzerzhynskaya Mine to use five land plots with the total area of 87.6072 hectares beneath the integral property complex of the Novodzerzhynskaya mine are not properly registered. The perpetual land use rights to such land were granted to State Enterprise Novodzerzhynska mine, a legal predecessor of CwAL LE Novodzerzhynskaya Mine. However, under Ukrainian law, the right of perpetual use is non-transferable and may not be transferred to the legal successors. CwAL LE Novodzerzhynskaya Mine has applied for obtaining the lease rights to the respective land plot.

The land lease agreement regarding the 0.8 hectares land plot beneath the buildings of Svyato-Pokrovskaya mine has been entered by Tekhinnovatsiya with the district state administration instead of the regional state administration, which is inconsistent with the requirements of the Land Code of Ukraine. Such land lease agreement may be deemed to have been executed by the improper landlord. This may serve as a basis for termination of the respective land lease agreements.

If the Group losses its right to use any or all of such land plots and were unable to re-obtain them, this could have a materially adverse affect on its business, results of operations, financial conditions and prospects. At the same time, under Ukrainian law, the Group as an owner of the real estate on such land plots, will have a preemptive right to re-obtain such land plots in use.

Due to legislative uncertainties in the procedure for execution and notarization of the integral property complex lease agreements in Ukraine, the validity of the lease agreement regarding the Chapaeva Integral Property Complex and Novodzerzhinskaya Mine Integral Property Complex may be challenged. Should this be the case, the final decision in the dispute will be made by a competent court.

If the any or both of the integral property complexes lease agreements were invalidated and the Group were unable to renew them, this could have a materially adverse affect on its business, results of operations, financial conditions and prospects.

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

Majority of the Group's sales are conducted entirely or partially on advance payment basis. However, there are certain customers of the Group, to which the coal is supplied under the deferred payment terms. Those customers may not pay at all their debts toward the Group companies or may pay them with delay. The level of payment delinquencies may increase at times of general economic hardship which periodically occurs worldwide and in Ukraine. The Group is conducting permanent monitoring of the debts level and manages risks by contractual and organizational means. If a material portion of the Group’s accounts receivables is not paid or is delayed this may have a material adverse affect on the Group’s business, financial condition, results of operations and prospects.

The Group is dependent on key personnel

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

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

In Ukraine, all subsurface resources belong to the people of Ukraine. Commercial entities explore and mine the subsurface resources on the basis of exploration and mining licenses granted by the authorized governmental body (please see *Regulation of the Ukrainian Mining Industry* for current regulation status) for a limited term. Mining licenses are issued for 20 years. Before the expiration of the relevant license the prolongation approval must be granted in order to continue the exploration and mining activities. Since 2004, the Ukrainian Government generally sells subsurface licenses at a competitive auction (tender). In the absence of any specific exemption from the tender procedure, there can be no assurance that the licenses currently held by the Group will be prolonged and will not be revoked or subject to challenge in the future, in which case the Group would need to re-apply for them before it is able to proceed with exploration or mining at these further deposits or continue such works at the existing deposits.

Majority of the Group’s mining licenses were initially issued in 2003 and 2004, and due to this fact the Group may completely or partially lack copies of files submitted to the licensing authority for the issuance of the licenses. Thus, there can be no assurance that the procedure for the issuance of a mining license was fully complied with. Breach of the license issuance procedure may result in annulment of such a license. This risk, however, is mitigated by the fact that the general statute of limitations period has expired.

Mining licenses currently held by CwAL LE Sh/U Chapaeva (licenses No. 4820 and No. 4782), by Nedra Donbasa LLC (license No. 4110), and by Donprombiznes LLC (license No. 3373) were re-issued. Since the copies of the documents confirming compliance with the then existing procedure for the re-issuance of the licenses are not available, there may be no assurance that the licenses have been re-issued on the basis of the complete and accurate applications. Breach of the procedure for re-issuance of mining licenses may lead to annulment of mining licenses.

Due to lack of documents listed in conditions of mining license No. 3226 held by Eximenergo PEK LLC, there can be no assurance that the company currently complies with the terms and conditions of its subsoil use rights. Failure by a company to perform any of its obligations contained in conditions of its mining license may lead to suspension and/or annulment of the mining license.

If any or all of mining licenses were to be revoked and the Group were unable to re-obtain them, this could negatively affect the Group’s ability to implement its long-term expansion plans, which could have a materially adverse affect on its business, results of operations, financial conditions and prospects. The Group has not been subject to such license suspension or annulment procedures in the past.

The Group’s failure to reach the production levels established in the production projects for their licenses may serve as a ground for such licenses may be withheld, revoked or not prolonged

The licensees undertake specific obligations (“additional (special) conditions”) related to terms of subsoil use, which are listed in the license itself and contained in an agreement on conditions of subsurface use entered into with the respective Ministry. Such an agreement is an integral part of a mining license and, apart from other obligations, contains program of works mandatory for performance by the licensee. Some of the Ukrainian Group companies failed to perform the mandatory program of works in full or in timely manner as provided under some license (in particular, CwAL LE Sh/U Chapaeva - licenses No. 4820 and No. 4782, Ugledobycha LLC license No. 3375).

Although the above unconformities may not be regarded as significant, they may serve as a formal reason for suspension or annulment of a mining license. However, despite the fact that many mines in Ukraine failed to comply with such obligations, the Group is not aware of any such licenses actually annulled. Rather, such deadlines were extended for meeting the targets or the license terms were amended.

Program of works of CwAL LE Sh/U Chapaeva (license No. 4782) and Ugledobycha LLC (license No. 3375) have been renegotiated with the responsible Ministry. Since the Group does not hold the copies of files which served as a basis for execution of the renegotiated program of works, there can be no assurance that there were no violations during the process of execution of the renegotiated programs of works. Since the previous programs of works were not performed in a timely manner (this was the main reason for renegotiating the programs of works), in case if the renegotiated programs of works are declared invalid, the previously effective programs will regain their force. In such event, previously existing violations may lead to suspension and/or annulment of a mining license.

If such licenses were to be revoked and the Group were unable to re-obtain them, this could negatively affect the Group's business, results of operations, financial conditions and prospects.

The Group has not yet obtained all necessary environmental permits

Having received its mining licenses, the Group is currently in the process of obtaining the necessary environmental permits. According to the licensing terms, Donprombiznes LLC (license No. 3373) and Donbasuglerazrabotka LLC (license No. 4314) are currently preparing production projects. Moreover, under the licensing terms, Donprombiznes LLC currently is preparing and obtaining an ecological approval of the production project.

Activities of the Group involve operations resulting into air contamination. Under provisions of the Law of Ukraine "*On Atmosphere Air Protection*", any entity causing air contamination through stationary sources must obtain relevant permit. Currently, Donprombiznes LLC, CwAL LE Sh/U Chapaeva, and Donugletekhinvest LLC do not have permits for air contamination. Donprombiznes LLC has already submitted documents for obtaining such permit and documents are currently being considered.

Obtaining the necessary ecological approvals of the production projects are the time-consuming processes; there is no certainty as to timing when the companies will be able to obtain all necessary permits.

Due to absence of majority of the regulatory documentation regarding environmental matters of Nedra Donbasa LLC, there can be no assurance that the company complies with applicable environmental standards.

The Operating Companies are subject to regular audits by environmental authorities. In the course of the recent audits of Donprombiznes LLC (license No. 3373) and Eximenergo (licenses No. 3226 and No. 4111) several breaches of the applicable regulations have been discovered; relevant measures were taken by both Companies to eliminate such breaches. Since such audits are regular, any future failure to eliminate revealed violations (or repeated violations) may lead to annulment of the respective mining licenses.

Apart from sanctions provided by environmental legislation (imposition of fines and suspension or stop of works causing air contamination), Ukrainian mining legislation also provides for suspension of mining licenses in cases of violation of applicable environmental regulations. Further failure to remove such violations (or repeated violations) may also result with annulment of the respective mining license.

If mining license were to be revoked and the Group were unable to re-obtain it, this could negatively affect the Group's business, results of operations, financial conditions and prospects.

Risk associated with reclamation and mining damage

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

If the Antimonopoly Committee of Ukraine were to conclude that any transaction(s) pertaining to the establishment of the current structure of the Group required obtaining of the respective approval of the Antimonopoly Committee of Ukraine and such approval was not obtained, the Issuer, the Group and/or its Beneficial Owners, and the entities related to them by control could face sanctions.

The Group's business has grown substantially through the establishment and acquisition of companies in and outside of Ukraine as well as lease and acquisition of the integral property complexes in Ukraine. Certain of such transaction might have required obtaining of prior approvals form the Ukrainian Anti-monopoly Committee (the "AMC"). Similarly to many other businesses in Ukraine, members of the Group were not always in the position to comply with all the applicable AMC merger control requirements; in addition, the relevant legislation was not always certain or sufficiently developed and its implementation was often inconsistent. As a result, members of the Group did not receive AMC approvals for some transactions pertaining to the establishment of the Group. The failure to obtain necessary approvals for such transactions (if such transactions required the AMC approvals) may subject the Issuer, the Group and/or its Beneficial Owners, and the entities related to them by control, to fines of up to five (5)% of the Group's consolidated revenue and the revenue of all other related by control to the Issuer, the Group and its Beneficial Owners, directly or indirectly, entities/persons, which are not included into Group's consolidated revenue, for the financial year immediately preceding the year in which the fine is imposed, or in the worst case the relevant transactions may be invalidated through court procedures and the relevant companies may be dissolved (such invalidation and dissolution may only apply if the transactions are found to have led to the creation of a monopoly or substantially reduced competition in the relevant market or part thereof).

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

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

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

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

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

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

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

The Group's business may be affected by labour disruptions

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

Labour costs may increase

Labour cost in Ukraine has been historically lower than labour costs in more developed markets in Europe or North America. However, if wages and related costs were to increase in Ukraine, the Group's profitability could be reduced. The Group might need to increase the level of the employees' compensation at a higher rate than it did in the past in order to stay competitive on the labour market. Unless the Group is able to continue increasing efficiency and productivity of its employees, this could have a material adverse effect on business of the Group.

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

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

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

A violation of health and safety laws relating to a mine, or at a coal enrichment or other plant, or a failure to comply with the instructions of the relevant health and safety authorities, could lead to, amongst other things, a temporary shut down of all or a portion of the mine or other plant; a loss of the right to mine, or the imposition of costly compliance procedures. If health and safety authorities require the Group to shut down all or a portion of a mine or other plant or to implement costly compliance measures, whether pursuant to existing or new health and safety laws and regulations, or the more stringent enforcement of existing laws and regulations, such measures could materially adversely affect the Group's business, results of operations, financial condition and prospects.

Due to a short-term nature of the contracts with the majority of customers and suppliers, extension of contractual relations with them may not be warranted

Due to fluctuations of the prices for coal, most of the contracts with customers and suppliers are entered into for the period of up to one year or for one-off supply. The Group regularly re-enters into new contracts with its key customers and supplies. Such practice of short-term contracts is consistent with the general market practice and allows the Group to adjust their pricing to the existing market conditions. The failure to re-execute any of the contracts with the Group's key customers or suppliers could lead to a decrease in production and sales volumes, which could have an adverse effect on the business, operating results and financial condition.

Transfer pricing rules may potentially affect Group's results of operations.

Ukrainian transfer pricing rules apply to a wide range of situations involving cross-border and certain domestic transactions, most typically regulating pricing for goods and services sold or purchased to or from related parties. Under Ukrainian tax laws, the transactions between related parties must be carried out at arm's length. More specifically, a taxpayer must report the higher of the contractual prices and market prices, which are termed "usual prices", in connection with the sale of goods or services to related parties. Similarly, a taxpayer's deductible expenses may not exceed the "usual prices" for goods and services. Since April 1, 2011, a "safe harbor" rule has been introduced permitting the deviation of contractual prices from arm's length prices by no more than 20%. Moreover, starting from January 1, 2013 the new tax rules relating to "usual prices" will become effective. Until that time, the old tax rules introduced by the Corporate Income Tax Law remain in force. It is not exactly clear how the old tax rules relating to "usual prices" will be applied from April 1, 2011 (until January 1, 2013) when the relevant provisions of the Tax Code of Ukraine relating to CIT come into effect. Under Ukrainian tax laws, "usual prices" also apply to transactions with persons who either do not pay corporate income tax (the "CIT") or pay it at a rate other than the standard rate of CIT. Because the Group's foreign counterparties, excluding those that have a permanent establishment in Ukraine, may not be payers of Ukrainian corporate income tax at the standard rate, the tax authorities may interpret this rule to apply to any transaction between the Group, as a resident entity, and its foreign counterparties, regardless of whether they are related parties.

The Group's historical and current trading relationships could fall within these transfer pricing rules. Accordingly, the Group must report corporate income tax on export transactions at prices at which it makes purchases and prices used in transactions between its subsidiaries, as adjusted to the arm's length prices, that is, not lower than the usual prices for such products and supplies. With the "safe harbor" rule, which has come into force on April 1, 2011, however, the Group is required to carry out such adjustments only if and when usual prices for such products and supplies would exceed the contractual prices by more then 20%. Operating Companies must also report deductible expenses for the corporate income tax purposes at the level not greater than usual prices on import transactions and on transactions with other Ukrainian related parties and non-standard rate payers of corporate income tax. With the introduction of "safe harbor" rule, the obligation of Ukrainian subsidiaries to adjust their deductible expenses to the arm's length prices would arise only if the relevant contractual prices would be viewed to exceed the applicable usual prices by more then 20%.

Ukrainian tax laws offer a number of methods to establish the usual price. According to the commonly used comparable uncontrolled price method (the "CUP"), the usual price is determined by reference to the sales price of identical (or similar) goods, works, or services between unrelated parties taking into account the commercial value of such agreements including the amount, volume of goods, contractual obligations, payment terms and other relevant terms. Other methods are largely based on national accounting standards and include the resale price method, the cost plus method and the balance sheet value method. However, there can be no guarantee that the transfer pricing method and underlying data used by the tax authorities to determine the usual price would correspond to the method and data used by management. Accordingly, any discrepancies between such tax assessments could lead to a dispute between the tax authorities and the Group which could have an adverse effect on the Group's business, results of operations and financial condition.

With respect to VAT, Ukrainian tax laws require that the relevant VAT liability must be reported with respect to the higher of the contractual price and usual price of the relevant goods or services irrespective of whether or not the transaction takes place between related parties. Similarly, input VAT must not exceed input VAT calculated by reference to usual prices. No "safe harbor" rule applies for the VAT reporting purposes.

The Group has developed and follows an internal transfer pricing policy which its management believes is based on market practice and complies with tax and customs legislation in Ukraine. Management believes that the prices at which the Group purchases supplies and raw materials from, and the prices at which it sells **coal** to, related parties, are the usual prices for such supplies and products. However, the relevant laws, rules and standards used for the purpose of determining usual prices in Ukraine are vaguely drafted and leave wide scope for interpretation by the Ukrainian tax authorities and administrative courts. In addition, to date, there has been only limited guidance as to how these laws, rules and standards are to be applied. As a result, there can be no assurance that the tax authorities in Ukraine will not challenge the Group's prices and propose adjustments for corporate income tax as well as VAT purposes. If such price adjustments are implemented, the Group's effective tax rate could increase and future financial results could be adversely affected. In addition, the Group could face significant losses associated with the assessed amount of prior tax underpaid and related tax interest and penalties, which may materially adversely affect the Group's business, results of operations and financial condition.

The Group may be unable to obtain VAT refund for the export of goods in full

Since significant part of the sales of the Group are export sales, the Group benefits from additional VAT refunds in connection with its export sales. Because export sales are generally taxed at the rate of 0 %, the Group's input VAT accumulated on purchases related to such export sales is subject to reimbursement by the government of Ukraine. Effective from January 1, 2011 the new Tax Code of Ukraine introduced the procedure of "automatic" VAT refund, such procedure may apply to the Group. At the same time, the complicated process of tax inspections and the contradictory rules on when they should be held create serious barriers during the administration of the taxes. Due to the budget deficit, even the taxpayers entitled to VAT refund, may not receive such refund in practice in full or may not be able to offset it against future tax liabilities because of the absence of the effective legislative mechanism to offset the sums of VAT against taxes and duties (mandatory payments). The refund of export VAT in Ukraine is often delayed and/or the amounts due may be restructured by the government, and any failure by the Group to receive such refunds in full may adversely affect its operating results.

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

Ukrainian corporate laws and regulations have developed considerably since Ukraine's transition to a market economy. Some of these laws and regulations contain ambiguities, imprecisions and inconsistencies which result in different practices of their application. As a result, some of the prior corporate transactions of the Group's Ukrainian companies may not have fully complied with all corporate formalities. In particular, the Group may not have complied or may not have fully complied with all the requirement of Ukrainian corporate law with respect to the procedure and documents required for transfer of participatory interest in the Group's subsidiaries, convocation of the shareholders meetings and provisions of the constituent documents. Also, the corporate reorganization of state enterprises into two of the Group's Ukrainian companies may not have been conducted in full compliance with the then applicable law. Depending on the nature of a violation, the above instances of non-compliance with applicable laws and regulations may result in warnings from governmental authorities, requests from governmental authorities for the corrective actions within a prescribed time period, requests for mandatory winding-up proceedings, or requests to unwind a previous transaction. In some instances, once notified about the alleged violation of laws or regulations, the Group may be able to perform corrective measures, in particular, amend the constituent documents. To date, the Group has not received any notice of violation from any interested parties or from governmental authorities, and we do not expect that any party will seek to review or modify any such transaction or challenge the above-mentioned irregularities. However, there can be no assurance that we will not receive any such notices or claims in the future. Any such event could have an adverse effect on our business, results of operations, and financial condition.

The credit facilities of the Group are repayable on demand

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

Covenants in the debt agreements of the Group Subsidiaries may limit the Group's flexibility to operate its business

In order to finance the development of the business, *e.g.* to upgrade facilities, the Group has needed and may need to assume debt. To obtain loans, the companies of the Group have been, and may be required to secure such loans by granting security over their significant assets such as shares held in subsidiaries, real estate owned by the Group, property rights, significant inventories and production in progress.

Such credit facilities provide restrictive covenants that may limit the Group's flexibility to operate its business. In addition, any onerous collateral requirement may limit the Group's ability to raise additional funds. Some of the current debt facilities of the Group contain covenants that impose on it operating and financial restrictions, including restrictions on its ability to dispose, transfer or lease pledged or mortgaged assets; to maintain any building restructuring with mortgaged assets; to create next pledge or mortgage over pledged and mortgaged assets. Under the terms of certain of the Group's loan agreements, the Group must maintain requirements to its profitability.

Events beyond the Group's control could prevent it from complying with these covenants and result in a breach of any such obligation, thus triggering an event of default. This, in turn, may have an adverse effect on the Group's business, financial condition, and operating results or prospects.

The Group is subject to currency-related and interest rate risks

Fluctuations in the value of US$, which is the Group's reporting currency, against other currencies, such as UAH and EUR may have an adverse effect on its operating results, sales revenue, production costs, profit margins and competitive position. Approximately 23.1% of the Group's sales are invoiced in US$ and comes from international markets in 9 months of FY 2011. The remaining 76.9% represent sales of coal in the Ukrainian domestic market. It is expected that the same proportion of export and domestic sales will remain in future. All domestic sales are in UAH, which is not a freely tradable currency. The results of domestic operations are reported in UAH and then converted into US$ at applicable exchange rate for inclusion in the Consolidated Financial Statements. Moreover, the vast majority of loan facilities extended to the Group are denominated in UAH, some loan facilities of the Group are also denominated in US$ and EUR. A change in the value of these currencies compared to US$ would have a negative effect on the results of the Group's operations. The Group also encounters currency exchange risks to the extent that it incurs operating expenses in a currency other than that in which it has obtained financing or those in which it generates revenues.

In the ordinary course of business, the Group may enter into hedging transactions in order to manage its exposure to foreign exchange, currency and interest rate risks. The Group cannot assure that any hedging transaction that it has entered into or may enter into in order to protect against such risks will be successful or that shifts in currency exchange rates generally will not have a material adverse effect on the Group's business, financial condition, and operating results or prospects.

The Group may not have or may be unable to obtain sufficient insurance coverage

The Group's insurance may be insufficient to cover all liabilities arising out of or in connection with its business activities. The insurance maintained by the Group may be deemed inadequate compared with the insurance coverage customary in Western Europe for a business of the Group's size and nature. If the Group were to suffer a loss that is not adequately covered by insurance, its business, operating results, financial condition and prospects could be materially adversely affected. See - "*Business — Insurance*".

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

The Group's operations are exposed to the foreign currency risk (See - "*Risk Factors-The Group is subject to currency-related and interest rate risks*"). In addition, the Group has chosen US$ as the presentation currency for its operating and financial results, while the functional currency of the Group's Ukrainian companies is UAH. Consequently, the operating and financial results of the Group as presented in US$ may be distorted by application of the corresponding UAH/US$ exchange rate

Risks Relating to Ukraine

Since all Group's production capacities are located in Ukraine, risks and events that have a material adverse effect on the Group's operations in Ukraine could, in turn, have a material adverse effect on its overall business, financial condition, operating results or prospects. Set forth below is a brief description of some of the risks incurred by investing in a company with substantial assets and operations in Ukraine.

Emerging markets are subject to greater risks than more developed markets

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

Ukraine may continue to experience political instability or uncertainty

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

The current Parliament was elected at the parliamentary elections held on September 30, 2007. In December 2007, the new Parliament appointed Yuliya Tymoshenko as the Prime Minister of Ukraine. On October 9, 2008, the President issued a decree dissolving the Parliament and designating December 7, 2008 as the date for new parliamentary elections. However, this decree was challenged in court and cancelled by a subsequent decree by the President. In December 2008, the Parliament elected its new Speaker, Volodymyr Lytvyn, and a new majority coalition was formed comprising three parliamentary factions: Our Ukraine - People's Self Defense Bloc, Yuliya Tymoshenko's Bloc and the Volodymyr Lytvyn Bloc.

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

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

In 2010 a political reform introduced by the Law of Ukraine "On Changes to the Constitution of Ukraine" dated December 8, 2004 (the "2004 Reform Law") was cancelled. The 2004 Reform Law provided for the shift of Ukraine from the presidential to the parliamentary democracy and distributed a significant part of the President's powers to the Parliament and the Government. The 2004 Reform Law has been challenged at the Constitutional Court of Ukraine and announced unconstitutional on September 30, 2010. As a result, the Constitution of Ukraine was reversed back to its initial text adopted in 1996 and the President resumed his significant powers. An administrative reform in Ukraine has been introduced with issuance by the President of Ukraine of an Order "On Improvement of the System of the Central Executive Authorities" (the "Order") dated December 9, 2010. The Order introduced a major change to the system of central governing bodies separating them into the ministries and three categories of the central executive bodies and reduced the number of state bodies and administrative personnel.

As of the date of this Prospectus, the balance of power between the President, the Government and Parliament has shifted, in favour of the President and the parliamentary coalition dominated by the Party of Regions. The opposition remains fractioned and does not have significant influence over the political process in the country. A number of criminal cases have been initiated against the members of the former Government (including Mrs. Tymoshenko) for various acts of alleged misconduct during their service in the Government. Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences. A number of factors could adversely affect political stability in Ukraine. These could include: court action taken by opposition parliamentarians against decrees and other actions of the President or the Government; or court action by the President against parliamentary or governmental resolutions or actions.

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

Ukraine may experience economic instability

The negative impact of the global economic and financial downturn has been compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. In particular, although the Government has generally been committed to economic reform, the implementation of reforms has consistently faced the obstacles of a lack of political consensus, controversies over privatization (including privatization of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

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

Any unfavourable changes in Ukraine's regional relationships, especially with Russia, may adversely affect the Ukrainian economy and thus the Group's business

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

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

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

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

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

A failure to develop relations with the EU might have negative effects on the Ukrainian economy and the Group's business

Ukraine continues to develop its economic relationship with the EU. In 2008, the EU was the largest external trade partner of Ukraine importing goods and services from Ukraine amounting to US.$22.2 billion (28.2 % of Ukraine's total exports of goods and services), and exporting goods and services to Ukraine amounting to U.S.$32.7 billion (35.5 % of Ukraine's total imports of goods and services). In 2009, the EU remained the largest external trade partner of Ukraine with its share in the total foreign trade turnover of Ukraine amounting to about 31.0 % (exports of goods and services from Ukraine to the EU amounted to approximately U.S.$12.5 billion, and imports of goods and services from the EU to Ukraine amounted to approximately U.S.$18.4 billion). In 2010, the EU's share in the total foreign trade turnover of Ukraine amounted to 29.6% (exports of goods and services from Ukraine to the EU amounted to approximately U.S.$16.2 billion, and imports of goods and services from the EU to Ukraine amounted to approximately U.S.$22 billion).

European Union imports from Ukraine are to a large extent liberalised, apart from metal scrap, on which Ukraine levies export duties.

In return for effective implementation of political, economic and institutional reforms, Ukraine and other neighbouring countries should be offered the prospect of gradual integration with the EU's internal market, accompanied by further trade liberalisation. Ukraine's accession to the World Trade Organisation (the "WTO") created the necessary preconditions for the launch of formal negotiations for introduction of a free trade area ("FTA") with the EU. In thirteen rounds of negotiations on the FTA held between Ukraine and the EU from 2008, the parties achieved progress in harmonisation of, among others, the following areas: trade in goods (including in relation to instruments of trade protection, tariffs, technical barriers in trade, sanitary and customs issues), intellectual property, rules relating to origin of goods, sustainable development and trade, trade in services, and public procurement.

At the Paris Summit in September 2008 an agreement was reached to start negotiations on an EU-Ukraine Association Agreement. Several negotiating Rounds have since been organised, alternately in Brussels and Kiev. The Association Agreement is intended to significantly deepen Ukraine's political association and economic integration with the EU. As Ukraine became a member of the World Trade Organisation (WTO) in May 2008, negotiations on the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) have been launched, as an integral part of the Association Agreement.

Should Ukraine fail to develop its relations with the European Union or should such developments be protracted, this may have negative effect on the Ukrainian economy.

Weaknesses relating to the legal system and legislation may create an uncertain environment for investment and business activity

Since independence in 1991, as Ukraine has been developing from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is, however, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organized form.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending in the Parliament. The recent origin of much of Ukrainian legislation, lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments, place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities. These and other factors that have an impact on Ukrainian legal system make the investment in the Shares subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

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

The judiciary's lack of independence and overall experience, difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effected redress in court proceedings

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

The court system lacks staffing and funding. Judicial decisions under Ukrainian law generally have no precedent effect, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. The Ukrainian judicial system became more complicated and hierarchical as a result of recent judicial reforms. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. Finally, court orders are not always enforced or followed by law enforcement institutions. Courts in Ukraine will generally not recognise and/or enforce any judgment obtained in a court of a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. The uncertainties of the Ukrainian judicial system may have a negative impact on the Ukrainian economy as a whole, and thus may materially adversely affect the Group's business, financial condition, results of operations or prospects in Ukraine.

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

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

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

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

There are deficiencies in corporate governance standards under Ukrainian law

Disclosure and reporting requirements have only recently been enacted in Ukraine and remain underdeveloped. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures in line with the standards of the European Union Member States or the United States. The concept of fiduciary duties owed by management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Such deficiencies could significantly affect the communication of material information or result in inappropriate management decisions, which may have a material adverse effect on the Group's business, results of operations and financial condition.

Official economic data and third-party information in this Prospectus may not be reliable

Although a range of governmental ministries, along with the National Bank of Ukraine (the "NBU") and the SSCU, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. Prospective investors should be aware that figures relating to Ukraine's GDP and many other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not have been calculated in accordance with international standards.

Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Prospectus data are presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF's Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated, the information and figures presented in this Prospectus not been restated to reflect such inflation and, as a result, period to period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified. The Group has also provided information on certain matters pertaining to documentation that belongs to independent third parties. In certain of these circumstances, the Group has relied on reported information in presenting such matters but is unable to independently verify such information.

Fluctuations in the global economy

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

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

Ukraine's physical infrastructure largely dates back to the Soviet times and in certain respects has not been adequately funded and maintained. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions throughout areas of Ukraine are poor, with many roads not meeting minimum requirements for usability and safety. The Ukrainian Government has been implementing plans to develop the nation's rail, electricity and telephone systems, which may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. Breakdowns and failures of any part of Ukraine's physical infrastructure may disrupt the Group's normal business activity. Further deterioration of Ukraine's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Ukraine and interrupt business operations, any or all of which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations

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

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

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

In February 2010 Ukraine was mentioned by FATF as having demonstrated progress in improving its AML/CFT regime despite still having certain strategic AML/CFT deficiencies. Ukraine has made a high-level political commitment to work with the FATF and MONEYVAL to address these deficiencies, including by: (i) adequately criminalising money laundering and terrorist financing (Recommendation 1 and Special Recommendation II), (ii) enhancing financial transparency (Recommendation 4); and (iii) establishing and implementing an adequate legal framework for identifying and freezing terrorist assets (Special Recommendation III). In early June 2009, the Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine. However in December 2010 the Parliament abolished the adopted package of anti-corruption laws and the president submitted a new draft law "On the basis of prevention and countering corruption in Ukraine" has been adopted. There can be no assurance that the new law will be effectively applied and implemented by the relevant supervising authorities. Any future allegations of corruption in Ukraine or evidence of money laundering may have a negative effect on the ability of Ukraine to attract foreign investment and thereby on the Ukrainian economy as a whole and thus may materially adversely affect the Group's business, financial condition, results of operations or prospects in Ukraine.

Ukraine's tax system is undeveloped and subject to frequent change, which may create an uncertain environment for investment and business activity

Ukrainian tax legislation is subject to frequent changes and amendments, which can result in either a more favourable environment or unusual complexities for the Group and its business generally. For example, with effect from January 1, 2011 the Ukrainian tax system was significantly reformed by the adoption of a new Tax Code of Ukraine. Applicable taxes include VAT, corporate income tax, custom duties and other taxes. As a result, there may be significant uncertainity as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations.

Apart from the Tax Code of Ukraine, the issues of taxation are frequently governed by other statutory enactments. All the above impact negatively on the predictability of the country's taxation system, and, therefore, tell adversely on business activity, reducing the attractiveness of the national economy for foreign investors and restricting its opportunities for medium and long-term planning.

As a result the ambiguity of interpretation of some tax regulations, and the discrepancies in the attitudes of taxpayers and government control agencies, there exists a large volume of explanations and clarifications for the application of such laws.

For example, the difficulties in refunding VAT remain an obstacle for investing in the export-oriented sectors of economy. The complicated process of tax inspections and the contradictory rules on when they should be held create serious barriers during the administration of the taxes. Due to the budget deficit, even the taxpayers entitled to VAT refund, may not receive such refund in practice or may not be able to offset it against future tax liabilities.

The inconsistencies in the provisions of Ukrainian tax legislation raise issues in relation to the tax treatment of foreign exchange losses, in particular during the financial crisis.

The Group occasionally conducts intercompany transactions at terms that may be assessed by the Ukrainian tax authorities as non-market. Because of non-explicit requirements of the applicable tax legislation, such transactions have not been challenged in the past. However, it is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities, that such transactions could be challenged in the future.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organizations, including the tax authorities, creating uncertainties and areas of conflict. Recent events within Ukraine suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorized by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine which are more significant than typically found in countries with more developed tax systems. Generally, tax returns in Ukraine remain open and subject to inspection for an indefinite period of time; however, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. Nonetheless, this statutory limitation period may not be observed or may be extended in certain circumstances. Moreover, the fact that a period has been reviewed does not exempt this period, or any tax declaration or return applicable to that period, from further review.

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

The Group may face changes in respect of the double tax treaty regime between Ukraine and Cyprus

The Issuer is incorporated in Luxembourg and its subsidiary, which is a sub-holding company for the Group, is incorporated in Cyprus. A company which has its effective management and control exercised from Cyprus, thus having a tax resident status in Cyprus is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network, including the double tax treaty between the Government of the Union of Soviet Socialist Republics and the Government of Cyprus, dated October 29, 1982, to which Ukraine is successor and which is still applied in Ukraine (the "Double Tax Treaty"). There can be no assurance that the Double Tax Treaty between Cyprus and Ukraine will not be replaced. Recent reports indicate that the terms of the Double Tax Treaty are being currently renegotiated but a final text for a proposed new Treaty has not as yet been agreed and/or ratified by the two countries. Adverse changes in the Double Tax Treaty may significantly increase the Group's tax burden and interest expenses and could materially adversely affect the Group's business, results of operations and financial condition.

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

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

The business environment in Ukraine could deteriorate

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

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

The multiple factors and, primarily, as a result of the financial crisis in Ukraine, the failure of the Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism including calls for restrictions on foreign ownership of Ukrainian businesses, and violence. Although the Group has not experienced any such pressures in the past, no assurance can be given that the Group will not experience labor or social problems in the future. Any of these events could restrict the Group's operations and lead to the loss of revenue, thereby materially adversely affecting both the Group's ability to conduct its business effectively and the market price of the Shares.

Risks related to the Issuer

The Issuer is a holding company with no assets other than shares of its subsidiary

The Issuer is a holding company with no other assets than the shares in the Group Companies. All business operations are carried out by the Operating Companies. The Issuer directly holds 100% of shares and voting rights in Nertera Investment Limited (Cyprus) which holds the majority of interest and voting rights in the Operating Companies. The Issuer could pay dividends only to the extent it is entitled to receive indirectly dividends from the Operating Companies. It recognizes gains from the sale of its assets and proceeds from the issuance of the Shares only. See "*Issuer*".

Furthermore, the Issuer will depend upon external sources of financing, the earnings and cash flows from the Operating Companies and dividends on shares indirectly held in the Operating Companies to pay expenses and meet any future obligations. There is no guarantee that the earnings and cash flows from the Operating Companies will be sufficient to meet future needs.

The rights of Luxembourg company shareholders differ from the rights of the shareholders of Polish listed companies

The Issuer was incorporated in Luxembourg under its legislative regulations and consequently the rights of the Issuer's shareholders are governed by the laws of Luxembourg and by the Issuer's Articles of Association. Accordingly, the Issuer's corporate structure as well as the rights and obligations of its shareholders may be different from the rights and obligations of the shareholders of Polish-based companies listed on the WSE. While in many important respects the Luxembourg law is similar to the Polish law, Luxembourg regulations may provide shareholders with particular rights and privileges which could not exist in Poland and, vice versa, certain rights and privileges that shareholders have in Poland may not be guaranteed.

The exercise of some of the shareholders' rights in a Luxembourg company could be more complicated or expensive for investors from Poland than the exercise of similar rights in a Polish company. Actions aimed at revoking a resolution must be filed with and will be reviewed by a Luxembourg court, in accordance with the laws of Luxembourg.

Investors may have problems with enforcement of judgments against the Issuer

The Issuer is incorporated in accordance with the laws of Luxembourg and has its registered office in Grand Duchy of Luxembourg. However, the majority of the Group's assets are located in Ukraine. For this reason investors may encounter difficulties in service of process and the conduct of proceedings with respect to any of the entities within the Group. For the same reason it may be more difficult for investors to enforce a judgment of their home country courts issued against the entities from the Group compared to entities located and conducting business in that home country.

The Issuer has been and will continue to be controlled by its majority shareholder whose interests may conflict with those of other shareholders

Following the Offering, at least 75% of the Issuer's outstanding Shares, provided that all Offer Shares are placed with investors, will be owned by the Principal Shareholder. While the Issuer believes the involvement of the Principal Shareholder in the Group's operations has been, and will continue to be important in the pursuit and implementation of the Group's strategy, there can be no assurance that the Principal Shareholder will remain a significant shareholder in the future. The Articles of Association provide that, if not otherwise required by law or the Articles of Association, resolutions at General Meetings will be adopted by a simple majority of votes duly expressed. Accordingly, Principal Shareholder will have the power to control the outcome of most matters to be decided by vote at General Meeting and, as long as the Principal Shareholder holds, directly or indirectly, the majority of the Issuer's ordinary shares, will control appointment and removal of directors. The interest of the Principal Shareholder might conflict with those of other holders of Shares who might not be able to pass the resolutions at the General Meeting that they might be supporting.

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

The Issuer is a company organized and existing under the laws of Luxembourg. Accordingly, investors in Shares may also be subject to Luxembourg taxation of dividends received from the Issuer. Although Poland and Luxembourg signed a tax treaty which provides protection against double taxation, there can be no assurance that such treaty will continue to remain in force. See "*Taxation*".

Risks relating to securities

The Offering may be delayed, suspended or cancelled

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

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

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

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

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

Holders of the Shares generally will have a pre-emptive right with respect to any issue of shares or the granting of rights to subscribe for shares, unless explicitly provided otherwise in a resolution by the General Meeting or the Board of Directors within the limits established by the General Meeting. The Board of Directors is authorized to issue up to 12,000,000 new shares in the Issuer during the period expiring five (5) years after the date of the publication of the authorization given by the General Meeting to the Board of Directors to increase the share capital in the Luxembourg official gazette (*Mémorial C, Recueil des Sociétés et Associations*). The Board of Directors may limit or exclude pre-emptive rights of existing shareholders in connection with such issue of new shares. Of that number, up to 11,252,780 new shares will be issued in connection with the Offering. The authority of the Board of Directors to exclude pre-emptive rights may be extended by a 2/3 majority vote of the shareholders for a further period. As a result of an issuance of additional Shares with exclusion of pre-emptive rights shareholding and voting rights in the Company and the earnings per Share may be diluted.

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

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

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

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

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

The Company is established and organized under Luxembourg law

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

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

The Company is organized and existing under the laws of the Grand Duchy of Luxembourg while the Offer Shares will be listed on a regulated market in Poland. Consequently, Luxembourg will be the home Member State of the Company for the purpose of the EU securities regulations and Poland will be its host Member State.

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

Investors may have problems enforcing judgments against the Company

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

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

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

Risks relating to listing and market

The price of the Company's Shares may fluctuate

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXCHANGE RATES

The Consolidated Financial Statements included in this Prospectus are presented in US$. The key Group's operations are located in Ukraine and its functional currency is Ukrainian Hryvnia.

Most of the sales are invoiced in Hryvnia and US$. For the 9 months ended March 31, 2011 76.9% of total sales was denominated in UAH and 23.1% was denominated in US$. The Group plans to increase the share of direct export sales and accordingly increase the share of revenues denominated in US$. Although most loan facilities extended to the Group are denominated in US$, funds are also borrowed in UAH. Therefore, fluctuations in the value of UAH compared to US$ could have an impact on our Group's financial condition and results of operations.

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

	UAH per US$	**UAH per EUR**	**UAH per RUB**
Closing rate as of June 30, 2007	5.05	6.80	0.20
Average rate for the year ended June 30, 2008	5.03	7.37	0.20
Closing rate as of June 30, 2008	4.85	7.63	0.21
Average rate for the year ended June 30, 2009	6.55	8.99	0.22
Closing rate as of June 30, 2009	7.63	10.76	0.25
Average rate for nine months ended March 31, 2010	7.93	11.36	0.26
Average rate for the year ended June 30, 2010	7.93	11.04	0.26
Closing rate as of March 30, 2010	7.93	10.68	0.27
Closing rate as of June 30, 2010	7.91	9.64	0.25
Average rate for nine months ended March 31, 2011	7.93	10.60	0.26
Closing rate as of March 31, 2011	7.96	11.22	0.28
Closing rate as of May 31, 2011	7.97	11.38	0.28
Closing rate as of June 30, 2011	7.97	11.50	0.28

Source: The NBU

The following table shows, for the periods provided, and unless indicated otherwise, certain information regarding the exchange rates between PLN and US$, UAH, EUR, and RUB.

	US$ per PLN	**EUR per PLN**	**UAH per PLN**	**RUB per PLN**
Closing rate as of:				
June 30, 2007	0.36	0.27	1.80	9.23
June 30, 2008	0.47	0.30	2.15	11.04
June 30, 2009	0.32	0.22	2.41	9.80
March 30, 2010	0.35	0.26	2.75	10.28
June 30, 2010	0.29	0.24	2.33	9.21
March 31, 2011	0.35	0.25	2.81	10.06
May 31, 2011	0.36	0.25	2.91	10.18
June 30, 2011	0.36	0.25	2.90	10.13

Source: The NBP

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USE OF PROCEEDS

Use of proceeds

Depending on the final number of the Offer Shares and final Offer Price, Coal Energy intends to raise up to US$ 130 million of gross proceeds from the issue of the Offer Shares in the Offering. The net proceeds that the Group will receive from the issue of the Offer Shares in the Offering, after deducting the estimated commissions, costs and expenses associated with the Offering, are to be approximately US$125 million. Final details on the net proceeds from the Offering will be published within two weeks from the Settlement Date in a manner consistent with Luxembourg and Polish regulations.

The Group intends to use the net proceeds from the Offering for the purposes of:

1. *Development of the existing mines, waste dumps processing and coal beneficiation plants.* The Group plans to spend approximately US$62 million from the net proceeds to finance the first stage of its five-year development program, totaling US$287 million, investing into the following projects:

- Approximately US$5 million on Donugletekhinvest LLC (coal beneficiation plant Postnikovskaya) for the following purposes: to expand coal beneficiation capacities up to 1,080 thousand tonnes of ROM coal per annum via construction of the additional beneficiation lines for simultaneous beneficiation of different coal grades; to modernize plant's equipment in order to increase quality of beneficiation and to expand further plant's storage and transportation infrastructure.
- Approximately US$2 million on Antracit LLC (waste dumps processing) to increase efficiency of processing via construction of coal sorting facilities and hard-medium modular beneficiation plant with further development of transportation infrastructure.
- Approximately US$6 million on mines operated by CwAL LE Sh/U Chapaeva to develop underground transportation system of the 1 Maya mine and conduct preparation works on the new seams of Ternopolskaya and Chapaeva mines, including preparation and equipment of three semi-mechanized and one fully mechanized longwalls on the latter mine.
- Approximately US$10 million on Prepodobnogo Sergiya Radonezhskogo mine operated by Donprombiznes LLC to mechanize and reconstruct the existing mine fields and prepare new seams, including preparation and equipment of two semi-mechanized longwalls.
- Approximately US$5 million on Svyato-Andreevskaya mine operated by Eximenergo PEK LLC to commence exploitation of the already prepared semi-mechanized longwall, prepare and equip a new semi-mechanized longwall, modernize central ventilation station and prepare a new seam.
- Approximately US$7 million on Svyato-Nikolaevskaya mine operated by Ugledobycha LLC to prepare a new seam of the mine, including purchase of extraction equipment and preparation of two semi-mechanized longwalls, and arrange development of reserves on Rassipnyanskiy-Krutoy mine district.
- Approximately US$5 million on Svyato-Serafimovskaya mine operated by Nedra Donbasa LLC to modernize underground transportation system and prepare new seams.
- Approximately US$10 million on Svyatitelia Vasiliya Velikogo mine operated by Donbasuglerazrabotka LLC to prepare and equip three semi-mechanized longwalls on the existing seam and arrange preparation works on the new mine field.
- Approximately US$8 million on Svato-Pokrovskaya mine operated by Tekhinnovatsiya LLC to install equipment for extraction by skips, modernize underground ventilation system and prepare new seams
- Approximately US$4 million on Novodzerzhynskaya mine operated by CwAL LE Novodzerzhynskaya Mine to install equipment for extraction by skips and modernize underground ventilation system.

2. *Acquisition of licenses the Group has applied for*. Coal Energy plans to use part of the net proceeds to finance acquisitions of the licenses that it has applied for earlier. Through these expected acquisitions the Group plans to increase its reserves at 286.9 million tonnes of coal according to the Ukrainian reserves valuation methodology. The exact amount of the net proceeds to be used for the acquisition of the new licenses will depend on the acquisition price established by the Ukrainian Government.

3. *Partial repayment of the existing bank loans and financial liabilities.* The Group plans to consider partial repayment of its short term and the most expensive bank loans and financial liabilities using the net proceeds.

4. *Increase in working capital needs following expansion of operations.*

5. *Financing other projects.* Depending on the size of the net proceeds, the Group may consider investing them into the second stage of its five-year development program.

To the extent that the net proceeds from the Offering of the Offer Shares are not invested as described above, proceeds will be used to take advantage of other opportunities (including, but not limited to the acquisitions of coal mines) in line with the Group's strategy.

Reasons for the Offering

The Offering and the Admission are expected to provide a number of benefits to both the Group and the Group's shareholders, such as the following:

- Enabling the Group to raise funds with a view to implementing the Group's strategy and achieving its strategic goals.
- Facilitating the Group's access to the capital markets and, improving opportunities for further growth, expansion and development of the Group's business and, thus increasing share value to Coal Energy's shareholders.
- Raising the profile of the Group's business.
- Strengthening the Group's reputation as a leading Ukrainian coal mining company; this, in turn, may increase the customers' base and create better conditions for long-term relationships with customers.
- Providing the Principal Shareholder with a market for the Shares and an opportunity to realize part of its investment in the long term prospective.

DIVIDENDS AND DIVIDEND POLICY

The Company intends to pursue a dividend policy consistent with the Group's growth and development plans, reflecting the planned investments the Group is making in order to drive future growth and the cash generated by the existing operations.

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

Payment of any future dividends will effectively depend on the discretion of the General Meeting or the Board of Directors after taking into account various factors, including our business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of the Luxembourg law (as described above). The Board of Directors will consider recommending to the General Meeting to pay dividends at levels consistent with growth and development plans of the Group.

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

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

Since the first financial year of the Issuer ended on December 31, 2010 the Issuer has not yet paid any dividends.

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

CAPITALISATION AND INDEBTEDNESS

The following table sets out the Group's indebtedness and capitalization on a consolidated basis as of May 31, 2011. This information is taken from the Company's management accounts and has not been audited.

This information should be read in conjunction with the section "Operating and Financial Review" and the Consolidated Financial Statements, including accompanying notes.

Total capitalisation and indebtedness of the Group

	As of May 31, 2011
	(in thousands of US$)
Current debt:	
Secured/guaranteed[8]	21,316
Unsecured/unguaranteed	2,476
Total current debt	23,792
Non-current debt, net of current portion of long term debt:	
Secured/guaranteed	14,280
Unsecured/unguaranteed	407
Total long-term liabilities	14,687
Shareholders' equity:	
Share capital	323
Share premium	-
Other reserves	7,606
Total shareholders' equity	**7,929**
Minority interest	(892)
Total capitalisation and indebtedness	45,516

Source: The Group data

Net indebtedness of the Group

	As of May 31, 2011
	(in thousands of US$)
Cash	1,822
Cash equivalents	-
Trading securities	-
Liquidity	**1,822**
Current interest-free financial liabilities	8,935
Current loans	8,855
Current portion of non current debt	4,718
Other current financial debt - lease	1,284
Current financial debt	23,792
Notes issued	407
Non current loans	7,720
Other current financial debt - lease	6,560
Non-current financial indebtedness	14,687
Net financial indebtedness	36,657

Source: The Group data

8 *Secured and guaranteed debt consists of bank loans which are secured and obligations under finance lease of state property - CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya mine*

SELECTED HISTORICAL FINANCIAL INFORMATION

The following tables set out selected combined financial and operating information of the Group for the financial years ended June 30, 2008, 2009 and 2010 and 9 months ended March 31, 2010 and March 31, 2011.

Such information is extracted without material adjustment from the Consolidated Financial Statements that together with the report of Interaudit S.a.r.l. dated June 10, 2011 and the accompanying notes are included in this Prospectus. It should also be read in conjunction with the "Operating and Financial Review" section of this Prospectus.

Income statement data

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of US$)				
Revenue	65,711	91,756	55,776	38,585	109,220
Gross profit	6,593	29,172	18,345	13,326	42,570
Operating profit/(loss)	(98)	18,980	10,950	7,760	36,200
Profit (loss) before tax	(2,435)	13,265	4,083	3,194	30,634
Profit (loss) for the year/period	(1,545)	14,343	4,781	3,316	29,644

Source: Consolidated Financial Statements

EBITDA reconciliation data

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of US$)				
Operating profit/(loss)	(98)	18,980	10,950	7,760	36,200
Depreciation and amortization	1,270	1,827	1,762	1,287	4,221
EBITDA	1,172	20,807	12,712	9,047	40,421
EBITDA margin, %	1.8%	22.7%	22.8%	23.4%	37.0%

Source: Consolidated Financial Statements, the Group data

EBITDA represents operating profit before finance (income) costs, income taxes, depreciation and amortisation, foreign exchange (gains) losses and other (income) expense and is calculated as operating profit after adding back depreciation and amortisation. EBITDA provides additional performance measure to show effects of the Company's operations which are difficult to recognize directly from the Consolidated Financial Statements. EBITDA calculations have not been subject to separate auditor's review although items used for calculation of EBITDA have been derived from the audited or reviewed Consolidated Financial Statements. This measure should not be considered in isolation or as an alternative to net profit for the period or other data presented in Consolidated Financial Statements as indicators of financial performance. EBITDA measure is not determined in accordance with generally accepted accounting principles, and thus is susceptible to varying calculations.

Balance sheet data

	As at June 30, 2008	**As at June 30, 2009**	**As at June 30, 2010**	**As at March 31, 2011**
	(in thousands of US$)			
Total assets	55,722	64,912	87,715	87,223
Total equity	16,078	15,164	16,188	150
Total non-current liabilities	12,143	21,668	28,758	38,976
Total current liabilities	27,501	28,080	42,769	48,097
Loans and borrowings, non-current	5,720	15,975	13,079	8,902
Loans and borrowings, current	6,555	9,354	21,527	27,293
Cash and cash equivalents	1,098	436	108	1,976

Source: Consolidated Financial Statements

Cash flow data

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of US$)				
Net cash flows from operating activities	11,317	13,252	19,293	13,267	54,169
Net cash flows used in investing activities	(13,882)	(19,458)	(18,152)	(10,455)	(38)
Net cash flows from/(used in) financing activities	3,650	5,886	(1,457)	(2,735)	(52,257)
Net increase in cash and cash equivalents	**1,085**	**(320)**	**(316)**	**77**	**1,874**

Source: Consolidated Financial Statements

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis generally relates to the Group's historical financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in forward-looking statements as a result of a number of factors, including, but not limited to those set forth under "Risk Factors".

Overview

The Group's principal business is mining, processing and sale of thermal and coking coal. Coal Energy is the third largest private[9] coal company in Ukraine in terms of reserves as of end of 2010 and the seventh largest private coal producer in the country by output based on 2010 results. Coal Energy's operations are vertically integrated. Besides coal mining, the Group is engaged in the beneficiation of coal and in the processing of waste dumps.

The Issuer, Coal Energy S.A., incorporated in the Grand Duchy of Luxembourg, is a holding company for a group of companies incorporated and operating in Cyprus and in Ukraine in the mining industry.

Major Events Affecting the Group's Historical Results

Overview

Over the previous three years, the Group's business has grown to an integrated company active in extraction and marketing of coal and coal related products operating a number of coal mines. In this process, the Group has grown organically as well as through acquisitions. Coal Energy has purchased production assets in support of existing coal mines and acquired new coal mines. Following the acquisition of companies, the Group has also divested some of the acquired subsidiaries considered to be non-strategic.

Acquisitions and divestitures

In 2008 the Group acquired a waste dumps processing entity Antracit LLC (Snezhnyanskaya No 1 processing unit), which was consolidated in the financial statements for the financial year 2009. Antracit production output amounted to 39 thousand, 134 thousand and 549 thousand tonnes of saleable coal over the financial years 2009, 2010 and 9 months ended March 31, 2011, respectively. The entity has been consolidated in the financial statements since the financial year 2009.

In the financial year 2010 Coal Energy acquired 86.62% of corporate rights of CwAL LE Sh/U Chapaeva (Chapaeva, 1 Maya and Terpnopolskaya mines), located in Shaktyorsk, Donetsk region. The acquisition enabled Coal Energy to increase recoverable proved and probable reserves according to the JORC Code by 43.8 million tonnes of anthracite and lean coal (coal grades A and T); CwAL LE Sh/U Chapaeva amounted to 34.7% of Coal Energy total mining output for 9 months ended March 31, 2011. The Group gained control over CwAL LE Sh/U Chapaeva on June 30, 2010. Since that date the entity was consolidated in the financial statements of the Group.

In July 2010, Coal Energy acquired 74.55% of corporate rights of CwAL LE Novodzerzhynskaya Mine, located in Dzerzhinsk, Donetsk region. The acquisition enabled Coal Energy to increase recoverable proved and probable reserves according to JORC by 20.3 million tonnes of fat coking coal (coal grade Zh). CwAL LE Novodzerzhynskaya Mine amounted to 17.2% of Coal Energy total mining output for 9 months ended March 31, 2011. CwAL LE Novodzerzhynskaya Mine was consolidated in financial statements for 9 months ended March 31, 2011.

In the financial year 2008 the Group acquired 69.3% of corporate rights of the coal trade entity Tekhinvest LLC. The Group terminated trading operations through Tekhinvest. In June 2010 it was sold to the related party Mechanic LLC for the amount of US$ 1,600. The Group lost control over the entity and excluded it from the Consolidated Financial Statements for 9 months ended March 31, 2011.

Major Factors Affecting the Group's Operations

Demand for thermal coal and pricing

The Group's operational results are dependent upon demand for thermal coal on the domestic and export markets. The demand for thermal coal is primarily influenced by the growth in demand for thermal power and electricity as well as other related factors.

[9]Statement "private" means not under state control

Most of the demand for Ukrainian coal comes from 3 main groups of clients: State Enterprise Vugillya Ukrainy, DTEK and related companies, foreign customers.

SE Vugillya Ukrainy, a state-owned wholesale thermal coal market operator. SE Vugillya Ukrainy sells all coal produced by the state-controlled coal mines (about 58% of the market) to the state-owned power generation companies and regulates the related prices. At the same time activity of SE Vugillya Ukrainy does not have a significant impact on pricing of private coal mining companies.

DTEK is a leading private energy holding, which is also a leading private Ukrainian coal trader. Historically DTEK was characterized by financial stability, strong payment discipline and large stable coal purchase volumes from other private coal mining companies. Due to that DTEK coal buyout prices are considered to be the benchmark for domestic thermal coal market for private coal mining companies. The Group has a long-term history of cooperation with DTEK and tends to have long-term supply agreements with DTEK that imply fixed supply volumes and / or prices.

Export prices are tied to international market prices with corrections based on saleable coal quality (in particular, sulphur content) and fluctuate according to the import parity prices of certain thermal coal grades, deficient in Ukraine. The Group considers exports to be the strategic sales segment. Average prices for saleable thermal coal on export were US$108, US$79, US$63 and US$77 in the FY2008, FY2009, FY2010 and 9 months FY2011.

Demand for coking coal and pricing

During the recent years the domestic market experienced significant and growing deficit of coking coal, which was caused by the following factors:

1. Lack of investments in production facilities, in particular at state-owned coal mines;

2. Depletion of saleable reserves in Ukraine, making the subsequent production at certain mines unprofitable even in case of availability of funds for capex financing;

3. Market and logistics constraints for import: import by railways from Russia and CEE region makes coal too expensive for final consumers due to high transportation costs as compared to marine carriage; long distance from mining regions to Ukrainian customers and availability of geographically closer consumers to exporting counties that Ukrainians (key suppliers of coking coal in Russia are owned or related to integrated metallurgy holdings; CEE coal producers sell its products primarily to Central European and Western European consumers). Import by marine carriage is limited due to lack of deep-water sea ports in Ukraine and virtually absence of transhipment capacities, which are oriented on import of loose cargo. Steep slope of terrain, limited port areas and export-oriented economy in Soviet times stipulated export orientation of existing Ukrainian ports. Construction of appropriate shipment infrastructure would take significant investments and time.

Consequently, Ukraine increases importing coking by railway and, recently, by marine carriage. The price of import coal adjusted for quality characteristics is the main benchmark for coking coal produced in Ukraine.

Coke-chemical plants integrated into steel production holdings are the major consumers of the Group’s coking coal, which purchase coking coal at market prices. Prices for these customers are free of government regulations and move in accordance with supply and demand balance.

The amount of demand on coking coal depends on hot iron production volumes and other specific factors (for example, during the crisis certain Ukrainian steel mills utilized gas-free regime on blast furnaces, substituting expensive gas by increased coke consumption). However, prices are less impacted by local changes as they are marked to world prices through import parity.

Government intervention and regulations

The Group is subject to various government regulations which had or might have direct or indirect impact on the results of the Group’s operations. The most important government regulations and mechanisms, influencing the Group’s operations are related to issuance of the mining licenses and other permits.

The Group discontinued operations with the state-owned power generating plants and SE Vugillya Ukrainy in FY2008, and since that time has built diversified clients portfolio among privately owned companies. Due to that, the operations of Coal Energy are not impacted by the establishment of maximum purchase prices for thermal coal sold to the SE Vugillya Ukrainy, as discussed above and regulations relating to purchase procedures (i.e., tender procedures) by the state-owned power generation companies.

Railway costs

The major portion of the Group’s coal sold to third parties is delivered to final customers by Ukrainian Railways via the national railway system. Currently, the government of Ukraine regulates rail tariffs and may increase these tariffs in the future, as it has done in the past. As transportation costs are usually paid by the Group's customers, fluctuations of the railway tariffs may affect the customers' propensity to switch to other suppliers.

Production facilities maintenance

The Group's activities are dependent upon its ability to maintain steady production levels. Therefore, the maintenance of mining equipment and overall facilities, as well as ensuring safe working conditions for personnel is crucial for the results of the Group's operations. As one of the Group's top priorities, an emphasis is placed on keeping mining equipment in good conditions and creating a healthy and safe working environment at the facilities through implementation of stringent safety measures.

Exchange rates

Coal Energy functional currency is UAH; presentation currency is the US$. Group's revenues from domestic sales accounted for 98.4%, 78.1%, 85.9% and 76.9% of total coal sales in FY2008, FY2009, FY2010 and 9 months FY2011. The Group prices for domestic sales are set in Ukrainian Hryvnia. Most of the Group's costs are also denominated in Hryvnia.

In recent years, the Hryvnia has depreciated against the US$. This depreciation has decreased Coal Energy revenues and costs presented in US$ terms in Consolidated Financial Statements.

Inflation

Operating costs and revenues of the Group might be impacted by inflation. The majority of expenses and sales are UAH-denominated and might be impacted by inflation as well (though as of 9 months of FY2011 the Group managed to increase its export exposure, i.e. partially hedged its currency risk). Producers' price inflation in Ukraine was 43.7%, (0.9)%, 25.6% and 12.5% for FY2008, FY2009, FY2010 and 9 months FY2011, respectively, according to the State Statistics Committee of Ukraine

Coal prices

Anthracite and lean coal. The Group sells anthracite (coal grade A) and lean coal (coal grade T) mainly to local and foreign energy generation plants, and to less extent lean coal - to cement plants. On the local market the largest consumer of these coal grades is DTEK with whom, the Group has long-standing successful history of cooperation. Because of significant volumes and predictability of coal supplies to DTEK, it usually receives discount varying from 5 to 10% from the respective spot export price of similar grade and quality coal. This price fixing, however, allows the Group to receive an additional benefit supplying coal to DTEK at pre-agreed prices, when spot prices fall below them. For example, in FY2009 the Group managed to sell its coal to DTEK at prices agreed at the end of FY2008, when both domestic and market prices went down. The Group entered export market for these coal grades only in 2008, starting from the occasional sales at spot prices. In the mid of FY2009 (end of 2008) the Group faced delays of payments from its local customers and their inability to consume its growing production volumes due to unfavourable market conditions. In order to overcome these delays and decrease its dependence from the local market at all, the Group made significant efforts to expand its export position. These efforts resulted into Group's first significant export contact – in FY2009 the Group supplied 177.3k tonnes of anthracite coal for average US$68 per tonne of saleable coal, which amounted to 59.9% of export revenue in FY2009. The price of this contract reflects the market price, but was lower than year average price of the Group's sale to DTEK during the same period. As a result, the average domestic prices exceeded export prices during FY2009. In the financial year 2010 the Group renegotiated agreements with DTEK at lower prices, which pushed down the average domestic price when coal market began to recover. The Group significantly increased domestic sales of anthracite concentrate and high ash content saleable anthracite coal (so-called "middling") produced by waste dumps processing unit of the Group (Antracit LLC) to 134 thousand and 549 thousand tonnes of saleable coal in FY2010 and 9 months of FY2011 respectively, which decreased (compared to prices for mined anthracite) the average local price of these coal grades to US$ 53.4 and increased the difference between it and the average export price for these coal grades for the period.

Long-flame bituminous gas coal. The Group has sold this coal grade (coal grade DG) predominantly to local households. Prices are mainly affected by demand from households and dropped in the financial year 2009 due to decrease of households' purchasing power as a result of the financial crisis.

Gas coal. Gas coal (coal grade G) is mainly used as complimentary for coking coal - pure coking coal is mixed with gas coal and this mix is being used for coke production. Because of that, gas coal prices are generally marked to local coking coal prices. In the financial year 2010, the average price of gas coal for the Group was inconsistent to average coking coal prices due to significant share of raw gas coal sales. As compared to the market prices, Group's sales prices are lower because the Group did not beneficiate gas coal of own production since Postnikoskaya beneficiation capacities were loaded by higher quality coking coal acquired from third parties and, consequently, ash content of the Group's marketable gas coal was higher as compared to the gas coal of base quality.

Coking coal. The availability of coking coal in the Group's coal grades portfolio positively affected the average price of saleable coal, especially in 9 months FY2011 as a result of Novodzerzhynskaya mine acquisition and increase of coking coal sales volumes by c. 125 thousand tonnes.

Due to significant deficit of coking coal in Ukraine the Group sells all of its mined coking coal on the local market. Selling prices of the Group after consideration of coal grade as well as ash and sulphur content discounts were lower as compared to high-quality import coal, however significantly higher as compared to export parity prices of identical quality coal.

The dynamics of local coking coal prices as well as Coal Energy selling prices were directly marked to international prices. i.e., prices decreased in FY2009 due to financial crisis and recovered in FY2010 with subsequent stabilization in 9 months FY2011.

Sales output of the Group in FY2008-2010, 9m FY2010 and 9m FY2011

	Year ended June 30,					Nine months ended March 31,		
	2008	2009	% change to 2008	2010	% change to 2009	2010	2011	% change to 2010
	(in thousands of tonnes, except percentages)							
Domestic								
Anthracite and lean coal	792	678	(14.4)	663	(2.2)	567	870	53.4
Long-flame bituminous gas coal	-	24	n/a	30	25.2	23	18	(20.7)
Gas coal	-	80	n/a	38	(53.1)	24	22	(6.9)
Coking coal	5	24	380.0	46	89.9	8	181	2,162.5
Total Domestic sales of saleable coal	**797**	**806**	1.1	**776**	(3.7)	**621**	**1,091**	75.7
Export								
Anthracite and lean coal	10	248	n/a	125	(49.5)	60	328	443.8
Long-flame bituminous gas coal	-	-	n/a	-	n/a	-	-	n/a
Gas coal	-	7	n/a	-	n/a	-	-	n/a
Coking coal	-	-	n/a	-	n/a	-	-	n/a
Total Export sales of saleable coal	**10**	**255**	n/a	**125**	(50.9)	**60**	**328**	443.8
Total sales of concenrate	**807**	**1,061**	31.5	**901**	(15.0)	**681**	**1,419**	108.2

Source: The Group data

Sales price of the Group in FY2008-FY2010, 9m FY2010 and 9m FY2011

	Year ended June 30,					Nine months ended March 31,		
	2008	2009	% change to 2008	2010	% change to 2009	2010	2011	% change to 2010
	(in US$ per tonne, except percentages)							
Domestic								
Anthracite and lean coal	80.3	81.5	1.5	48.5	(40.5)	53.1	53.4	0.7
Long-flame bituminous gas coal	-	68.5	n/a	63.8	(7.0)	69.5	82.3	18.5
Gas coal	-	74.2	n/a	87.5	17.9	95.0	109.8	15.6
Coking coal	114.0	117.1	2.8	172.7	47.4	161.4	184.2	14.1
Export								
Anthracite and lean coal	108.2	78.8	(27.2)	63.0	(20.0)	52.4	76.9	46.9
Long-flame bituminous gas coal	-	-	n/a	-	n/a	-	-	n/a
Gas coal	-	84.0	n/a	-	n/a	-	-	n/a
Coking coal	-	-	n/a	-	n/a	-	-	n/a

Source: The Group data

Production costs and efficiency

Production efficiency is an important factor affecting the Group's profitability and its gross profit in particular. Herein production efficiency is presented using cash cost of production because Coal Energy considers it to be an important supplementary measure of the Group's operational performance, which is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the coal mining industry.

Cash cost of production represents cost of sales before cost of resold merchandise, change in finished goods, depreciation and amortisation and cost of other services. In the table below cash cost of production is presented for each of three main production segments such as ROM coal mining, ROM coal beneficiation and waste dumps processing.

Cost of sales composition of the Group in FY2008-FY2010, 9m FY2010, 9m FY2011

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of US$)				
Cost of sales	**59,118**	**62,584**	**37,431**	**25,259**	**66,650**
Less:					
Cost of merchandising inventory	17,784	29,252	18,130	13,462	2,555
Change in inventories	(2,591)	(1,165)	(2,859)	(3,360)	8,382
Cost of other services	3,211	863	145	117	143
Depreciation and amortization	1,082	1,558	1,333	835	4,115
Total cash cost of production	39,632	32,076	20,682	14,205	51,455
Including:					
Total cash cost of mining	*37,853*	*29,007*	*17,596*	*12,090*	*46,824*
Total cash cost of beneficiation	*1,779*	*1,834*	*1,117*	*809*	*1,480*
Total cash cost of waste dumps processing	-	*1,235*	*1,969*	*1,307*	*3,151*
	(in US$)				
Cash cost of mining per 1 tonne of ROM coal	60.3	38.3	39.4	34.3	64.4
Cash cost of beneficiation per 1 tonne of ROM coal	8.3	6.3	5.8	5.6	5.8
Cash cost of waste processing per 1 tonne of saleable coal from waste dumps	n/a	31	14.7	15.4	5.7

Source: Consolidated Financial Statements, the Group data

Cash costs associated with ROM coal production comprise the major portion of the Group's costs and can be broadly categorised into costs attributable to payroll of production personnel with related taxes, materials and utilities.

The majority of Group's costs are UAH denominated. Following UAH depreciation by 23.2% in FY2009, coupled with decrease of an average monthly salary of operational personnel and cost cutting measures, the cash cost per one tonne of ROM coal in US$ decreased by 36.5% in FY2009 compared to FY2008. The cost cutting program was implemented in the times of the global financial crisis and related decrease in coal demand that allowed to keep costs at almost the same level during FY2010. Increase of the average cash cost of mining per 1 tonne of ROM coal for 9 months FY2011 was caused because of the following reasons:

1. Naturally higher production cash costs of coking coal mine Novodzerzhynskaya which is compensated by significantly higher price of coking coal as compared to the thermal coal.
2. Higher production cash costs at Sh/U Chapaeva that had underutilized production capacity during 9 months FY2011, that resulted in the higher fixed cost per tonne of coal.
3. Reconstruction works at Svyato-Pokrovskaya and Svyato-Serafimovskaya mines, which resulted in low production, and subsequently higher fixed cost per tonne of coal.
4. In addition, having got over the financial difficulties the Group started increase of wages for operational personnel.

A decrease of cash cost per tonne of beneficiated ROM coal by 24.2% in FY2009 was caused by decrease of fixed costs due to growth of beneficiation volume by 36% year-on-year, decrease of an average monthly salaries of operational personnel and UAH depreciation effect on costs. In FY2010, despite the decrease of beneficiation volumes by 34.0% year-on-year, cash costs per one tonne of beneficiated ROM coal decreased by 7.9% due to further depreciation of UAH/US$ average exchange rate by 17.4%. For 9 months ended March 31, 2011, cash cost per one tonne of beneficiated ROM coal remained stable as compared to FY2010 because the scale effect of increased volumes of beneficiation was offset by increased prices for raw materials, services and labour cost.

Cash costs per 1 tonne of marketable coal from waste dumps processing continuously decreased from US$31.6 in FY2009 to US$14.7 during FY2010 and US$5.7 during 9 months FY2011. The decrease of costs per 1 tonne of output reflected the increase of waste processing volumes from 39 thousand tonnes in FY2009 to 134 thousand tonnes in FY2010 and 549 thousand tonnes during 9 months FY2011 and implementation of selective processing techniques, which allowed to achieve those sales volumes.

Trends

Rising global demand for coal

Rising population and energy consumption have been continuously driving demand for coal on the global market. Growing global energy consumption is the key driver of demand for thermal coal. Furthermore, due to globalization, differences in regional growth prospects increasingly determine both the future landscape of the world coal markets and global trade patterns. The assumed strong growth in demand for energy in many developed and emerging economies will spur expansion in imports as well as provide the impetus to the development of domestic generating capacity.

Global market current trends

On the global arena, China’s economic growth over the past years has fuelled increased demand for all raw materials, especially steel and energy commodities. Because of the increased domestic demand, China has reduced exports of both thermal and coking coal. The Chinese market has become a significant source of global demand for commodities. In 2009, China consumed 42% of the global thermal coal production. China’s demand for coal has been driving global demand over the past decade. This in turn has supported an increase in global coal prices. China’s contribution to the world coking coal export market has been reduced by restrictions on its coking coal exports, announced in late 2003, to satisfy domestic demand. This in turn supported an increase in global coal prices. The world’s gradual recovery after the financial crisis, increased steel and energy demand across the world, have contributed to an increase in international coal prices, particularly thermal coal prices. Coal prices over 2010 recovered during the year driven by demand in China and India and restocking in the Organisation for Economic Co-operation and Development (OECD) countries.

According to Bloomberg data, during January through May 2011 global prices for thermal coal and coking coal have increased on average 6% and 50%, respectively. On the global basis coal prices over the first five months of 2011 have been influenced by supply disruptions after floods hit Australia’s Queensland in January 2011 and as fossil-fuel demand increased as an alternative to nuclear generation in Germany and Japan following the Asian country’s March 11, 2011 earthquake and tsunami.

On the thermal coal market Amsterdam Rotterdam Antwerp quoted prices for delivery in Europe increased from lows of US$ 63 per tonne at the beginning of 2010 due to the low coal burn and high port stockpiles in Europe, rising to US$ 95 per tonne at the year-end. This price appreciation was driven by a steady recovery in the global industrial production as demand in developed economies improved coupled with strong demand from Asia. Richards Bay coal terminal FOB prices increased by 60% during 2010, supported by strong demand from India and China. Newcastle FOB prices gained 42% during 2010, with a peak of US$ 109 per tonne in April 2010, driven by weather-induced supply restrictions. Benchmark contract prices for the 2010 Japanese Financial Year and mid-year contracts negotiated in March and September, respectively, were both settled at US$ 97.75 per tonne, while 2011 contracts negotiated in December settled at US $115 per tonne. On a global basis, the McCloskey’s Coal Price Index Report averaged US$ 87 per tonne in the six months ended 30 June 2010, US $96 per tonne in the six months ended 31 December 2010 and US $96 per tonne and US$ 124 in the four months ended 30 April 2011, reflecting the above-mentioned pattern of progressively tightening supply-demand balance. In May 2011 prices have continued to rise, reaching US$ 128 per tonne, caused by continued tightness in the market. Furthermore, according to Bloomberg, China is expected to significantly increase thermal coal imports in 2011 and more than double thermal coal imports by 2015 driven by the country’s steady electricity demand growth. India’s overseas purchases of thermal coal are also expected to grow significantly in 2011 and almost double by 2015 driven by continued growth of electricity demand backed by the country’s expanding economy.

The coking coal market moved from annual benchmark to quarterly reference pricing from 1 April 2010. The premium for Hard Coking Coal (HCC) increased to US$ 200 per tonne for the quarter ending in June 2010 compared with the Japanese financial year ending 31 March 2010 benchmark of US$ 129 per tonne. Several new independent coking coal indexes were first published in March 2010 reflecting the transition of this industry to shorter-term pricing mechanisms. Higher prices were driven by growth in global steel production in traditional coking coal importing countries during the first half of 2010, as well as continued strong import demand from China, which has traditionally been self-sufficient. Spot prices remained ahead of quarterly reference pricing throughout the fourth quarter of 2010 as coal producers were unable to meet stronger demand requirements, incentivising US producers to direct more tonnage to Asia. Over January - May of 2011 global supply of coking coal has also been limited due to Australia's worst flooding in 50 years in Queensland, the country's major coalmining region, which accounts for 90% of Australia's coking coal output. Prices for Australian premium hard coking coal have since jumped by about 50%. As a result, for example, Kobe Steel Ltd, Japan's fourth-largest steelmaker, agreed to pay Rio Tinto Group a record price of US$ 330 per tonne for coking coal in the second quarter of 2011, up from an average of US$ 225 per tonne in the first quarter of 2011, after supply from Australia was disrupted.

Yet, despite the severe impact of the natural disaster factor on supply in January 2011, prices for coking coal have continued growing supported by fundamental factors such as recovery in the global steel industry's growth and stable demand for coking coal on the market. For example, in mid-May 2011 Anglo-American has contracted supply of hard coking coal to customers from the European Union for the third quarter of 2011 at US$ 315 per tonne FOB. In addition, continued strong long-term demand for coking coal from China's and India's expanding steel industries as well as a growing share of importations by these countries are expected to help keeping global prices for coking coal high.

Ukrainian market current trends

The Ukrainian coking coal prices recovered in the second half of 2009 and proved to be resilient to sharp downward moves even after the domestic steel capacity utilization declined in 2010. According to Energobusiness, over January - May 2011 average domestic prices for coking coal in Ukraine have grown by about 10% as a result of continued recovery in demand by the country's steel industry. The Ukrainian coking coal prices are set to further strengthen in the coming years following a gradual increase of the global and Ukraine's crude steel output. Strong foreign demand and domestic shortages are also expected to keep the Ukrainian coking coal prices robust going forward.

Ukrainian thermal coal prices are set to be driven by the increasing demand from the power generation sector. Over January - May 2011 domestic prices increased by 5%-10%.

Results of Operations

The following table provides a summary of certain items in the consolidated income statements for the financial years ended June 30, 2010, 2009 and 2008 and interim periods 9 months ended March 31, 2010 and 2011.

Income statements for the financial years ended June 30, 2010, 2009, 2008 and interim period for 9m of FY2010, FY2011

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
Revenue	65,711	91,756	55,776	38,585	109,220
Cost of sales	(59,118)	(62,584)	(37,431)	(25,259)	(66,650)
GROSS PROFIT	**6,593**	**29,172**	**18,345**	**13,326**	**42,570**
General and administrative expenses	(2,955)	(2,457)	(1,177)	(935)	(2,804)
Selling and distribution expenses	(2,304)	(5,184)	(3,091)	(2,209)	(5,215)
Other operating income(expenses)	(1,432)	(2,551)	(3,127)	(2,422)	1,649
OPERATING PROFIT (LOSS)	**(98)**	**18,980**	**10,950**	**7,760**	**36,200**
Other non-operating income (expenses)	(172)	(1,319)	(5)	(270)	(843)
Finance income	19	3,330	2,025	1,212	1,266
Finance costs	(3,901)	(7,726)	(7,153)	(5,508)	(5,989)
Gain on acquisition of subsidiaries	1,717				
Impairment of goodwill			(1,734)		
PROFIT (LOSS) BEFORE TAX	**(2,435)**	**13,265**	**4,083**	**3,194**	**30,634**
Income tax income/(expenses)	890	1,078	698	122	(990)
PROFIT (LOSS) FOR THE YEAR	**(1,545)**	**14,343**	**4,781**	**3,316**	**29,644**
OTHER COMPREHENSIVE INCOME:					
Effect of foreign currency translation	630	(6,659)	(521)	(563)	(46)
TOTAL OTHER COMPREHENSIVE INCOME (EXPENSE)	**630**	**(6,659)**	**(521)**	**(563)**	**(46)**

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
TOTAL COMPREHENSIVE INCOME	**(915)**	**7,684**	**4,260**	**2,753**	**29,598**
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:					
Equity holders of the parent	(1,457)	14,319	4,831	3,274	28,702
Non-controlling interest	(88)	24	(50)	42	942
COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Equity holders of the parent	(839)	7,764	4,313	2,714	28,649
Non-controlling interest	(76)	(80)	(53)	39	949
Weighted average number of the ordinary shares outstanding	31,000	31,000	31,000	31,000	31,000
BASIC EARNING (LOSS) PER ORDINARY SHARE (expressed in US$)	**(47)**	**462**	**156**	**106**	**926**

Source: Consolidated Financial Statements

9m ended March 31, 2011 compared to 9m ended March 31, 2010

Revenue

A three-time increase in revenues from US$38.6 million for 9 months ended March 31, 2010 to US$109.2 million for 9 months ended March 31, 2011 were caused by the following factors:

1. Acquisition of Chapaeva and Novodzerzhynskaya mines, which produced 51.9% of total Group's mining volume in 9 months FY2011.
2. Recovery of the coal markets that resulted in prices growth.
3. Change in the sales structure by coal grades and geography. The Group increase sales of more valuable coking coal after integration of Novodzerzhynskaya mine and significantly increased its export sales at risen spot prices enhancing its sales team and realizing aggressive sales strategy.
4. Increase of high-ash saleable coal extracted in the process of waste dumps processing and subsequently sold by Antracit LLC from 85 thousand tonnes during 9 months ended March 31, 2010 to 549 thousand tonnes during 9 months ended March 31, 2011.
5. The above-mentioned growth factors were partially offset by decrease in coal trading revenues reflecting the Group's strategy to focus on production and treat trading as a non-strategic opportunistic activity.

Sales of the Group by segments in 9m FY2010, 9 months FY2011

	Nine months ended March 31,		
	2010	2011	% change to 2010
	(in thousands of US$, except percentages)		
Sales			
Coal from own mining and waste processing	20,794	101,958	390.3
Trading activities, including:	17,535	7,021	(60.0)
Coal trading	17,535	7,021	(60.0)
Other trading	-	-	n/a
Other activities	256	241	(5.9)
Total sales	**38,585**	**109,220**	**183.1**

Source: Consolidated Financial Statements, the Group data

Sales of the Group by regions in 9m FY2010, 9m FY2011

	Nine months ended March 31,				
	2010		2011		
	Amount	% of total sales	Amount	% of total sales	% change to 2010
	(in thousands of US$, except percentages)				
Sales of saleable coal					
Domestic sales	35,173	91.2	83,763	76.7	138.1
Export sales	3,156	8.2	25,216	23.1	699.1
Total sales of saleable coal	**38,329**	99.3	**108,979**	**99.8**	184.3
Other revenues	256	0.7	241	0.2	(5.9)
Total revenues	**38,585**	**100.0**	**109,220**	**100.0**	**183.1**

Source: Consolidated Financial Statements, the Group data

Cost of goods sold

Cost of sales composition of the Group in 9m FY2010, 9m FY2011

	Nine months ended March 31,				
	2010		2011		
	Amount	% of total cost of mining	Amount	% of total cost of mining	% change to 2010
	(in thousands of US$, except percentages)				
Cash cost of mining, including					
Raw materials	6,553	54.2	15,235	32.5	132.5
Wages and salaries of operating personnel	3,808	31.5	22,786	48.7	498.4
Subcontractors services	479	4.0	2,526	5.4	427.7
Energy supply	1,109	9.2	5,729	12.2	416.7
Other expenses	141	1.2	548	1.2	289.5
Total cash cost of mining	**12,090**	**100.0**	**46,824**	**100.0**	**287.3**
Cost of beneficiation	809		1,480		82.8
Cost of waste dumps processing	1,307		3,151		141.1
Cost of merchandising inventory	13,462		2,555		(81.0)
Cost of other services	117		143		22.4
Change in inventory	(3,360)		8,382		(349.5)
Depreciation and amortization expenses	**835**		**4,115**		392.7
Cost of sales	**25,259**		**66,650**		**163.9**

Source: Consolidated Financial Statements, the Group data

<u>*Cost of raw materials*</u>

Cost of raw materials attributable to mining increased from US$6.6 million for 9 months ended 31March 2010 to US$15.2 million for 9 months ended March 31, 2011, which is equivalent to 54.2% and 32.5% of total cash cost of mining, mainly due to increase of mining output from 353 thousand tonnes for 9 months ended March 31, 2010 to 727 thousand tonnes for 9 months ended March 31, 2011 as a result of CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine acquisition, increase of capacities utilizations at certain existing mines and appreciation of raw materials itself.

In line with mining segment, total cost of raw materials increased from US$7.3 million for 9 months 2010 to US$17.8 million, a 2.4 times year-on-year increase.[10]

[10] Here and thereafter in cost of sales composition disclosures total amount of related expense corresponds to the amount of respective expense account in the audited financial statements

Wages and salaries of operating personnel

Wages and salaries of operating personnel attributable to mining have increased from US$3.8 million to US$22.8 million, a 6.0 times year-on-year increase. The payroll increase is primarily due to increase of mining and supporting production personnel headcount as a result of CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine acquisition and launch of production at reconstructed Svyato-Pokrovskaya and Svyato-Serafimovskaya mines. The average headcount of operating personnel increased from 2,838 in 9 months FY2010 to 5,956 in 9 months FY2011. In addition, having got over the financial difficulties the Group started to restore the pre-crisis wages rates.

In line with mining segment, total wages and salaries of operating personnel increased from US$4.5 million to US$23.6 million, a 5.3 times year-on-year increase. In relative terms, payroll constituted 17.8% of total cost of sales in 9 months ended March 31, 2010 and 35.4% in 9 months ended March 31, 2011, respectively.

Subcontractors services

Subcontractors services attributable to mining have increased from US$0.5 million for 9 months ended March 31, 2010 to US$2.5 million for 9 months ended March 31, 2011, a 5.3 times year-on-year increase. Equipment maintenance services, which are the main element of subcontractors services, increased because of acquisition of CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine.

In line with mining segment, total subcontractors services have increased from US$0.9 million for 9 months ended March 31, 2010 to US$3.4 million for 9 months ended March 31, 2011, a 3.7 times year-on-year increase.

Energy supply

The cost of energy supply attributable to mining has increased from US$1.1 million for 9 months ended March 31, 2010 to US$5.7 million for 9 months ended March 31, 2011, which is equivalent to 9.2% and 12.2% of cash cost of mining of respective periods. The increase is in-line with abovementioned mining output increase and circa 70% increase in energy rates for 9 months FY2011.

In line with mining segment, the total cost of energy supply has increased from US$1.3 million for 9 months ended March 31, 2010 to US$6.1 million for 9 months ended March 31, 2011, a 4.6 times year-on-year increase.

Other expenses

Other expenses attributable to mining increased from US$0.14 million to US$0.5 million, whereas total other expenses increased from US$0.3 million to US$0.7 million for 9 months ended March 31, 2010 and 2011, respectively.

Cost of beneficiation

Cost of beneficiation increased from US$0.8 million for 9 months FY2010 to US$1.5 million for 9 months FY2011, a 82.8% year-on-year increase, which was in line with the 77.0% increase of ROM coal beneficiated at Postnikovskaya beneficiation plant.

Cost of waste dumps processing

Cost of waste dumps processing increased from US$1.3 million in 9 months FY2010 to US$3.2 million in 9 months FY2011 following the increase in Antracit LLC production output from 85 thousand tonnes to 549 thousand tonnes, or in 6.4 times. Lower increase of costs comparing to growth of production is explained by the selective approach to waste processing – part of waste has ash and other physical parameters affordable for its direct sale after initial processing on screener, without deeper processing on Snezhnyanskaya No 1 plant.

Cost of merchandising inventory

Cost of merchandising inventory decreased from US$13.5 million for 9 months ended March 31, 2010 to US$2.6 million for 9 months ended March 31, 2011, which corresponds to the decrease of trading volumes and general strategy of the Group to focus on sales of its mined coal, while trading operations are kept in order to gain additional profit margin and offer the Group's clients broader range of coal grades.

Depreciation and amortization expenses

Depreciation of property, plant and equipment has increased from US$0.8 million for 9 months FY2010 to US$4.1 million for 9 months FY2010 by 4.9 times due to acquisition of CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine.

Gross profit

Gross profit increased from US$13.3 million for 9 months ended March 31, 2010 to US$42.6 million for 9 months ended March 31, 2011, a 3.2 times year-on-year increase. The overall increase reflects increase of sales volumes after the acquisition of CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine, as well as increased sales of coal from waste dumps processing, with gross margins increasing from 34.5% to 39.0% of sales for 9 months ended March 31, 2010 and 2011, respectively.

Operating expenses

General and administrative expenses

General and administrative expenses increased from US$0.9 million to US$2.8 million for 9 months ended March 31, 2010 and 2011, respectively, a 3 times year-on-year increase. The overall increase reflects increase of wages and salaries of administrative personnel from US$0.7 million to US$1.9 million. This increase, in turn, is caused by the increase of average administrative personnel headcount from 229 to 548 as a result of CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine acquisition, while average salary remained almost unchanged.

Selling and distribution expenses

Delivery costs amounted to 80% and 84.3% of total selling and distribution expenses for 9 months ended March 31, 2010 and 2011, respectively. Selling and distribution expenses increased from US$2.2 million for 9 months ended 31March 2010 to US$5.2 million for 9 months ended March 31, 2011 due to increase in sales volumes. In relation to sales, however, selling and distribution expenses decreased from 5.7% to 4.8% representing the shift towards Ex Works delivery terms (e.g., the majority of coal from waste dumps processing is sold Ex Works).

Other operating income (expenses)

Other operating income (expenses) increased from US$2.4 million expenses to US$1.6 million income for 9 months ended March 31, 2010 and 2011. The increase reflects higher utilization of existing mines capacities; as a result, expenses due to idle capacities decreased from US$2.5 million to US$0.2 million in 9 months FY2010 and FY2011, respectively. In addition, during 9 months ended March 31, 2011 the Group realized its first sales of Emission Reduction Units obtained from waste dumps processing (174 thousand tonnes of CO^2 equivalent sold for US$2.3 million).

Operating profit

Operating profit increased from US$7.8 million for 9 months 2010 to US$36.2 million for 9 months 2011, a 4.7 times year-on-year increase. The increase in operating result was driven by increase of sales volumes and prices only partially offset by increase in costs due to relatively high share of fixed expenses.

Other non-operating income (expenses)

Other non-operating expenses increased from US$0.3 million for 9 months ended March 31, 2010 to US$0.8 million for 9 months ended March 31, 2011, a 3.1 time year-on-year increase.

Finance income

Finance income remained stable and amounted to US$1.2 million and US$1.3 million for 9 months ended March 31, 2010 and 2011, respectively. Finance income represents mainly income from measurement of financial assets at amortized cost.

Finance costs

Finance costs increased from US$5.5 million for 9 months ended March 31, 2010 to US$6.0 million for 9 months ended March 31, 2011. The overall increase related to increase of interest expenses from US$2.0 million in 9 months FY2010 to US$3.1 million for 9 months FY2011 and state-owned mines lease expenses by US$1.1 million partially offset by the decrease of expenses related to measurement of interest-free financial instruments at amortized cost from US$2.9 million to US$0.7 million for 9 months FY2010 and FY2011, respectively.

Profit before tax

Profit before tax increased from US$3.2 million for 9 months ended March 31, 2010 to US$30.6 million for 9 months ended March 31, 2011, a 9.6 time year-on-year increase due to the abovementioned factors.

Income tax expense

For 9 months ended March 31, 2010 the Group had US$0.1 million of income tax income compared to US$1.0 million of income tax expense for 9 months ended March 31, 2011 due to increase of profit before tax.

Net income

Net profit increased from US$3.3 million for 9 months ended March 31, 2010 to US$29.6 million for 9 months ended March 31, 2011, a 8.9 times year-on-year increase.

Year ended June 30, 2010 compared to year ended June 30, 2009

Revenue

Total revenue decreased from US$91.8 million in FY2009 to US$55.8 million in FY2010, a 39.2% year-on-year decrease. Decrease in revenue reflects drop of sales in volume terms, by 15% or by 159 thousand tonnes year-on-year, and significant decrease of prices due to weak market conditions, and subsequent renegotiation of agreements with DTEK. The Group decreased coal sales from own production by 30% or by 230 thousand tonnes, the revenue of sales of own coal decrease by US$ 23.7 million. The Group increased coal trading by 24% or by 71 thousand tonnes. The revenue from coal trading decreased by US$8.9 million in FY2010. This decrease was attributable to steep coal prices fall due to overall decrease of market prices and deterioration of coal quality which offset coal trading volume growth in FY2010.

Sales of the Group by segments in FY2009, FY2010

	Year ended June 30,		
	2009	**2010**	**% change to 2009**
	(in thousands of US$, except percentages)		
Sales			
Coal from own mining and waste processing	51,809	28,089	(45.8)
Trading activities, including:	39,252	27,318	(30.4)
Coal trading	33,939	25,018	(26.3)
Other trading	5,313	2,300	(56.7)
Other activities	695	369	(46.9)
Total sales	**91,756**	**55,776**	**(39.2)**

Source: Consolidated Financial Statements, the Group data

Sales of the Group by regions in FY2009, FY2010

	Financial year ended June 30,				
	2009		2010		
	Amount	**% of total sales**	**Amount**	**% of total sales**	**% change to 2009**
	(in thousands of US$, except percentages)				
Sales of saleable coal					
Domestic sales	65,627	71.5	45,218	81.1	(31.1)
Export sales	20,121	21.9	7,889	14.1	(60.8)
Total sales of saleable coal	**85,748**	93.5	**53,107**	**95.2**	(38.1)
Other revenues	6,008	6.5	2,669	4.8	(55.6)
Total revenues	**91,756**	**100.0**	**55,776**	**100.0**	**(39.2)**

Source: Consolidated Financial Statements, the Group data

Cost of goods sold

Cost of sales composition of the Group in FY2009, FY2010

	Financial year ended June 30,				
	2009		2010		
	Amount	% of total cost of production	Amount	% of total cost of production	% change 2009
	(in thousands of US$, except percentages)				
Cash cost of mining, including					
Raw materials	6,179	21.3	8,239	46.8	33.3
Wages and salaries of operating personnel	17,596	60.7	5,932	33.7	(66.3)
Subcontractors services	1,964	6.8	1,240	7.0	(36.9)
Energy supply	3,030	10.4	2,021	11.5	(33.3)
Other expenses	238	0.8	164	0.9	(31.1)
Total cash cost of mining	**29,007**	**100.0**	**17,596**	**100.0**	**(39.3)**
Cost of beneficiation	1,834		1,117		(39.1)
Cost of waste dumps processing	1,235		1,969		59.4
Cost of merchandising inventory	29,252		18,130		(38.0)
Cost of other services	863		145		(83.2)
Change in inventory	(1,165)		(2,859)		145.4
Depreciation and amortization expenses	1,558		1,333		(14.4)
Cost of sales	**62,584**		**37,431**		**(40.2)**

Source: Consolidated Financial Statements, the Group data

Cost of raw materials

Cost of raw materials attributable to mining increased by US$2.1million in FY2010 as compared to FY2009 despite the decrease of mining output in FY2010 by 41% compared to FY2009 due to significant increase of prices for metal constructions and machinery spare parts as well as increased consumption of materials in the process of new fields preparation which was followed by the increased mining output in the subsequent period.

In line with mining segment, total cost of raw materials increased from US$6.9 million for the financial year 2009 to US$9.3 million for the financial year 2010, a 35.4% year-on-year increase.

Wages and salaries of operating personnel

Wages and salaries of operating personnel engaged in mining segment decreased from US$17.6 million to US$5.9 million, a 66.3% year-on-year decrease. Following the significant decrease in demand on coal as a consequence of global financial crisis at the end of FY2009 the Group implemented cost-cutting programs aimed to reduce payroll expenses both trough reasonable decrease of headcount and salary per employee. As a result, average headcount of mining and supporting personnel was decreased from 4,937 in FY2009 to 3,632 FY2010, or by 26.4% as compared to the decrease in mining output by 41%. The Group decided to keep certain number of mining personnel at reduced working week, in order to retain the most qualified mining personnel. The Group took advantage of the opportunity stipulated by the agreement with Ministry of Coal industry, applicable in case of financial difficulties, to reduce the salary of mining and supporting personnel to the minimum rates. Due to that the average wages of mining and supporting personnel in the financial year 2010 decreased by 50.8% as compared to the financial year 2009.

In line with mining segment, total wages and salaries of operating personnel decreased from US$19.1 million to US$6.9 million, a 63.8% year-on-year decrease. In relative terms, payroll constituted 30.6% and 18.5% of total cost of sales in the financial years 2009 and 2010, respectively.

Subcontractors services

Subcontractors services attributable to mining have decreased from US$2.0 million in FY2009 to US$1.2 million in FY2010, a 36.9% year-on-year decrease due to decrease in mining output and cost-cutting measures.

In line with mining segment, total subcontractors services have decreased from US$3.1 million for the financial year 2009 to US$1.9 million for the financial year 2010, a 37.7% year-on-year decrease.

<u>*Energy supply*</u>

Cost of energy supply attributable to mining segment decreased from US$3.0 million for the financial year 2009 to US$2.0 million for the financial year 2010, a 33.3% year-on-year decrease, which corresponds to 41% decrease of mining output. Lower decrease of energy supply costs as compared to the decrease of mining is attributable to significant part of fixed energy costs in total energy costs.

In line with mining segment, total cost of energy decreased from US$3.5 million in FY2009 to US$2.3 million in FY2010, a 33.2% year-on-year decrease.

<u>*Other expenses*</u>

Other expenses attributable to mining remained stable and amounted to US$0.2 million, as well as total other expenses amounted US$0.4 million in FY2009 and FY2010, respectively.

<u>*Cost of beneficiation*</u>

Cost of beneficiation decreased from US$1.8 million in FY09 to US$1.1 million in FY10, a 39.1% year-on-year decrease, which was in line with the 34.0% decrease of ROM coal beneficiated at Postnikovskaya beneficiation plant.

<u>*Cost of waste dumps processing*</u>

Cost of waste dumps processing increased from US$1.2 million in FY2009 to US$2.0 million in FY2010 following the increase in Antracit LLC production output from 39 thousand tonnes to 134 thousand tonnes.

<u>*Cost of merchandising inventory*</u>

Cost of merchandising inventory which is actually the cost of coal bought from third-parties for further resale decreased from US$29.3 million in FY2009 to US$18.1 million in FY2010, a 38% year-on-year decrease. Such decrease was in line with decrease of size of Group's coal trading activities in value terms as was described above.

<u>*Depreciation and amortization*</u>

Depreciation of property, plant and equipment remained relatively stable and amounted to US$1.6 million and US$1.3 million in FY2009 and FY2010, respectively.

Gross profit

Gross profit decreased from US$29.2 million inFY2009 to US$18.3 million inFY2010, a 37.1% year-on-year decrease. Decrease in gross profit reflected the drop in revenues caused by decrease in coal sales volumes and average price as a result of the decrease in the demand as a consequence of global financial crisis. However, the Group managed to maintain stable gross profit margin (31.8% and 32.9% in the financial years 2009 and 2010, respectively) by implementing cost-cutting procedures (especially decrease of headcount and average salary described above).

Operating expenses

<u>*General and administrative expenses*</u>

General and administrative expenses decreased twofold from US$2.5 million in FY2009 to US$1.2 million in FY2010. The overall decrease reflected the cost-cutting actions applied to reduce the administrative personnel headcount and average salary of administrative employees which resulted in US$1.2 million decrease of administrative personnel payroll expenses.

<u>*Selling and distribution costs*</u>

Selling and distribution costs decreased from US$5.2 million in FY2009 to US$3.1 million in FY2010 due to decrease in sales in volume terms. Selling and distribution expenses remained stable at 5.6% level versus sales in value terms in FY2009 and 5.5% in FY2010.

<u>*Other operating expenses*</u>

Other operating expenses increased from US$2.6 million in FY2009 to US$3.1 million in FY2010 reflecting the decrease of operating forex gain and increase in expenses due to idle capacities, incurred by the Group during the period because part of Group's mines were idle due to lower production volumes during periods of low demand on the market.

Operating profit

Operating profit decreased from US$19.0 million in FY2009 to US$11.0 million in FY2010, a 42.3% year-on-year decrease. The decrease of operating profit was more significant than decrease of gross profit due to increase of the operating costs during the same years as was described above.

Other non-operating expense

Other non-operating expenses decreased from US$1.3 million for the financial year 2009 to US$5 thousand for the financial year 2010.

Finance income

Finance income decreased by 39.2% from US$3.3 million for the financial year 2009 to US$2.0 million for the financial year 2010. The account represents mainly income from measurement of financial assets and liabilities at amortized cost.

Finance costs

Finance costs decreased insignificantly from US$7.7 million in FY2009 to US$7.2 million in FY2010. US$5.3 million and US$3.4 million in FY2009 and FY2010 relate to measurement of interest-free financial instruments at amortized cost as defined per the IFRS. Interest expenses increased from US$2.1 million in FY2009 to US$2.9 million in FY2010 due to increase of interest-bearing debt.

Impairment of goodwill

The account reflects the impairment of goodwill amounted to US$1.7 million arisen on the acquisition of CwAL LE Sh/U Chapaeva.

Profit before tax

Profit before tax decreased from US$13.3 million in FY2009 to US$4.1 million in FY2010, a 69.2% year-on-year decrease reflecting the factors described above.

Income tax income

Income tax income decreased from US$1.1 million in FY2009 to US$0.7 million in FY2010, a 35.3% year-on-year decrease. Income tax income arisen as according to IFRS due to difference for income tax accounting between IFRS and Ukrainian Tax accounting.

Net income

Net income decreased from US$14.3 million in FY2009 to US$4.8 million in FY2010, a 66.7% year-on-year decrease.

Year ended June 30, 2009 compared to year ended June 30, 2008

Revenue

Total revenue increased from US$65.7 million in FY2008 to US$91.8 million in FY2009, a 39.6% year-on-year increase. The increase of revenue was a result of coal sales in volumes growth by 31.5% or by 254 thousand tonnes based on increase of sales of coal produced by the Group by 20.7% or by 130 thousand tonnes and increase of coal trading - by 61.7% or 112 thousand tonnes.

As a consequence of the financial crisis, the Group proceeded with a cost cutting program that envisaged limited capital expenditures only on mines with the highest return on investments. Due to limited capital expenditures the Group was not able to increase its mining volumes substantially, though the Group saw possibilities how to increase its market share on the local and foreign markets. In order to keep and, where possible, increase its market share and preserve relationship with its existing customers the Group increased coal trading operations procuring its customers with coal bought from third parties.

In the mid of FY2009 the Group faced delays of payments from its local customers and their inability to consume its growing production volumes due to unfavourable market conditions. In order to overcome these delays and decrease its dependence from the local market at all, the Group made significant efforts to expand its export position. These efforts resulted into Group's first significant export contact – at FY2009 the Group supplies 177.3 thousand tonnes of anthracite coal, which amounted to 59.9% of export revenue in FY2009.

Sales of the Group by segments in FY2008, FY2009

	Year ended June 30,		
	2008	2009	% change to 2008
	(in thousands of US$, except percentages)		
Sales			
Coal from own mining and waste processing	45,213	51,809	14.6
Trading activities, including:	20,016	39,252	96.1
Coal trading	20,016	33,939	69.6
Other trading	-	5,313	n/a
Other activities	482	695	44.2
Total sales	**65,711**	**91,756**	**39.6**

Source: Consolidated Financial Statements, the Group data

Sales of the Group by regions in FY2008, FY2009

	Year ended June 30,				
	2008		2009		
	Amount	% of total sales	Amount	% of total sales	% change to 2008
	(in thousands of US$, except percentages)				
Sales of saleable coal					
Domestic sales	64,147	97.6	65,627	71.5	2.3
Export sales	1,082	1.6	20,121	21.9	1,759.6
Total sales of saleable coal	**65,229**	**99.3**	**85,748**	**93.5**	**31.5**
Other revenues	482	0.7	6,008	6.5	1,146.5
Total revenues	**65,711**	**100.0**	**91,756**	**100**	**39.6**

Source: Consolidated Financial Statements, the Group data

Cost of goods sold

Cost of sales composition of the Group in FY2008, FY2009

	Year ended June 30,				
	2008		2009		
	Amount	% of total cost of production	Amount	% of total cost of production	% change 2009
	(in thousands of US$, except percentages)				
Cash cost of mining, including					
Raw materials	8,394	22.2	6,179	21.3	(26.4)
Wages and salaries of operating personnel	25,117	66.4	17,596	60.7	(29.9)
Subcontractors services	1,355	3.6	1,964	6.8	44.9
Energy supply	2,676	7.1	3,030	10.4	13.2
Other expenses	311	0.8	238	0.8	(23.5)
Total cash cost of mining	**37,853**	**100.0**	**29,007**	**100**	**(23.4)**
Cost of beneficiation	1,779		1,834		3.1
Cost of waste dumps processing	-		1,235		n/a
Cost of merchandising inventory	17,784		29,252		64.5
Cost of other services	3,211		863		(73.1)
Change in finished goods	(2,591)		(1,165)		(55.0)
Depreciation and amortization expenses	1,082		1,558		44.0
Cost of sales	**59,118**		**62,584**		**5.9**

Source: Consolidated Financial Statements, the Group data

<u>Cost of raw materials</u>

Cost of raw materials attributable to mining decreased from US$8.4 million for FY2008 to US$6.2 million for FY2009, a 26.4% year-on-year decrease. Such a decrease was caused by average UAH/US$ exchange rate depreciation at 23.2%. The majority of Group's costs are UAH denominated. Suppliers mainly did not change prices in UAH or increased them insignificantly due to falling demand in FY2009, due to that following UAH depreciation cost of raw materials decreased in US$ terms in FY2009.

Wages and salaries of operating personnel

Wages and salaries of operating personnel attributable to mining decreased from US$25.1 million to US$17.6 million, a 29.9% year-on-year decrease. The main reason for this decrease is UAH depreciation, because all salaries are UAH denominated. Additionally, the group realized cost cutting measures realized in decrease salaries and workload for certain employees.

In line with mining segment, total wages and salaries of operating personnel decreased from US$28.7 million to US$19.1 million, a 33.3% year-on-year decrease. In relative terms, payroll constituted 48.5% and 30.6% of total cost of sales in FY2008 and FY2009, respectively.

Subcontractors services

Subcontractors services attributable to mining have increased from US$1.4 million in FY2008 to US$2.0 million in FY2009, a 44.9% year-on-year increase due to increase in mining output by 20.6%: having reached the peak of mining output at that moment, operations required increased level of maintenance services. Realization of certain production functions was outsources from subcontractors, however after the spread of crisis such practise was discontinued.

Total subcontractors services have increased from US$1.8 million for the FY2008 to US$3.1 million for the FY2009, a 73.5% year-on-year increase, which, besides the mining segment, reflects the acquisition of waste dumps processing plant Antracit LLC.

Energy supply

Cost of energy supply attributable to mining increased from US$2.7 million in FY2008 to US$3.0 million in FY2009, a 13.2% year-on-year increase, caused by the increase of mining output by 129,000 tonnes or 20.6%.

Total cost of energy supply have increased from US$3.1 million in FY2008 to US$3.5 million in FY2009, a 12.3% year-on-year increase, reflecting the increase of waste dumps processing operation after acquisition of waste dumps processing plant Antracit LLC.

Other expenses

Other expenses attributable to mining decreased from US$0.3 million to US$0.2 million, whereas total other expenses decreased from US$0.5 million to US$0.4 million for FY2008 and FY2009, respectively.

Cost of beneficiation

Cost of beneficiation remained stable and amounted to US$1.8 million in FY08 and FY09. Increase of related variable expenses due to increase of beneficiated ROM coal volumes by 36% was offset by the UAH/US$ exchange rate devaluation.

Cost of waste dumps processing

Cost of waste dumps processing for the financial year 2009 amounted to US$1.2 million, representing the acquisition of Antracit LLC.

Cost of merchandising inventory

Cost of merchandising inventory increased by 64.5%, from US$17.8 million in FY2008 to US$29.3 million in FY2009 mainly due to increase of coal trading volumes (sales of coal bought from third parties increased by 61.2% or 112 thousand tonnes as compared to 2008 financial year) to execute sales contracts and retain key clients.

Depreciation and amortization

Depreciation of property, plant and equipment increased from US$1.1 million in FY2008 to US$1.6 million in FY2009, a 44.0% year-on-year increase, which is attributed to the acquisition of Antracit LLC.

Gross profit

Gross profit increased from US$6.6 million in FY2008 to US$29.2 million in FY2009, implying year-on-year increase in 4.4 times.

Operating expenses

General and administrative expenses

General and administrative expenses decreased from US$3.0 million in the FY2008 to US$2.5 million in the FY2009, a 16.9% year-on-year decrease, mainly due to UAH depreciation.

Selling and distribution costs

Selling and distribution costs increased from US$2.3 million in FY2008 to US$5.2 million in FY2009, a 2.3 time year-on-year increase primarily due to increase of transportations costs based on CPT port and CPT destination station delivery terms. The Group did not reflect the costs of delivery into final prices for its customers (that practice has been applied since FY2010). Due to that, selling and distribution expenses as percentage of revenue increased from 3.5% in FY2008 to 5.6% in FY2009.

Other operating income (expenses)

Other operating expenses increased from US$1.4 million for the FY2008 to US$2.6 million for the FY2009 reflecting the increase in expenses due to idle capacities incurred by the Group during the period of financial crisis – part of Group's mines were idle.

Operating profit (loss)

Operating result increased from US$98 thousand operating loss in FY2008 to US$19.0 million operating profit in FY2009. The increase in operating result reflected the increase in gross profit, following the 39.6% year-on-year increase in revenue only slightly offset with the 5.9% year-on-year increase in cost of sales.

Other non-operating expense

Other non-operating expenses increased from US$0.2 million for the FY2008 to US$1.3 million for the FY2009, a 7.7 time year-on-year increase.

Finance income

Finance income increased from US$19 thousand in FY2008 to US$3.3 million in FY2009. The account represents mainly income from measurement of financial assets and liabilities at amortized cost.

Finance costs

Finance costs increased from US$3.9 million in FY2008 to US$7.7 million in FY2009. US$3.0 million and US$5.3 million in FY2008 and FY2009 relate to measurement of interest-free financial instruments at amortized cost as defined per IFRS. Interest expenses increased from US$0.6 million in FY2008 to US$2.1 million in FY2009 due to increase of interest-bearing debt.

Gain of acquisition of subsidiaries

Gain of acquisition of subsidiaries amounted to US$1.7 million and reflects the excess of the Group's share in the fair value of the net assets of acquired subsidiaries Tekhinvest LLC and Antracit LLC over the cost of their acquisition.

Profit (loss) before tax

Profit (loss) before tax increased from US$2.4 million loss in FY2008 to US$13.3 million profit in FY2009, reflecting the factors, described above.

Income tax income

Income tax income increased from US$0.9 million in FY2008 to US$1.1 million in FY2009. Income tax income arisen as according to IFRS due to difference for income tax accounting between the IFRS and Ukrainian Tax accounting.

Net income

Net profit (loss) increased from US$1.5 million loss in FY2008 to US$14.3 million profit in FY2009.

Liquidity and Capital Resources

Overview

The Group's liquidity requirements primarily arise from the purposes to finance working capital, development of mine infrastructure and investments in new equipment for subsequent increase of production. During the periods under review, the Group has met most of its liquidity needs from net cash generated from operating activities and a mix of long-term and short-term bank and non-bank borrowings.

As of May 31, 2011, the Group has the total indebtedness of US$38.5 million with ability to draw additional resources as required.

Cash Flows

The following table summarizes the Group's statement of cash flow for the financial years ended June 30, 2008, 2009 and 2010, 9 months ended March 31, 2010 and 2011, respectively.

Cash flow of the Group in FY2008-FY2010, 9m FY2010, 9m FY2011

	Year ended June 30,			Nine month ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of US$)				
Net cash flows from operating activities	11,317	13,252	19,293	13,267	54,169
Net cash flows from investing activities	(13,882)	(19,458)	(18,152)	(10,455)	(38)
Net cash flows from financing activities	3,650	5,886	(1,457)	(2,735)	(52,257)
Net increase in cash and cash equivalents	**1,085**	**(320)**	**(316)**	**77**	**1,874**

Source: Consolidated Financial Statements, the Group data

The principal sources of liquidity for the Group are cash obtained from operations, borrowings under various short-term and long-term bank and non-bank financing facilities. Bank credit lines of the Group are provided largely by domestic banking institutions. Banks provide financing to the Group either in US$, Hryvnia or Euro. While the beneficiaries of the financing are operating subsidiaries responsible mining operations, all Group's credit facilities are under the management and control of the centralized financial department of the Group, operating out of Donetsk. For information on material loan facilities extended to the Group Subsidiaries see: "*Our Business—Material Contracts—Financing agreements*" *and "Related Party Transactions"*.

Net cash flows from operating activities

Despite operating loss of US$98 thousand, the Group demonstrated US$11.3 million cash inflow from operating activity in FY2008 due to decrease in net working capital.

Cash flow from operating activity for the FY2009 increased by 17.1% to US$13.3 million mainly due to increase in profit from operating activity from US$98 thousand loss in the FY2008 to US$19.0 million profit in the FY2009. Net working capital increased by US$9.5 million mainly due to increase of trade receivables by US$15.4 million reflecting the deterioration of payment discipline of the customers, which heavily suffered from the financial crisis, particularly at the end of financial year 2009. However, the effect of the increase in trade receivables on operating cash flow was partially offset with the respective increase of Group's trade payables (by US$8.9 million) as the Group managed to negotiate the repayment delay with its suppliers.

Despite the decrease of operating profit from US$19.0 million in FY2009 to US$11.0 million in FY2010, cash flow from operating activities for the FY2010 increased by US$6.0 million. The increase is attributable to the decrease of net working capital, in particular partial repayment of delayed trade receivable, originated at the end of FY2009.

During 9 months FY2011 cash flow from operating activity increased by US$40.9 million or in 4.1 times to US$54.2 million, representing the increase in operating profit from US$7.8 million in 9 months FY2010 to US$36.2 million in 9 months FY2011 as well as decrease in net working capital, in particular repayment of delayed trade receivables and disposal of inventory surplus, which was accumulated on the Group's warehouses during the financial crisis period due to lack of demand on the market.

Net cash flows from investing activities

Investment activity of the Group during the historical period by substance was divided into two segments:

1. Acquisitions and disposals of non-current assets and subsidiaries, having the purchase of PP&E and intangible assets to be the principal element of the segment, see *"Operational and Financial Review - Liquidity and Capital Resources – Investments"* for details below.

2. Cash outflows for purchases and proceeds from sales of financial assets – mainly long-term promissory notes issued by the Coal Energy's related parties. Such operations were used as instrument for short-term financing with the related parties indirectly controlled by the Beneficial Owner. Net cash flow from investing activities, related to such operations amounted to US$8.7 million, US$14.8 million and US$15.0 million net

outflow for FY2008, FY2009 and FY2010, respectively, and US$8.4 million inflow during 9 months ended March 31, 2011. The Group will abandon practices of short-term financing with and to related parties immediately after the Offering and going forward.

Net cash flows from financing activities

Investment activity of the Group during the historical period by substance was divided into three segments:

1. Proceeds and repayment of bank loans and related interest repayment. Interest-bearing financing was attracted in cases when the Group was not able to finance its working capital from operating activities or attract interest-free financing from the related parties. Net cash proceeds from financing activities, related to the segment amounted to US$2.8 million, US$11.5 million and US$1.9 million in FY2008, FY2009 and FY2010, respectively and cash outflow of US$1.3 million in 9 months FY2011.
2. Proceeds and related repayment of interest-free financial liabilities, issued by the Group for financing purposes mainly with related parties of the Group. Net cash flow from investing activities, related to such operations amounted to US$1.7 million, US$0.3 million and US$4.6 million outflow for FY2008, FY2010 and 9 months FY2011, respectively and US$3.0 million inflow in FY2009. The Group will abandon practices of short-term financing with and to related parties immediately after the Offering and going forward.
3. Equity contribution / distribution, described below.

Equity distribution

Equity distribution by the Group in FY2008-FY2010, 9m FY2010, 9m FY2011

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of US$)				
Equity contribution (distribution), net	2,503	(8,598)	(3,027)	(3,898)	(46,429)

Source: Consolidated Financial Statements, the Group data

The above-mentioned amounts represent economic benefit received by the Beneficial Owners in the Group through transfer pricing. The amounts of equity distribution were directed to the development of the Beneficial Owner's business. The Group will abandon practice of transfer pricing immediately after the Offering and going forward.

The Board of Directors intends to re-invest any net earnings to finance the development of its assets and accordingly it is not going to pay any dividends in the foreseeable future.

The dividend policy will be reviewed from time to time and payment of any future dividends will be effectively at the discretion of the Board of Directors and the general meeting of shareholders after taking into account various factors, including the Company's business prospects, future earnings, financial position and performance, expansion plans and requirements of Luxemburg law. Luxemburg law does not limit dividends that may be paid out except that the law states that dividends may only be paid of profits and may not be higher than recommended by the Board of Directors.

The distribution of profits and payment of dividends by the Company are subject to compliance with applicable Laws.

Indebtedness

As of 31 May 2011, the Group's total outstanding indebtedness was US$38.5 million, of which US$23.8 million was indebtedness maturing within one year and US$14.7 million was indebtedness maturing in more than one year.

Working capital statement

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

Investments

Operating assets of the Group were undercapitalized since origination of the Group. Capital expenditures were at relatively low level during the FY2008 and FY2009 (US$5.2 million and US$5.6 million, respectively). In FY2010, due to decrease in sales and operational cash inflows, the Group postponed virtually all non-critical investment activity and capital expenditures amounted to US$2.7 million. During 9 months ended March 31, 2011 the Group increased its capital expenditures in PP&E up to US$8.7 million caused by the acquisition of new entities, which critically required investments and partial re-equipment.

Risk Management

Overview

In the course operations Coal Energy is exposed to a number of market risks, particularly the risk of change in coal prices and the risk of change in the currency exchange rates and to the lesser extent interest rate risk and credit risk. The Group handles sizable volumes of commodities, the price volatility of which can be high and leading to significant changes in price within a short period of time. Group's currency risk exposure derives from the fact that a portion of Coal Energy business is domestic and denominated in Hryvnia and another portion being US$ denominated, representing international trade.

Operational risk

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group. Ukrainian tax legislation is characterized by frequent changes and is subject to controversial interpretations. Tax authorities may be taking a more assertive position in their interpretation of the legislation and tax assessments. Such cases create a taxation risk exposure which considerably exceeds that of the countries with more advanced tax systems. Management believes that its interpretation of the relevant legislation as of March 31, 2011 is appropriate and all of the Croup's tax will be sustainable. The Group is continuing to be subject to reform initiatives in the Ukraine. The future direction and effects of any reforms is the subject of political considerations, which could have a significant, but undeterminable, effect on enterprises operating in the Group

Financial risks

The Group's activities expose it to a variety of financial risks: market risk (including currency exchange risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group. Risks are managed centrally.

Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for mine and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in mining activities and ultimately impact the Group's ability to settle own contractual obligations. The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position and performance.

The Group deals in commodities exposed to market price risk. The Group, however, does not use commodity derivatives to hedge against changes in market prices as derivatives available either on regulated commodity exchanges or over-the-counter do not presently offer efficient hedging tools to the Group. The Group therefore hedges against commodity price risk by largely matching volumes of goods originated with volumes of sales contracts concluded for immediate or future delivery of physical goods it produces.

Credit risk

Credit risk is a risk of financial loss to the Group, which results from failure of a buyer or a contractor under the financial instrument to fulfil its contractual obligations. Credit risk arises from cash and cash equivalents, deposits in banks as well as credit exposures to customers, including outstanding receivables. Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable including promissory notes. Management systematically reviews credit risk of receivables, taking into account financial position of customers, their credit history and other factors. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The Group's clients for coal are primarily respectable long established energy producers or wholesalers. The Group regularly controls creditworthiness of its clients and sells usually through bank channel, on cash against documents basis or delivery against prepayment.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses are denominated in a different currency from the Group's functional currency). Such transactions are carried out mainly in US$. The Group's exposure to foreign currency changes for all other currencies is not material.

Liquidity risk

The liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The approach of the Group to the liquidity management lies in providing, as much as possible, permanent availability of the liquid funds, sufficient for the repayment of liabilities in time, not allowing losses and not exposing to risk the reputation of the Group. The Liquidity risk management implies maintaining the availability of funding through an adequate amount of committed credit facilities. The management analyses regularly the terms of settlement of obligations and receipts from financial assets, monitors the planned cash flows from the operating activity.

Key Margins and Ratios

The following table summarizes the Group's key margins and ratios for the financial years ended June 30, 2008, 2009, 2010 and 9 months ended March 31, 2010 and 2011, respectively.

Key Margins and Ratios of the Group in FY2008-FY2010, 9m FY2010, 9m FY2011.

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
			(in thousands of US$)		
EBITDA	1,172	20,807	12,712	9,047	40,421
EBIT	(98)	18,980	10,950	7,760	36,200
			(as a percentage of sales)		
Margins:					
Gross	10.0%	31.8%	32.9%	34.5%	39.0%
EBIT (as a percentage of sales)	(0.1)%	20.7%	19.6%	20.1%	33.1%
EBITDA (as a percentage of sales)	1.8%	22.7%	22.8%	23.4%	37.0%
Ratios:					
EBITDA/Finance costs	0.3	2.7	1.8	1.6	6.7
Debt/Equity	0.8	1.7	2.5	2.5	293.7
Debt/EBITDA	10.5	1.2	3.2	3.9	1.1
Net debt/EBITDA	9.5	1.2	3.1	3.9	1.0

Source: The Group data

The Group presents "EBITDA" and "EBIT" to enhance the understanding of its operating results. None of these measures are measures of financial performance under generally accepted accounting principle, including IFRS. The Group provides these measures because it believes that investors and securities analysts will find them to be useful measures for evaluating operating performance of the Group and for comparing Coal Energy operating performance with that of similar companies that have different capital. None of these measures should be considered in isolation or as an alternative to net profit for the period or other data presented in the Consolidated Financial Statements as indicators of financial performance. Because these measures are not determined in accordance with generally accepted accounting principles and thus susceptible to varying calculations, the measures presented above may not be comparable to other similarly titled measures of performance of other companies.

EBIT is defined as operating profit for the period.

INDUSTRY OVERVIEW

Global coal market overview

Coal is generally regarded as one of the most affordable and sustainable sources of energy in the world and is a major contributor to the world energy supply. Total global demand for coal is growing globally mostly as a result of an increasing demand for power, growing industrial production and the competitiveness of coal as a cost-efficient energy source. Moreover, significant demand for coking coal is coming from the growing steel industry, where coke is a vital raw material for hot iron production in integrated steel mills.

According to the International Energy Agency (the "IEA") estimates, world coal production in 2010 was approximately 7 billion tonnes and coal comprised approximately 29% of the world's primary energy consumption, which makes it the most important source of energy after oil. According to the World Coal Association, the world currently relies on the consumption of coal for approximately 41% of the electricity supply, while approximately 70% of the global steel production is dependent on coal. Furthermore, according to BP Statistical Review, total global proven recoverable reserves of coal were approximately 826 billion tonnes as of the end of 2010, roughly a half of which is hard coals (bituminous coal and anthracite) and the other half are low-rank coals (sub-bituminous coal and lignite).

World's coal reserves (in billion tones) ranked by country are presented in the following table. According to the World Coal Association, at 2010 rates, these reserves are enough to sustain continuous production for about 120 years.

	Reserves	Share of total
	in billions of tonnes	%
United States	237	28
Russia	157	18
China	115	13
India	61	7
Australia	76	9
Ukraine	**34**	**4**
Kazakhstan	34	4
South Africa	30	3
Others	117	14
World	**861**	**100**

Source: BP Statistical Review of World Energy

Coal is a widely spread natural resource that is mined commercially in over 50 countries and is used in over 70 countries worldwide. The following table presents the world's annual coal output (in million tonnes).

	Output	Share of total
	in millions of tonnes	%
China	3,240	45
United States	985	14
India	570	8
Australia	424	6
Russia	317	4
Indonesia	306	4
South Africa	254	3
Ukraine	75	1
Others	1,103	15
World	**7,273**	**100**

Sources: World Coal Association, BP Statistical Review of World Energy

Over 90% of the world's known coal reserves are located in just 12 countries (including Ukraine) that also account for the majority of global coal output. The biggest coal reserves are in the USA, Russia, China and India, which account for about 70% of the world's total reserves. At the same time, coal production by these four countries accounts for about 70% of the global coal output.

Ukraine boasts the sixth-largest proven coal deposits in the world, estimated at 34 billion tones (4% of world total). At the same time, the country ranks 12th in terms of global coal production (1% of world total) and consumption (1% of world total).

The table below presents global coal market expressed in million tonnes of oil equivalent (Mtoe).

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Consumption	2,348.7	2,403.1	2,595.0	2,764.0	2,904.0	3,039.1	3,184.1	3,286.4	3,278.3	3,496.1
y/y	0.5%	2.3%	8.0%	6.5%	5.1%	4.7%	4.8%	3.2%	(0.2%)	6.6%
Production	2,346.5	2,357.7	2,521.1	2,731.0	2,882.0	3,035.9	3,144.0	3,336.9	3,408.6	3,499.0
y/y	4.4%	0.5%	6.9%	8.3%	5.5%	5.3%	3.6%	6.1%	2.1%	2.7%

Source: BP Statistical Review of World Energy, BP Energy Outlook 2030

Over the last decade, global coal consumption has grown at 5% per annum on average, or faster than any other fuel. The five largest coal users - China, USA, India, Japan and South Africa – account for over 75% of the total global coal consumption.

The coal market is made up of two key segments: thermal (or steam) coal, which is used primarily for energy generation; and coking (or metallurgical) coal, which is used primarily for steel making. The majority of coal produced is primarily consumed regionally due to high transportation costs relative to coal prices. According to IEA, approximately 30% of coking coal and 11% of thermal coal are traded internationally primarily through seaborne markets. The two major markets are the Atlantic region and the Asia Pacific region and the prices between the two can vary due to differences in the cost of ocean freight and other transportation related costs. The world's key coal exporting countries are Australia, Indonesia, Russia, Colombia, South Africa, USA, China, Canada, Poland and Ukraine, which collectively account for over 95% of the world coal trade.

In the Atlantic region, Europe consumes around one fourth of the global coal exports, receiving shipments from South Africa, Russia, Australia, Colombia and Ukraine. In the Asia Pacific region, Australia, Indonesia, Russia and Canada are the major exporters, shipping almost two thirds of the global coal exports mainly to Japan, China, India, South Korea, and Taiwan.

Global coal markets are thus fragmented by geographical location, with coal prices varying significantly between regions of the world. In regions where coal resources are scarce, coal-fired power plants and other coal users are dependent on transport infrastructure to obtain coal supplies from other regions. Most European countries and several South Asian countries primarily Japan and South Korea have high demand for coal but limited domestic coal resources, while other countries, such as Australia, Indonesia, South Africa, and Russia have abundant coal resources but relatively limited domestic demand. Over 2009-2011, global demand for coal as well as coal trade have been growing due to a number of factors, including global economic recovery, robust economic growth in China and India, China's shift from a net coal exporter to a net coal importer status, high volatility of petroleum and natural gas prices as well as a growing anti-nuclear power moods in the global society which all combined stimulate higher consumption of coal.

Thermal coal and its global market

Thermal coal is consumed globally as a primary fuel for base load power generation because of its low cost, on a heat content-comparable basis, relative to other fossil fuels such as oil and natural gas. Thermal coal can be separated into bituminous steam coal and lignite. Bituminous steam coal usually has lower moisture content and higher calorific value than sub-bituminous coals and lignite, resulting in more efficient steam production and reduced emissions. As a result, hard steam coal typically enjoys a premium in the marketplace compared to lignite.

Domestic thermal consumers are the predominant coal buyers, accounting for more than 80% of the global coal consumption. The primary use for thermal coal is to fuel power generation through a combustion process that produces steam for electricity and heat. Thermal coal is first milled to a fine powder, which increases the surface area and allows it to burn more quickly. Powdered coal is then burnt at high temperature in a boiler to convert water into steam, which is then used in electricity generation.

Similar to other commodities, thermal coal saw a dramatic tightening of the supply/demand balance over the last twenty years. This followed decades of restrained investment in new coal mines in the traditional coal export countries such as Australia, South Africa and South America. The period from 1991 to 2000 saw the annual trade in thermal coal increasing by approximately 20 million tonnes per annum, whereas the period 2000 to 2010 saw it rise by about 50 million tonnes per annum. Until 2003, this growth had been supported by continually increasing exports from China, Indonesia and Australia. Indonesia and Australia have continued to expand exports and are now the world's largest exporters of thermal coal, jointly accounting for over 55% of the international thermal coal trade. On the contrary, China, because of a steady internal demand growth, stabilised its exports in 2003 and by 2009 turned into a large coal importer, thereby dramatically tightening the global supply/demand balance. This forced buyers to look to Australia, South Africa, South America and Eastern Europe (mainly Russia and Ukraine) for increased supplies. Infrastructure constraints, particularly in South Africa, have limited the ability of some of the exporting countries to meet the increased global demand for coal.

According to IEA, the total global thermal coal consumption was approximately 6.2 billion tonnes in 2010. The market for imported thermal coal totaled approximately 0.7 billion tonnes in 2010, or about 11% of total global thermal coal consumption.

Demand for imported thermal coal is primarily driven by thermal power plants in the countries lacking sufficient domestic thermal coal resources. The main thermal coal suppliers in 2010 were Indonesia (33% of global exports), Australia (22%), Russia (17%), Colombia (11%) and South Africa (11%). At the same time, the major thermal coal importing countries in 2010 were Japan (17% of global imports), China (15%), South Korea (12%), India (9%) and the European Union (4%).

Further demand for thermal coal will be dependent on global power generation growth and share of thermal coal in sources of electricity production. According to the projections by IEA and the U.S. Energy Information Administration, the global primary energy demand is expected to grow by 1.5% per year on average between 2011 and 2030 – an overall increase of over 35%. Coal is expected to remain the second-largest fuel after oil, with its share standing at 29% of the global primary energy demand.

China and India are expected to be the main drivers of growth, followed closely by the Middle East. In addition, the countries of the Association of Southeast Asian Nations (ASEAN) are set to play an increasingly important role in global energy markets in the decades ahead. Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam collectively make up one of the world's most dynamic and diverse regions, with an economy as large as Canada and Mexico combined, and a population that exceeds that of the European Union. Their energy consumption is already comparable to that of the Middle East and is set to continue to grow rapidly from a comparatively low per-capita level, fuelled by rapid economic and population growth, and by continuing urbanization and industrialization.

World electricity demand is projected to grow at an annual rate of 1.7% to 2030. Over 80% of the growth is expected to take place in non-OECD countries. Globally, additions to power-generation capacity are expected to total about 5 TW by 2030. The largest additions are expected to take place in China. Coal is projected to remain the backbone fuel of the power generation sector worldwide, with its share of the generation mix expected to rise to 44% in 2030.

Demand for thermal coal is expected to continue growing more strongly than demand for any other energy sources except non-hydro modern renewables - at an average annual rate of 1.9% - reaching almost 7,000 Mtce in 2030. Growth in production in all other regions will be dwarfed by China's 61% share of incremental global production, as it will strive to satisfy a near-doubling of domestic demand.

	2008	2009	2010	2015	2020	2025	2030
Electricity generation (TWh)	19,187	20,064	20,940	24,352	27,232	30,670	34,292
y/y (%)	2%	5%	4%	3%	2%	2%	2%
Coal-powered electricity generation (TWh)	7,979	8,344	8,708	10,461	11,744	13,457	15,259
y/y (%)	2%	5%	4%	4%	2%	3%	3%

Sources: IEA World Energy Outlook, U.S. Energy Information Administration (EIA) International Energy Outlook

Coking coal and its global market

The other key segment of the coal market is coking or metallurgical coal, which has the steel industry as its major market. In general, the iron and steel industry account for approximately 90% of total coking coal demand, with the remaining balance used by the foundry industry and other small industrial users. According to IEA and the World Steel Association (WSA), approximately 0.8 billion tonnes of coking coal were consumed globally to produce about 1.4 billion tonnes of crude steel in 2010.

When making steel in an integrated steel mill, two of the key raw ingredients are iron ore products and coke. Coke is the solid material formed when coking coal is heated in a coking oven to a very high temperature (1,000^{o}C) in the absence of air. In the blast furnace of an integrated steel mill, coke is primarily used to (i) generate the heat required to convert iron ore into molten iron; (ii) generate the reducing gas necessary to chemically convert iron oxides into hot metal; and (iii) create a permeable bed to allow the molten iron to drip down and the reducing gases to rise up. Generally, 1.5 tonnes of coking coal produces approximately 1 tonne of coke, which in turn is needed to produce approximately 2 tonnes of steel or more.

Blast furnaces are designed to use specific grades of coke, and as a result, coking ovens are designed to use coking coals with specific qualities. Coking coal is distinguished by special quality characteristics that include low volatile matter content, low expansion pressure, low sulfur content and various other chemical attributes. Coking coal is also high in heat content (as measured in Btus), and therefore can alternatively be used by utilities as fuel for electricity generation. Consequently, coking coal producers have the opportunity to select the market that provides maximum revenue. The premium price offered for coking coal by steel makers for its coke-making attributes is typically higher than the price offered by utility coal buyers that value only the heat and sulfur content of the coal.

Coking coals are commonly split into two main groups: hard coking coals and soft or semi-soft coking coals. Hard coking coals are for the production of a strong or hard coke, with soft or semi-soft coking coals typically having weaker coking properties. These weaker coals are usually blended with hard coking coals in the coke oven to reduce the overall cost of the coal in the coke blend. Semi-hard coking coals are high ash versions of hard coking coals, which may still have good coke making properties. Other types of coking coal are classified as Pulverised/Powder Coal Injection (PCI) coals, which come in two broad brands, high volatile matter low rank bituminous coals (which can include semi-soft coking coals), and semi-anthracite.

Many steel companies now inject a certain amount of pulverised coal directly into the blast furnace, which helps reduce coke consumption and replace oil requirements. Approximately one tonne of PCI coal replaces 1.4 tonnes of coking coal. Although pulverised coal does not need to have coking properties, it should have low volatility and high carbon content, as well as should be low in sulfur and ash as these two latter qualities impair the quality of steel produced. As such, in the past few years, steel producers have started to favour low volatile semi-anthracites instead of higher volatile coals.

Coking coal rarely has all the required characteristics (such as moisture, volatility, ash and sulfur content) in its raw form, and must undergo a number of processes before it can be sold. After the coal is mined, it is crushed and screened to sort it by size of particle and remove large impurities. Additional preparation or washing is required to enhance quality, and in particular to decrease ash content. One tonne of run-of-mine coal usually yields 700-850 kg of clean coal or concentrate, depending on the ash content, proportion of waste material and the complexity of the enrichment process.

The global market for imported coking coal totaled about 0.2 billion tonnes, or approximately 30% of the total global coking coal demand. Imports are primarily driven by steel producing countries without sufficient domestic coking coal resources and ultimately depend on global steel demand.

Australia remains the world's largest exporter of coking coal, occupying about 64% share of the global seaborne market. The other main global coking coal suppliers are USA (15% of global exports in 2010), Canada (10%), Indonesia (9%), and Russia. Russian metallurgical coal exports in 2010 have declined sharply due to the accident which occurred at the country's largest coking coalmine Raspadskaya in early May 2010.

The major coking coal importing countries in 2010 were Japan (22% of global imports), China (16%), India (10%), South Korea (9%) and the European Union (5%). Given China's large steel production capacity, yet its ability to largely meet its coking coal needs domestically, global import demand growth is usually lower than the overall coking coal demand growth. Over the next years all major coking coal export markets are forecast to experience growth, as demand by steel industry for seaborne coking coal continues to grow driven by the gradual recovery of the global steel markets.

According to IEA and World Steel Association steel industry is forecast to grow at 2% per year on average through 2030 and reach an output of 2 billion tonnes of crude steel. In its turn, coking coal is expected to remain the important component for the steel industry.

The projections are supported by the increasing supplies to the major coking coal importing countries driven by their economic recovery as well as an increasing reliance on imports in China. The rate at which imports to traditionally important coking coal markets will grow depends largely on the pace of economic recovery in those economies. While importers such as Japan, the European Union and South Korea will still account for the majority of coking coal imports in the coming decades, India and China are expected to remain the fastest growing importers of coking coal. Yet, increases in demand from Chinese steel mills are expected to be partially offset by higher domestic production.

Ukrainian coal market

With about 34 billion tonnes of proved coal reserves, the Ukrainian coal industry accounts for 4% of the global coal reserves. Bituminous coal and anthracite account for 45% of the country's total coal reserves. Coal accounts for 31% of the total fuel consumption in the country, trailing only natural gas with a 37.5% share.

Coal in Ukraine is extracted mostly in the Southern Donetsk and Dnipro River basins, where over 95% of the country’s coal reserves are concentrated. Small volumes of lignite are also produced in the country’s western parts near Lutsk. Unlike most North American and Australian coal mines, Ukrainian coal companies mine coal underground.

Over the past decade Ukraine’s coal output has stabilized at 75-80 million tons per annum, which is significantly below 140-190 million tones Ukraine produced annually in the late 1980s, before the collapse of the Soviet Union. The Ukrainian coal market is marked by a deficit of coking coal and slight excess supply of energy coal of anthracitic group.

Coal classification and reserves

Ukrainian classification of coal (in accordance with the State Standard DSTU-3472-96) separates nine classes of coal produced in Ukraine. Based on its class, coal can be used either as fuel for power generation or as a raw material for production of metallurgical coke, or it can be used for both purposes. About 55% of Ukrainian coal reserves are classified as thermal coal, with the rest being treated as coking coal.

The table below represents Ukrainian coal classes compared to the international coal classes under the US classification system.

<table>
<tr><th></th><th colspan="2">Ukrainian system</th><th colspan="2">Western (US) system *</th></tr>
<tr><td rowspan="2">Brown coals</td><td rowspan="2">Brown (B)</td><td rowspan="2">1B
2B
3B</td><td>ligB
LigA</td><td>Lignite</td></tr>
<tr><td rowspan="2">SubC
SubB
SubA</td><td rowspan="2">Sub-bituminous</td></tr>
<tr><td rowspan="10">Hard coals</td><td rowspan="2">Long-flame (D)</td><td rowspan="2"></td></tr>
<tr><td>hvCb</td><td rowspan="7">Bituminous</td></tr>
<tr><td rowspan="2">Long-flame-gas (DG), gas (G), gas-fat (GZh), gas-fat-semi-lean (GZhO) and partly fat (Zh)</td><td rowspan="2"></td><td>hvBb</td></tr>
<tr><td>hvAb</td></tr>
<tr><td rowspan="2">Fat (Zh), coking-fat (KZh), coking (K), coking-semi-lean (KO), coking-caking (KS and KSN)</td><td rowspan="2"></td><td>mvb</td></tr>
<tr><td rowspan="2">lvb</td></tr>
<tr><td>Semi-lean coking (OS), lean-coking (TS), lean-caking (forge) coal (PS)</td><td></td></tr>
<tr><td>Lean (T)</td><td></td><td>sa</td></tr>
<tr><td>Semi-anthracite (PA)</td><td></td><td rowspan="2">an
ma</td><td rowspan="2">Anthracitic</td></tr>
<tr><td>Anthracite</td><td>A1
A2
A3</td></tr>
</table>

Sources: The Ministry of Energy and Coal Industry of Ukraine, United States Geological Survey;

*Note: * the modifiers "hv", "mv" and "lv" stand for "high volatile", "medium volatile" and "low volatile", respectively. They denote the gas content of coal, from high to low.*

Brown coal, long-flame coal, lean coal, semi-anthracite, anthracite coal and gas long-flame coal are used for power generation. Fat coal, coking coal, lean-caking (forge) coal is used for coke production, whereas gas coal can be used for both coke production and power generation. PCI coals are increasingly utilized by steel companies to reduce coke consumption in production process.

Market segmentation by coal type and balance

The Ukrainian coal market is divided into two major segments: thermal coal, which is used mainly for electricity generation purposes, and coking coal used for production of metallurgical coke. As was mentioned above, Ukraine is not self-sufficient in coking coal production. The country therefore imports up to 10 million tonnes of coking coal annually, mainly from Russia and USA.

The table below summarizes Ukraine’s coal output over 2006 – 1Q2011 with a breakdown by segments.

	2006	2007	2008	2009	2010	1Q2010	1Q2011
	(in millions of tonnes, except percentages)						
Coal production	80.3	75.5	77.8	72.3	75.2	18.1	20.1
y/y	3%	(6%)	3%	(7%)	4%	2%	11%
Incl. coking coal	30.1	28.5	26.8	25.8	24.2	6.3	6.3
Incl. thermal coal	50.1	47.1	51.0	46.5	51.0	11.8	13.8

Source: The Ministry of Energy and Coal Industry of Ukraine

Ukraine has produced 75.2 million tonnes of coal in 2010, including 24.2 million tonnes of coking coal and 51 million tonnes of thermal coal. Over 1Q2011 the country has increased coal output by 11% compared to 1Q2010, bringing total coal output to 20.1 million tonnes, including 13.8 million tonnes of thermal coal and 6.3 million tonnes of coking coal.

Ukrainian thermal coal can be divided in two groups by the usage for electricity generation:

1. Anthracitic coal which is used mainly for power generation purposes and is supplied to seven Ukrainian power generation plants which are designed to burn anthracite. In 2010, Ukrainian power plants consumed 16 million tonnes of this type of coal. The current level of Ukrainian production of this type of coal allows the country to export 3-6 million tonnes annually. In 2010 Ukraine exported about 6 million tonnes of anthracite;
2. Gas and flame coal (gas group of coal) which, by its chemical profile, can be used as both thermal and coking coal. Seven power plants in Ukraine are designed to burn this type of coal, and consumed 16 million tonnes in 2010. The possibility of using this type of coal for coke production and deficit of coking coal on the domestic market leads to shortages of gas group of coal on the domestic market. In 2010 Ukraine imported 3 million tonnes of gas coal, mainly from Russia.

Thermal coal is used mainly for power generation by thermal power plants. Due to relatively high prices for industrial gas used in Ukraine, the country's thermal power plants switched to burn coal and completely shut down their gas-fired power units in 2010.

With state-owned mines accounting for 58% of domestic thermal coal output in 2010, the government sets prices for its mines indirectly influencing pricing of the whole market. However, the government announced intentions to privatize the majority of coal mines in 2011. Once the majority of coal mines are privatized, the state's share of the thermal coal market is expected to decrease considerably, thus, limiting the impact of the government regulations on the market and helping to liberalize the market.

Ukrainian thermal coal is characterized by a high sulfur content, which hampers their exports to Western Europe due to environmental reasons, with current export destinations being Bulgaria, Turkey and Moldova and a number of other countries with less strict environmental requirements. Anthracite represented over 95% of the total Ukrainian coal exports in 2010.

The Energy Strategy of Ukraine through 2030 foresees an increase of electricity generation by the country's thermal power plants to 125 TWh by 2015 (up 60% compared to 2010) and to 180 TWh in 2030 (up 131% compared to 2010). The strategy implementation requires almost a 50% increase in coal consumption by power generating plants by 2015, and more than doubling (up 125%) of thermal coal consumption by 2030. To remain self-sufficient in thermal coal, the Ukrainian coal mines will need to significantly increase the output of coal of gas group and anthracitic group through 2030.

	2010	2015	2020	2030
	(in millions of tonnes, except percentages)			
Thermal coal demand by electricity generation plants (Mt)	34.7	49.6	54.0	78.1
y/y (CAGR, %)	3%	8%	2%	4%

Source: The Energy Strategy of Ukraine 2030, the Ministry of Energy and Coal Industry of Ukraine

Ukraine's coking coal is primarily used by the domestic steel industry. Being the fourth-largest coke producer globally with an abundant production capacity of 23 million tonnes per annum, Ukraine has a dearth of coking coal, which explains why this commodity is in strong demand on the domestic market.

The shortage has been exacerbated by both the declining domestic output and its inadequate quality. Pokrovskoe Mine is the only Ukrainian producer of hard coking coal suitable for production of internationally acceptable quality coke, whereas coal from other mines is inferior in terms of sulfur content and other quality aspects. Therefore the domestic coke producers have to import coal of higher quality or bear additional costs in iron making.

Coking coal imports to Ukraine totaled about 9 million tonnes in 2010 and comprised more than a quarter of the country's total coking coal consumption. Russia has until recently been the dominant coking coal supplier to Ukraine, with 90% of the total imports in 2009 and 71% in 2008, but the explosion at Raspadskaya mine in 2010 and delays in delivering new projects, led to shortages in Russia's import. In response, Ukraine increased its coking coal import from USA (namely Metinvest-owned United Coal Company) and Canada, utilizing its terminal at port Yuzhnyy. However, difficulties remain for seaborne imports as there is a lack of deep-water port and inbound bulk terminal infrastructure in Ukraine.

With global steel markets seen recovering, the demand for coking coal in Ukraine, and globally, is set to strengthen. The World Steel Association forecasts global steel demand to rise 5% y-o-y in 2011, and the Ukrainian steel output growth for 2011 is estimated to be even stronger - at 11% (to 36 million tonnes), which will definitely lift demand for coking coal.

Market segmentation by players

Ukraine's coal mining sector has a large number of cost-inefficient state-run producers, which accounted for 38 million tonnes, or 51% of 75 million tonnes of coal produced in Ukraine. State-owned mines represented 61% of the country's thermal coal production and 31% of coking coal output in 2010. The key players on the Ukrainian coal market are presented in the table below (data as of 2010).

	Thermal coal output in 2010	Coking coal output in 2010	Ownership
	(in thousands of tonnes)		
Pavlohrad Coal	13,034	2,009	Private (DTEK)
Sverdlovantratsyt	6,376	-	State-owned, works with private investor
Rovenkyantratsyt	6,034	-	State-owned, works with private investor
Krasnodon Coal	-	5,800	Private
Pokrovskoye Mine	-	4,778	Private
Komsomolets Donbasa	4,122	-	Private (DTEK)
Zasyadko Coal Mine	-	1,652	Private
Krasnolimanskaya Mine	-	1,455	State-owned, most of mining is undertaken by private leaseholder
Belorechenskaya Mine	1,183	-	Private
Coal Energy[11]	764	138	Private
Sadovaya Group	278	-	Private
Other mines	19,259	8,351	-
Ukraine Total	**51,049**	**24,182**	**-**

Source: The Ministry of Energy and Coal Industry of Ukraine, Energobusiness

Five largest producers in each segment contribute more than a half of Ukraine thermal coal output and about 60% of the country's annual coking coal output. The table below shows the breakdown of producers by their reserves size according to Ukrainian reserves calculation methodology.

	Coal reserves[12]
	(in millions of tonnes)
DTEK	1,157
Krasnodon Coal	355
Coal Energy	307
Pokrovskoye Mine	200
Zasyadko Coal Mine	76
Sadovaya Group	41
Other mines	13,215
Ukraine Total[13]	**15,351**

Sources: Energobusines, the Group data, World Energy Council

[11] *Based on production in 2010 calendar year including production of CwAL LE Novodzerzhynskaya Mine and CwAL LE Sh/U Chapaeva.*
[12] *Resereves of the mining companies are presented according to the Ukrainian methodology*
[13] *Excluding sub-bituminous coal and lignite*

Most of the state-run mines are loss-making and heavily depend on budget financing to cover their production losses. While in 2005 the average mine's production costs were UAH 148 per tonne and selling price was 126 UAH per tonne, the sector generated average per tonne losses of UAH 22. In 2009 the sector's average losses, based on the data of the Ministry of Energy and Coal Industry of Ukraine, reached 149 UAH per tonne on production costs of UAH 562 per tonne. In 1Q2011 the average losses widened to UAH 333 per tonne on UAH 952 per tonne average production costs for the state-owned mines.

The governmental stimulus for the country's coal mining industry budgeted at UAH 8 billion in 2008, decreased to UAH 6 billion in 2009 and stood at UAH 7 billion in 2010, or about 60% below the industry's needs. Due to the state budget funds usage primarily for subsidizing and support of the coal industry's operating activities, the state is limited in its ability to invest into the country's coal industry development. This has already caused a gradual decrease of tunneling works at the existing coal mines from 684 kilometers in 2000 to 541 kilometers in 2005 and to 409 kilometers in 2010, according to the data of the Ministry of energy and Coal Industry of Ukraine. The direct result of underinvestment in the industry development is a reduction of the operating longwalls from 527 in 2000 to 334 in 2005 and to 250 by the end of September 2010. The total coal production in Ukraine decreased from 80 million tonnes in 2000 to 75 million tonnes in 2010, or to just 42% of the country's coal output in 1989 (180 million tonnes).

	2006	2007	2008	2009	2010
Estimated investments, UAH bn	4.2	5.6	7.7	6.2	6.8
Mine tunneling, km	522	539	534	396	409
Average number of longwalls	311	295	283	263	250[14]

Source: The Ministry of Energy and Coal Industry of Ukraine

The upcoming privatization of the state-owned coalmines is expected to trigger higher investments into the industry supported by a more competitive and liberalized domestic coal market.

Coal pricing

Coal is a non-homogenous product with significant quality differentiation, particularly for coking coal, but also for thermal coal. In terms of pricing differentials, coking coal is priced according to certain coking characteristics, including ash, sulfur and volatile matter content as well as other characteristics including dilation swelling index and maximum reflectance of vitrinite in oil. Steam coal is priced primarily on its calorific value and sulfur content. Before price considerations are taken into account, coal quality is the major criteria used by customers. For coking coal, the acceptability and value for use in integrated steelworks depend on a host of coking and physical characteristics. Steam coal is judged by the quality of its calorific content and its energy content (other characteristics include ash, sulfur and nitrogen content, as well as hardness and moisture level, among others). Because of higher carbon concentrations, coking coal prices are typically higher than steam coal prices.

On the global arena, China's recent economic and infrastructure growth has fuelled increased demand for all raw materials, especially steel and energy commodities. Because of increased domestic demand, China has reduced exports of both thermal and coking coal. China's contribution to the world coking coal export market has been reduced by restrictions on its coking coal exports, announced in late 2003 to satisfy domestic demand.

The Chinese market has become a significant source of global demand for commodities. In 2009, China represented 42% of the global thermal coal demand. China's demand for coal has been driving global demand over the past decade. This in turn has supported an increase in global coal prices. Given the world's gradual recovery after the financial crisis furthermore increased steel and energy demand across the world as well as rising oil and gas prices have contributed to an increase in international coal prices, particularly thermal coal prices.

Of significant note in 2010 was the move from annually negotiated benchmark prices in coking coal to shorter term reference pricing. Coal prices over 2010 recovered during the year driven by demand in China and restocking in the Organisation for Economic Co-operation and Development (OECD) countries.

On the thermal coal market Amsterdam Rotterdam Antwerp quoted prices for delivery in Europe increased from lows of US$ 63 per tonne at the start of 2010 due to the low coal burn and high port stockpiles in Europe, rising to US$ 95 per tonne at the year-end. This price appreciation was driven by a steady recovery in global industrial production as developed economy demand slowly improved, plus strong Asian demand. Richards Bay coal

[14] *The data presented as of the end of September 2010*

terminal FOB prices increased by 60% during 2010, supported by strong demand from India and China. Newcastle FOB prices gained 42% during 2010, with a peak of US$ 109 per tonne in April 2010, driven by weather-induced supply restrictions. Whilst prices did soften from peaks in April 2010, they remained at relatively strong levels through to June 30, 2010 on the back of high coking coal prices, incentivising producers to switch high-grade thermal coal into coking coal markets.

The coking coal market moved from annual benchmark to quarterly reference pricing from April 1, 2010. The premium for Hard Coking Coal (HCC), increased to US$ 200 per tonne for the quarter ending in June 2010 compared with a Japanese financial year ending March 31, 2010 benchmark of US$ 129 per tonne. Several new independent coking coal indexes were first published in March 2010, reflecting the transition of this industry to shorter-term pricing mechanisms. The higher prices were driven by growth in global steel production in traditional coking coal importing countries during the first half of 2010, as well as continued strong import demand from China, which has traditionally been self-sufficient. Spot prices remained ahead of quarterly reference pricing throughout the fourth quarter of 2010 as coal producers were unable to meet stronger demand requirements, incentivising US marginal cost producers to direct greater tonnage to Asia.

With approximately two thirds of its energy generated from coal, China's consumption and production profile is expected to have a significant impact on the global coal supply/demand balance going forward. Even if China's dependence on coal were to reduce over time, continuous increasing global demand for electricity is expected to result in rising absolute levels of coal demand and ultimately impact global coal prices.

Central and Eastern European regional coal prices as well as Ukrainian domestic coal prices are influenced by global coal price trends. The Ukrainian coking coal prices have recovered already in the second half of 2009 and have proved resilient to sharp downward moves even after domestic steel capacity utilization declines experienced in second quarter of 2010. Ukrainian coking coal prices are set to further strengthen in the coming years following gradual increase of the global and Ukraine's crude steel output.

The table below summarizes Ukraine's domestic average coking coal prices over 2006 – 2010.

	2006	2007	2008	2009	2010
Coking coal * price (US$ per tonne)	83.0	114.0	197.0	81.0	167.0
y/y		37%	73%	(59%)	106%

Note: Grade K hard coking coal*

Sources: Energobusiness, the Ministry of Energy and Coal Industry of Ukraine

Strong foreign demand and domestic shortages are expected to keep the Ukrainian coking coal prices robust going forward. China, once a net coal exporter, is now the world's largest importer with monthly purchases of 4 million tonnes. The country's demand, however, is constrained by infrastructure bottlenecks as further growth in its imports from Mongolia, which in 2010 accounted for a third of total Chinese coking coal imports, is unlikely due to a lack of rail links. Transporting coal by road may be a precarious alternative, as the more than 200 km long traffic jam created by coal trucks on one of China's busiest routes in September 2010 showed. Moreover new global Greenfield projects have been delayed till 2013-2015 due to logistical hurdles, and announced brownfield projects are unlikely to provide for a significant increase in output, meaning continued tight supply for markets. Untouched deposits of quality coking coal are few and far between and scattered between locations such as Mongolia, Russia, Mozambique and Australia. All of them require new railroads and other infrastructure and remain in an early stage of development.

Ukrainian thermal coal prices are set to be driven by the increasing demand from the power generation sector. The country's thermal coal prices are expected to grow further capped by imports from Russia and other markets.

The table below summarizes Ukraine's domestic average thermal coal prices over 2006 – 2010.

	2006	2007	2008	2009	2010
Thermal coal price (US$ per tonne)	46.8	60.8	86.0	65.0	73.0
y/y		30%	41%	(24%)	12%

Sources: Energobusiness, the Ministry of Energy and Coal Industry of Ukraine

Coal is sold under term contracts or on the spot market with the coking and thermal coal markets operating relatively independently of each other. Prices with major customers are normally agreed on the basis of long-term framework agreements with annual price adjustments.

Regulation of the Ukrainian mining industry

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

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

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

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

Every year since 2004, the Government of Ukraine used to adopt a separate resolution to govern the issuance of mining licenses (applicable to both exploration and production licenses). However, this year the Government of Ukraine has adopted Resolution No. 615 "*On Approval of the Regulation on the Issuance of Special Permits for Subsoil Use*", date May 30, 2011. Since the current year is not indicated in the title of Resolution, it may serve as an indication of the intent of the Government of Ukraine to discontinue the practice of adopting such regulations on the annual basis.

Moreover, the President of Ukraine issued two separate Decrees [15] under which (1) the Ministry of Environmental Protection was reorganized into the Ministry of Ecology and Natural Resources of Ukraine and (2) the State Service of Geology and Subsoil of Ukraine was granted with the right to issue mining licenses (both exploration and production) instead of the Ministry.

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

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

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

Upon estimation and approval of the mineral reserves, the applicant may apply for a production license and mining allotment. Mining allotments are granted to applicants on submission of the production license, estimated reserves' report and field development program.

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

Production licenses for the extraction of mineral resources are usually granted for an initial period of up to twenty years (for oil and gas extraction – up to thirty years). A mining company may also apply to extend production license, provided that certain conditions are met. The production license may be subject to special conditions relating, amongst other things, to the mining technology used, environmental protection, scope of work and termination of mining activities. In general, mining activities must begin within two years (180 days for oil and gas fields) of the date of issue of the production license.

Mining licenses, with certain exceptions, are usually sold pursuant to an auction procedure. The auction procedure is regulated by Resolution No. 594 of the Cabinet of Ministers of Ukraine "*On Approval of the*

[15] *Decree of the President of Ukraine No. 1085/2010 "On Optimisation of System of Central Bodies of Executive Power" of December 9, 2010 and Decree of the President of Ukraine No. 391/2011 "On Ruling on State Service of Geology and Subsoil of Ukraine" of 06 April 2011.*

Regulation on Conducting Auctions for the Sale of Special Permits for Subsoil Use", dated May 30, 2011, which came into effect on June 20, 2011.

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

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

Mining companies are also subject to regular audits conducted by the competent state authorities. Failure to comply with the orders of the supervising authority may result in suspension and/or annulment of a mining license. Mining companies also pay fees for subsoil use related to extraction of minerals which are calculated based on the type of mineral deposit, amount of actually extracted minerals and amount of relevant expenses concurred by such mining companies.

Government programs to further the Ukrainian coal industry

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

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

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

Pricing

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

The regulated prices are set on the basis of negotiations between the Ministry of Energy and Coal Industry of Ukraine and state entities, responsible for regulation of power sector: the National Electricity Regulation Commission of Ukraine, the National Joint-Stock Company Energy Company of Ukraine. The resulted price for energy coal, as well as planned prices for gas and electricity, is then approved by the Government of Ukraine as a special resolution named Energy Balance. The Balance is usually approved in the beginning of a calendar year. Referring to the Energy Balance, the Ministry of Energy and Coal Industry of Ukraine issued Resolution No 286 in 2010, setting the regulated energy price at UAH 621.18/t (US$ 78.6/t) starting in August 2010, a 20.6% increase compared to the average 2009 price.

Ukraine's accession to the WTO

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

Carbon credits market

Due to the dramatic increase in greenhouse gas (GHG) emissions over the past several decades, there have been different policy measures and regulations initiated in an attempt to reduce the level of GHGs, especially carbon dioxide. Governments and organizations can use a variety of tools to reduce GHGs, including carbon credits, carbon offsets, and renewable energy credits, however, all these tools share the same idea of putting a price on carbon.

One of the most common tools is the creation of carbon credit markets. A carbon credit is a generic term for any tradable certificate or permit representing the right to emit one ton of carbon or carbon dioxide equivalent. The carbon credit "cap and trade" mechanism used today is very similar to the methodology used for the U.S. Acid Rain Program, which was an emission trading program launched in 1990 aimed at reducing sulfur dioxide and nitrogen oxide levels. In essence, a regulator establishes a cap on the overall emissions of a group and then distributes emission allowances to the separate participants, up to the cap limit.

If a company's carbon emissions fall below its assigned amount, then that company can sell their surplus of carbon credits to other organizations that may have exceeded their respective limit. Cap and trade schemes allow companies to buy and sell "credits" for many types of pollutants, such as acid rain, but the market for carbon credits is by far the biggest.

The global carbon credit market doubled for two consecutive years from US$ 31 billion in 2006 to US$ 63 billion in 2007 and US$ 126 billion in 2008 due to the expansion of allowance markets. In 2010 the global carbon credit market reached US$ 122 billion on the volume of about 8 billion tonnes of CO_2 emission equivalent.

The carbon credit mechanism was formalized in the Kyoto Protocol, an international agreement between more than 190 countries whose aim was to address the issue of climate change. Under the Kyoto Protocol, each country is issued an Assigned Amount Unit (AAU) of carbon credits, and they are entered into the country's national registry, which is validated by the United Nations Framework Convention on Climate Change.

Countries that ratified the Kyoto Protocol set quotas for the emissions of local businesses and organizations, thus establishing a carbon market through a cap and trade scheme. The Kyoto mechanism has been used most notably in Europe, where the European Union Emission Trading Scheme (EU ETS) was established in 2005. The EU ETS is the largest emission trading scheme in the world. It employs a basic cap and trade model where the ETS imposes annual targets for carbon dioxide emissions on each EU country. The major carbon emitters in each country are then given national allowances that they can sell or purchase depending on their need.

Ukraine's total carbon credit quota under the Kyoto protocol was set at 922 million tonnes of CO_2 emission equivalent. The Ukrainian Government, as well as companies eligible for carbon emission credits, has cumulatively sold CO_2 emission quotas for over US$ 600 million over 2009 and 2010. The main buyers of Ukraine's carbon credits used to be Japan and the European Union.

BUSINESS DESCRIPTION

1.1 Overview

The Group's principal business is mining, beneficiation and sale of thermal and coking coal. Coal Energy is the third largest private coal producer in Ukraine in terms of reserves as of end of 2010 according to Ukrainian reserves valuation methodology, and the seventh largest private[16] coal producer[17] in the country by output based on 2010 results.

Coal Energy's coal reserves are located in the country's largest coal basin – Donbas. The table below provides a breakdown of the Group's coal reserves estimated by John T. Boyd Company (Boyd) in June, 2011 according to JORC Code.

	Total In-Place Resources	Recoverable Reserves			Marketable Reserves		
		Proved	Probable	Total	Proved	Probable	Total
	(in millions of tonnes)						
Donbasuglerazrabotka LLC	2.95	1.28	-	1.28	1.17	-	1.17
Donprombiznes LLC	46.65	32.35	2.93	35.28	28.97	2.60	31.57
Eximenergo PEK LLC	6.76	4.38	0.82	5.20	3.94	0.76	4.70
Ugledobycha LLC	11.49	9.08	-	9.08	7.95	-	7.95
CwAL LE Sh/U Chapaeva	63.20	37.92	5.83	43.75	33.05	4.88	37.93
Nedra Donbasa LLC	4.75	1.25	1.10	2.35	1.14	1.00	2.14
Tekhinnovatsiya LLC	57.35	18.90	7.91	26.81	16.69	6.85	23.54
CwAL LE Novodzerzhynskaya Mine	34.78	20.25	-	20.25	17.46	-	17.46
Antracit LLC[18]	7.57	-	7.19	7.19	-	1.14	1.14
Total	**235.50**	**125.41**	**25.78**	**151.19**	**110.37**	**17.23**	**127.60**

Source: BOYD Mineral Experts Report

Under the Ukrainian methodology, Coal Energy has 306.7[19] million tonnes of licensed coal reserves, out of which 204.8 million tonnes are balance coal reserves and 101.9 million tonnes are off-balance. In addition to the aforementioned reserves the Group has already finished geological exploration, applied for and plans to acquire new licenses for 286.9 million tonnes of additional reserves under the Ukrainian methodology, including 197.3 million tonnes of balance and 89.6 off-balance reserves.

Coal Energy's operations are vertically integrated. Besides coal mining, the Group is engaged in the beneficiation of coal and in the processing of waste dumps to produce saleable coal and generate greenhouse gas Emission Reduction Units (ERUs), which could be sold according to procedure established by Kyoto Protocol. In 9m FY2011 the Group produced 727 thousand tonnes of ROM (run-of-mine) coal, compared to 353 thousand tonnes in 9m FY2010. Coal Energy produced 549 thousand tonnes of saleable coal from waste dumps in 9m FY2011 compared to 85 thousand tonnes in 9 m FY2010. Coal Energy also generated ERUs in the amount of 80.7 and 94.2 thousand tonnes of CO2 equivalent in 2009 and in 2010 respectively. The Group's total revenues for 9m FY2011 were US$109.2 million compared to US$38.6 million for 9m FY2010.

The Group mines and sells thermal coal grades, coking bituminous coals and dual purpose gas coals. The Group works directly with all large Ukrainian power generating plants and all country's steel mills. Benefiting from its advantageous geographic position and wide products portfolio, Coal Energy actively expands its export operations, mainly through thermal coal sales to energy generation plants in Turkey, Moldova, Bulgaria, Slovakia and other counties where the Group works with largest power generation plants. The share of export in the Group's sales increased from 8.2% in 9m FY2010 to 23.1% in 9m FY2011 in value terms.

The following table sets out a breakdown of the Group's sales in volume terms.

16 *"Private producer" means not under state control or ownership*

17 *based on annual coal output of the mines controlled by the Group as of end of 2010*

18 *Reserves contained in waste dumps*

19 *The amount represents the reserves according to the Ukrainian methodology stated in the licenses excluding the reserves in the waste dumps of Antracit LLC. After the licenses were received, the total amount of reserves has decreased to the level of 303.5 million tonnes as of December 31, 2010. This amount also excludes reserves contained in the waste dupms of Antacit LLC.*

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of tonnes)				
Coal sold, including:	807	1,061	901	681	1,419
Own mined coal	624	727	402	305	815
Coal processed from waste dumps	-	39	134	85	549
Coal bought from third parties	183	295	366	292	55
	(in thousands of tonnes of CO2 equivalent)				
ERUs sold[20]	-	-	-	-	174

Source: The Group data

The table below sets out selected information of financial results the Group's operations according to the Consolidated Financial Statements.

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
Revenue	65,711	91,756	55,776	38,585	109,220
EBITDA [21]	1,172	20,807	12,712	9,047	40,421
Profit (loss) for the year/period	(1,545)	14,343	4,781	3,316	29,644

Source: The Group data

Strengths

Coal Energy believes that the competitive strengths of its business are as follows:

Substantial under-exploited coal reserves and significant reserve growth potential. Coal Energy mines have approximately 150 years of reserves as at the expected FY2011 level of production, based on the existing 151 million tonnes of proved and probable recoverable coal reserves under the JORC Code. Even the expected production increase of up to 4.8 million tonnes of saleable coal per annum by FY2016 will nonetheless allow for a sufficient production life for the Group's mines, which would be more than 30 years based on the current reserves. Moreover, Coal Energy believes that its reserves will be increased going forward. The Group has already applied for new licenses that will add 286.9 million tonnes of additional reserves based on the Ukrainian reserve valuation methodology.

Brownfield expansion capability. The Group's current production growth strategy is based solely on the performance of the Group's existing mines. Coal Energy plans to increase its coal reserves as described above and that increase will be achieved on the basis of the Group's exiting mines. Hence, the Group will be able to use the existing production and transportation infrastructure to increase production. The Group also intends to increase the coal beneficiation capacity of the Postnikovskaya coal beneficiation plant.

Diversified product portfolio. The Group sells a wide range of thermal coal grades, including lean coal that is scarce in Ukraine as well as exceptionally scarce coking coal. Such a diversified product portfolio enables the Group to attract new clients both in Ukraine and abroad. As a result, the Group is able to choose clients and markets depending on the situation in the market and expected profitability of sales.

Established export sales position. The Group's export sales stood at 23.1% of the total sales in 9m FY2011. The Group considers a further increase of coal sales to its existing foreign clients, mostly power generation plants in Turkey, Moldova, Bulgaria, and Slovakia, which prefer Ukrainian supplies to supplies from other destinations. The Group has an advantageous geographical location to expand its sales to the CEE markets. A significant export sales exposure decreases the Group's dependence on the Ukrainian coal market and reduces the national currency risks.

[20] *During the period under review, the Group has completed one transaction on ERUs sale on November29, 2010 via a tender in the volume of 174,411 tonnes of CO2 equivalent for US$2.3 million. The ERUs were generated during 2008 and 2009.*

[21] *EBITDA represents operating profit before finance (income) costs, income taxes, depreciation and amortisation, foreign exchange (gains) losses and other (income) expense and is calculated as operating profit after adding back depreciation and amortisation. EBITDA provides additional performance measure to show effects of the Company's operations which are difficult to recognize directly from the Financial Statements. EBITDA calculations have not been subject to separate auditor's review although items used for calculation of EBITDA have been derived from the Financial Statements. This measure should not be considered in isolation or as an alternative to net profit for the period or other data presented in the Financial Statements as indicators of financial performance. EBITDA measure is not determined in accordance with generally accepted accounting principles, and thus is susceptible to varying calculations.*

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Own coal beneficiation facility. Coal Energy's Postnikovskaya coal beneficiation plant fully satisfies the Group's existing demand in coal beneficiation enabling the Group to save costs on third-party coal beneficiation services. The Group intends to expand the current capacity of the plant in order to simultaneously process different coal grades.

Unique waste dump enrichment operations. The Group was a pioneer in the Ukrainian coal mining industry in waste dump processing. By processing waste dumps, the Group produces saleable coal and generates emission reduction units (ERUs) for further sale. Coal Energy has already sold first ERUs. The Group plans to expand its waste processing operations both on the existing waste dump fields and on the new ones that the Group plans to acquire.

Experienced management team with unique knowledge of the sector. The Group's founder and CEO, Mr. Viktor Vyshnevetskyy, PhD in Techniques, has more than 16 years of experience in mining, mine management and mining equipment. He is an author of eight patented inventions related to improvements in the mining methods and the mining equipment. Mr. Vyshnevetskyy developed unique methodologies required for dormant mines selection, acquisition and reconstruction, utilized during formation of the Group. Besides Coal Energy, Mr.Vyshnevetskyy is the founder of several machine building plants and companies that provide equipment, construction and engineering services to coal mines all over the country. Other members of the Group's management team have significant experience in Ukrainian coal mining industry.

Strategy

The Group's strategy is to commercialise its significant unexploited coal reserves and to increase its profitability by improving its operational efficiency as well as by leveraging the Group's advantageous logistics position. Coal Energy intends to pursue this strategy through the following initiatives:

Increasing the production. Coal Energy plans to increase the production volumes at its mines, in particular, at Tekhinnovatsiya LLC (Svato-Pokrovskaya mine), CwAL LE Sh/U Chapaeva (Chapaeva mine), Donprombiznes LLC (Prepodobnogo Sergiya Radonezhskogo mine), Ugledobycha LLC (Svyato-Nikolaevskaya mine) and Antracit LLC (a waste dumps processing unit). The Group plans to achieve production of approximately 4.8 million tonnes of saleable coal per annum from its mines by the end of FY2016. Such an increase in the extraction will be achieved by a launch of additional mining faces (Coal Energy plans to increase the number of the mining faces by 45% by the end of FY2016), mechanization of the mining process and equipment upgrade. Coal Energy plans to produce 864 thousand tonnes of saleable coal from waste dumps in FY2012 and keep similar production volumes in the following years. The Group expects that waste dumps processing operations will generate totally 822 thousand tonnes of CO2 equivalent of the ERUs during the period 2011-2017.

Expanding the reserve base. The Group has finished exploration works at its existing mines and has applied for new licenses that, according to Ukrainian standards, will add 286.9 million tonnes of coal reserves, out of which 197.2 million and 89.7 million tonnes are balance and off-balance coal reserves respectively. The Group's current licenses provide for 204.8 million tonnes of balance and 101.9 million tonnes of off-balance coal reserves according to Ukrainian reserves valuation methodology (151.2 million tonnes of proved and probable recoverable coal reserves according to JORC). Coal Energy expects to have the pre-emptive right to buy such additional licenses from the state during FY2012-FY2013. The Group will continue geological exploration works and selective acquisitions of licenses both at existing fields and new ones to increase its reserve base.

Increasing operational efficiency. The Group plans to continue further mechanization of the mining process and to upgrade the existing mining equipment in order to increase efficiency of operations and to apply the best practices of mining operations. These measures are expected to reduce cash cost of mining per tonne due to lower labour and materials expenses and also reduce fixed costs per tonne due to scale effect from increased production. Coal Energy will continue to develop its logistics to match the Group's growing production volumes, in particular by building additional railway lines, reloading and coal storage facilities to better manage the transportation costs. The planned upgrade of the Group's coal beneficiation facilities, including the use of the more advanced and less environment harmful coal beneficiation methods, will decrease coal losses during processing and improve the final product quality.

Strengthening the Group's market position on the Ukrainian and export markets. Coal Energy is a leading independent[22] supplier of coal in Ukraine that works directly with the largest power generation companies and all domestic metallurgical holdings and has been rapidly increasing its export sales recently. By FY2016, the Group intends to sell up to 100% of its coal under framework contracts (sales under such framework agreements

[22] *The term "independent supplier" means a mining company that is neither state ownednor is a part of a metallurgical or energy generation holding*

in the fourth quarter of FY2011 are expected to amount to 57% of total sales in volume terms). In addition, the Group intends to switch completely to direct sales by FY2016 (approximately 30% of sales in volume terms was done through coal traders during 9m FY2011). This will allow the Group to provide the improved price terms for its clients and to better manage the quality of logistics.

Development of better health, safety and environmental (HSE) standards. The Group intends to improve its existing HSE standards. This is expected to include an upgrade of the means of individual protection and special equipment, an upgrade underground ventilation system, necessary for deeper mining and introduction of personnel motivation system upon the fulfilment of certain HSE indicators, a promotion among the miners of responsible attitude towards their personal safety, an introduction of regular internal HSE audits and a certification of the safety management system according to ISO/OHSAS.

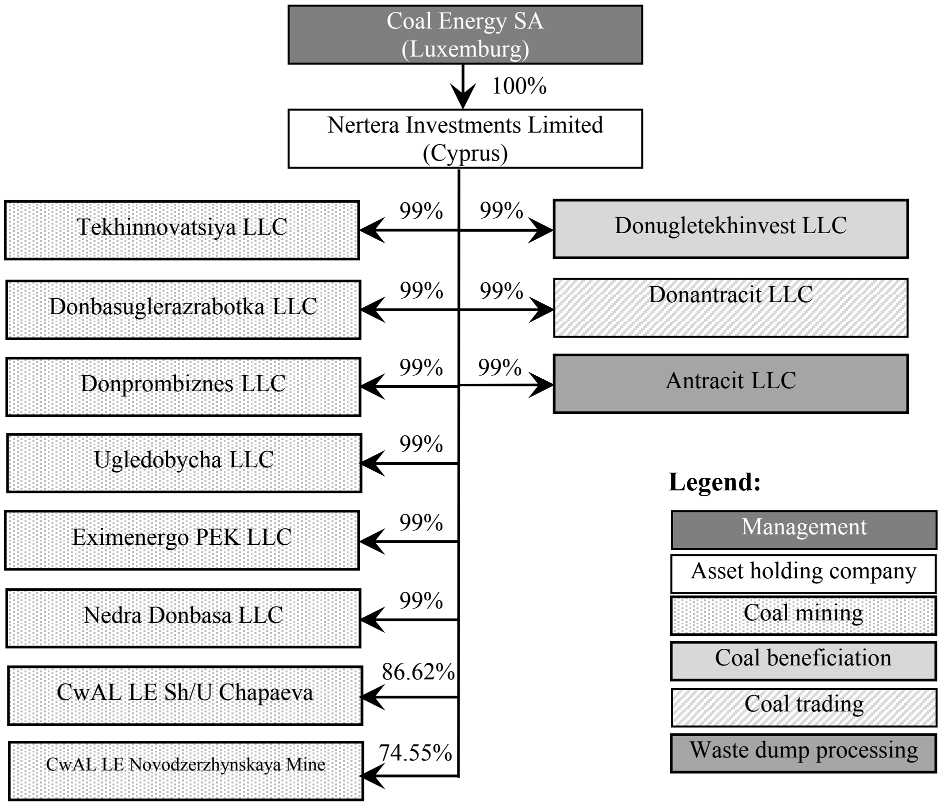
History and Development of the Group

The Group dates back to 1995 when the first company of the Group, Donprombiznes LLC, was established by a group of individuals that decided to produce mining equipment and to provide construction and consultancy services to the Ukrainian coal mining industry. In the 1990s, some of the Group companies operated within the so-called group Mechanic. Initially Mechanic included a number of machine-building, metalwork and spare parts production plants, and construction companies that worked with mines all over the country. Since 1995, Mechanic has developed significant expertise in all stages of coal mining, including in reviving closed mines and developing abandoned coal reserves. This expertise and access to suppliers of the mining equipment and services of Mechanic triggered the decision of the Group's shareholders to start their own mining operations in 2001. The Group's development path is summarized below:

2001	The Group acquired its first coal mine, Prepodobnogo Sergiya Radonezhskogo, which after an overhaul was put into operation in 2002.
2004	The Group acquired Svyato-Nikolaevskaya mine and completed its overhaul. A waste dump processing project, the first of such type in Ukraine, was initiated on the basis of Antracit LLC. The company started producing saleable coal from waste dumps.
2006	Coal Energy acquired Svyatitelia Vasiliya Velikogo mine. The Group acquired and arranged for modernization of the Postnikovskaya coal beneficiation plant increasing its processing capacity from 120 to 480 thousand tonnes of ROM coal per annum.
2007	Three new mines, Svyato-Serafimovskaya, Svato-Pokrovskaya and Svyato-Andreevskaya were acquired.
2008	The waste dump processing plant of Antracit LLC was integrated into the Group.
2009	The entity affiliated with the Group has entered into a lease agreement for CwAL LE Sh/U Chapaeva (44 million tonnes or 29% of the Group's reserves) for 49 years.
2010 Q2	The Group's holding company, Coal Energy S.A., was established and acquired ownership of the following Operating Subsidiaries: Donbasuglerazrabotka LLC, Donprombiznes LLC, Eximenergo PEK LLC, Ugledobycha LLC, CwAL LE Sh/U Chapaeva, Nedra Donbasa LLC, Tekhinnovatsiya LLC, Donugletekhinvest LLC, and Donantracit LLC. The Group conducted mineral reserves audit according to JORC.
2010 H2	The Group reached a historical production maximum of 1,040 thousand tonnes of ROM coal per calendar year (2010). Coal Energy upgraded the Postnikovskaya coal beneficiation plan increasing its capacity to 720 thousand tonnes per annum. The Group sold ERUs generated as a result of the Joint Implementation Project under the Kyoto Protocol, in the amount of 174 thousand tonnes of CO2 equivalent for US$ 2.3 million.
2011 Q1	CwAL LE Novodzerzhynskaya Mine with coking coal reserves and CwAL LE Sh/U Chapaeva were integrated into the Group.

Group Structure

The Group's companies form a vertical production chain, from coal mining, waste dump processing and coal beneficiation to coal trading. The following chart below shows the organizational structure of the Group:



Source: The Group data

Reserves

Overview

Coal Energy holds mining licenses through eight subsidiary companies in the Donetsk coal basin. Under the JORC methodology, the Group has 235.5 million tonnes of coal resource, out of which 151.2 million tonnes of coal are proven and probable recoverable reserves (125.4 million tonnes are proved and 25.8 million tonnes are probable reserves). Under Ukrainian methodology, Coal Energy has 306.7 million tonnes of licensed coal reserves, out of which 204.8 million tonnes are balance coal reserves and 101.9 million tonnes of off-balance coal reserves.

The Group has applied and plans to acquire new licenses for 286.9 million tonnes of additional reserves under the Ukrainian methodology, including 197.3 million tonnes of balance reserves and 89.6 million tonnes off-balance reserves.

Valuation methodology

There are two main approaches applied in Ukraine for valuing coal reserves. They are national Ukrainian methodology, determined by Ministry of Coal Industry of Ukraine, and international JORC methodology. JORC Code is a system for classification of tonnage/grade estimates according to geological confidence and technical/economic consideration in reports prepared for the purposes of informing external parties developed by Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia.

JORC Code recognizes difference between mineral resources and reserves. Conversion from a mineral resource to a reserve requires the application of "modifying factors". These modifying factors include mining, economic, marketing, legal, environment, social and governmental factors. A "resource" is geological defined; it becomes a reserve when the modifying factors, especially technical and economic, are taken into account. Under the JORC Code, coal resources are sub-divided, in order of decreasing geological confidence into measured (highest level), indicated and inferred (lowest level) categories. Coal reserves are the economically mineable parts of a measured or indicated resource. Coal reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit, and include proper consideration of all relevant modifying factors such as: mining methods, economic, marketing, legal, environmental, social and governmental factors. A proved coal reserve is the economically mineable part of a measured coal resource for which the modifying factors have been satisfied. A probable coal reserve is the economically mineable part of an indicated coal resource.

Ukraine has a long-established system of reserve and resource reporting, which is mostly identical for all CIS countries. The primary difference between the national methodology and international methodologies is that Ukrainian methodology relies on "geometrical" methods to determine reserves, as compared to international methodologies, which utilize sampling and extrapolation techniques. Under the national methodology the evaluated reserves are divided into balance and off-balance reserves. Balance reserves are those which could be effectively mined based on the actual level of available technology. Off-balance reserves are part of reserves which cannot be economically mineable, but they could become balance reserve if it could be proved that their extraction is economically efficient.

While a direct comparison between international and Ukrainian valuation methodologies is difficult because they are based on different principles, it is often the case that Category A and Category B of Ukrainian reserves correlate to proved reserves under the international standards while Category C1 Ukrainian reserves can be compared to that of probable reserves. However, these relationships may vary among deposits and sometimes even for the same deposits. Finally, JORC is to a larger extent dependable on the competent person's subjective judgment as to assumptions and assessment criteria.

Coal Resources

Coal reserves are the economically mineable parts of a measured or indicated resource. Under the JORC Code, coal resources are sub-divided, in order of decreasing geological confidence into measured (highest level), indicated and inferred (lowest level) categories.

The following table summarizes the Group's coal resources according to the JORC Code:

	In-Place Resources				**% of total In-Place Resources**	**Coal type**
	Measured	**Indicated**	**Inferred**	**Total**		
	(in millions of tonnes, except percentages)					
Donbasuglerazrabotka LLC	2.95	-	-	2.95	1.3%	Thermal
Donprombiznes LLC	42.25	4.11	0.29	46.65	19.8%	Thermal
Eximenergo PEK LLC	5.72	1.04	-	6.76	2.9%	Thermal
Ugledobycha LLC	11.49	-	-	11.49	4.9%	Thermal
CwAL LE Sh/U Chapaeva	53.50	9.70	-	63.2	26.8%	Thermal
Nedra Donbasa LLC	3.08	1.59	0.08	4.75	2.0%	Coking
Tekhinnovatsiya LLC	34.78	19.50	3.07	57.35	24.4%	Dual-purpose
CwAL LE Novodzerzhynskaya Mine	34.78	-	-	34.78	14.8%	Coking
Antracit LLC	-	7.57	-	7.57	3.2%	Thermal
Total	**188.55**	**43.51**	**3.44**	**235.5**	**100.0%**	

Source: BOYD Mineral Experts Report

Coal reserves

The Group has retained an international consulting firm John T. Boyd Company (BOYD) to conduct an independent review of the Group's coal reserves under the JORC Code. BOYD's review included site visits to the mines, assessments of the Group's operations as well as review of The Group data used for the valuation of the Group's reserves under Ukrainian methodology. Based upon its findings, BOYD believes that the resource estimates, on which it based its calculations of the Group's coal reserves, are reasonable.

According to BOYD's report, the Group had total proved and probable recoverable coal reserves of approximately 151.2 million tonnes. The table below provides the Group's coal reserves for each production entity according to the JORC Code:

	Recoverable Reserves			% of total Recoverable Resources	Marketable Reserves			% of total Marketable Resources	Coal type
	Proved	Probable	Total		Proved	Probable	Total		
	(in millions of tonnes, except percentages)								
Donbasuglerazrabotka LLC	1.28	-	1.28	0.8%	1.17	-	1.17	0.9%	Thermal
Donprombiznes LLC	32.35	2.93	35.28	23.3%	28.97	2.60	31.57	24.7%	Thermal
Eximenergo PEK LLC	4.38	0.82	5.20	3.4%	3.94	0.76	4.70	3.7%	Thermal
Ugledobycha LLC	9.08	-	9.08	6.0%	7.95	-	7.95	6.2%	Thermal
CwAL LE Sh/U Chapaeva	37.92	5.83	43.75	28.9%	33.05	4.88	37.93	29.7%	Thermal
Nedra Donbasa LLC	1.25	1.10	2.35	1.6%	1.14	1.00	2.14	1.7%	Coking
Tekhinnovatsiya LLC	18.90	7.91	26.81	17.7%	16.69	6.85	23.54	18.4%	Dual-purpose
CwAL LE Novodzerzhynskaya Mine	20.25	-	20.25	13.4%	17.46	-	17.46	13.7%	Coking
Antracit LLC	-	7.19	7.19	4.8%	-	1.14	1.14	0.9%	Thermal
Total	**125.41**	**25.78**	**151.19**	**100.0%**	**110.37**	**17.23**	**127.60**	**100.0%**	

Source: BOYD Mineral Experts Report

BOYD's review has concluded that the Group's present reserves are sufficient to fulfil its current 10-year mining plan. Nevertheless, Coal Energy plans to explore opportunities to diversify and expand its reserves base both through acquisition of new licenses and extension of the Group's current operations.

Reserves growth potential

Coal Energy is currently in the process of acquiring new licenses providing for additional 286.9 million tonnes of coal reserves estimated according to the Ukrainian methodology of which 197.3 million tonnes are balance coal reserves. Ones the new licenses are acquired, the Group plans to hire an independent expert to value the additional reserves according to the JORC Code. The table below shows the breakdown of additional reserves according to Ukrainian reserves valuation methodology that are expected for acquisition.

	Reserves under review		
	Balance	**Off-balance**	**Total**
		(in millions of tonnes)	
Donbasuglerazrabotka LLC	19.4	38.9	58.3
Donprombiznes LLC	-	-	-
Eximenergo PEK LLC	2.2	-	2.2
Ugledobycha LLC	-	-	-
CwAL LE Sh/U Chapaeva	68.8	29.0	97.8
Nedra Donbasa LLC	17.6	7.2	24.8
Tekhinnovatsiya LLC	89.3	14.5	103.8
CwAL LE Novodzerzhynskaya Mine	-	-	-
Total	**197.3**	**89.6**	**286.9**

Source: The Group data

Licenses

The Group holds 15 subsoil licenses which grant the holder the right to explore or mine natural resources. The following table sets forth details of such licenses as of May 15, 2011:

License holder	License area	Coal reserves	Data issued	Expiration date
	(in square kilometers)	(in thousands of tonnes)[23]	(dd/mm/yyyy)	(dd/mm/yyyy)
CwAL LE Sh/U Chapaeva	36.6	73,365	16/12/2008	02/10/2020
CwAL LE Sh/U Chapaeva	20.9	10,903	18/11/2008	30/12/2021
Donprombiznes LLC	34.7	54,385	29/07/2004	29/07/2014
Donprombiznes LLC	3.2	4,284	27/07/2004	27/07/2014
Donprombiznes LLC	4.8	5,524	02/07/2003	02/07/2013
Ugledobycha LLC	3.9	12,860	29/07/2004	29/07/2014
Ugledobycha LLC	3.5	3,026	02/09/2004	02/09/2014
Ugledobycha LLC	0.5	433	12/11/2009	12/11/2029
Eximenergo PEK LLC	13.5	6,578	09/10/2003	09/10/2013
Eximenergo PEK LLC	15.6	4,442	14/11/2006	14/11/2026
Nedra Donbasa LLC	7.6	4,348	14/11/2006	14/11/2026
Donbasuglerazrabotka LLC	2.6	1,552	24/10/2006	24/10/2026
Donbasuglerazrabotka LLC	2.9	2,256	25/07/2007	25/07/2019
Tekhinnovatsiya LLC	31.6	70,213	30/12/2009	30/12/2029
CwAL LE Novodzerzhynskaya Mine	14.3	52,517	15/04/1998 (reissued 05/11/2010)	15/04/2018
Total	**196.2**	**306,686**		

Source: The Group data

All the licenses controlled by the Group envisage underground mining method.

Licenses for 28.3% of reserves controlled by the Group are valid until 2013-2014 years, licenses for 45.3% of reserves are valid until 2018-2021 years and licenses for 26.4% of reserves are valid until 2026-2029 years.

The procedures for issuance and prolongation of mining licenses (applicable to both exploration and production licenses) are governed by the Resolution No. 615 of the Government of Ukraine "*On Approval of the Regulation on the Issuance of Special Permits for Subsoil Use*", dated May 30, 2011 (the "Issuance Resolution"). Pursuant to the Issuance Resolution, six months before license expiration the license holder should submit to the relevant state body documents regarding prolongation of special permit. After consideration of submitted information the new license is provided within 60 days (or written rejection with groundings for negative decision, which did not happen to the Group before in practice).

Coal mining

Overview

The Group currently operates ten coal mines, seven of which having own mining infrastructure and CwAL LE Sh/U Chapaeva where three mines partly share common infrastructure. Coal Energy mines the following types of coal:

- Thermal coal grades, specifically anthracite coal (grade A, anthracite according to the Western classification), lean coal (grade T, low volatile thermal coal) and long flame gas coal (grade DG, high volatile thermal coal);
- Coking coal grades, specifically coking fat coal (grade Zh, medium volatile coking coal) and coking coal (grade K, low volatile coking coal);

[23] *Coal reserves according to Ukrainian reserves valuation methodology*

- Dual-purpose coal grade that can be applied as thermal or coking coal by customers - gas coal (grade G, high-volatile coking coal).

Coal is extracted from seams with thickness of 0.53 m to 2.63 m, majority of seams have thickness below 1.5 m. Mining depth ranges between 50 m to 1,025 m, mostly mining are conducted on depth 200 m and deeper. The table below shows mining volumes by each legal entity that operates the Group's mines:

		Year ended June 30,			Nine months ended March 31,	
	Coal type	**2008**	**2009**	**2010**	**2010**	**2011**
		(in thousands of tonnes)				
Donbasuglerazrabotka LLC	Thermal	n/a	32	33	26	20
Donprombiznes LLC	Thermal	218	229	82	67	68
Eximenergo PEK LLC	Thermal	270	302	177	127	120
Ugledobycha LLC	Thermal	135	175	154	133	63
CwAL LE Sh/U Chapaeva[24]	Thermal	n/a	n/a	n/a	n/a	252
Nedra Donbasa LLC	Coking	4	18	1	n/a	27
Tekhinnovatsiya LLC	Dual-purpose	-	-	-	-	52
CwAL LE Novodzerzhynskaya Mine[25]	Coking	n/a	n/a	n/a	n/a	125
Total		**627**	**756**	**447**	**353**	**727**

Source: The Group data

Coal Mining Techniques

The Group's operates only underground mines. Currently two mines of the Group, namely Svyatitelya Vasiliya Velikogo mine and Svyato-Serafimovskaya mine, use Room and Pillar mining technique, whereas all the rest mines use the Longwall mining approach. Herein we provide a brief description of the stated above mining techniques.

Longwall Mining. In longwall mining, large panels of coal are defined during the development stage of the mine and are then extracted in a single continuous operation. Longwall mining is a fully or partially mechanized underground mining technique in which the mining face is supported with hydraulically operated supports, while the coal is excavated by a coal shearer and then transported to the surface by conveyor belts. After the mining of a particular longwall panel has been completed, the longwall system is moved to a new mining area. The key characteristics of longwall mining include high productivity, comparatively high reserve recovery rates, safety and reliability.

Room and Pillar. Room and pillar mining is the most common type of underground coal mining in which a continuous miner machine cuts a network of areas into the coal seam. As the areas are cut, the continuous miner simultaneously loads the coal onto a shuttle car that is used to transport the coal to the conveyor belt for transport to the surface. As the coal is removed from a mining face, pillars composed of coal are left between the mining areas in order to support the roof.

Processing of waste dumps

Overview

Since 2005 the Group has been developing a unique for Ukraine waste dump processing project on the basis of Snezhnyanskaya No. 1 waste processing plant operated by Antracit LLC. The current processing capacity of the plant is 1,200 thousand tonnes of waste dump rock per annum (or approximate output of 260 thousand tonnes of saleable coal, which could vary depending on incoming and required ash content). The Group utilizes the strategy of selective processing of waste rock. If physical characteristics of a specific lot of waste rock require its processing to become saleable coal, the Group processes this lot on Snezhnyanskaya No. 1 plant. Alternatively, the Group sells the lot to customers after screening, but without processing on Snezhnyanskaya No. 1 plant.

The Group's waste dumps processing business works in accordance with the Joint Implementation Project (JIP) program arranged by Global Carbon B.V., aimed at reducing CO2 emissions that allows Antracit LLC to sell ERUs, according to procedure established by Kyoto Protocol.

[24] *Minig output of CwAL LE Sh/U Chapaeva is presented starting from the period of its formal incorporation into the Group, i.e., 9 months ended March 31, 2011.*

[25] *Minig output of CwAL LE Novodzerzhynskaya Mine is presented starting from the period of its formal incorporation into the Group, i.e., 9 months ended March 31, 2011.*

Coal Energy has gone through the determination stage of the JIP that in 2010 allowed to confirm the generated ERUs. As of the date of the Prospectus, 388 thousand tons of AAU CO2 equivalent and 269 thousand tonnes of ERUs CO2 equivalent have been generated by the Group. The Group sold ERUs in the amount of 174 thousand tonnes of CO2 equivalent (generated during 2008 and 2009) on November 29, 2010 for US$ 2.3 million.

Since commissioning the plant has processed four waste dumps totaling 2.6 million cubic meters of coal-bearing rocks. The Group has commenced construction of Snezhnyanskaya No. 2 waste processing plant. Currently the Group has 3.8 million cubic meters of coal-bearing rocks in three dumps with total probable recoverable reserves of coal amounting to 7.2 million tonnes (marketable probable reserves of coal amounting to 1.4 million tonnes). Additionally, the Group is currently studying characteristics of 25.6 million tonnes of waste dumps located near its mines in order to determine their coal reserves.

The table below shows the amount of the saleable ERUs generated by the Group to date and coal processing from waste:

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
			(in thousands of tonnes)		
Saleable coal processed from waste dumps	n/a[26]	39	134	85	549
			(in thousands of tonnes of CO2 equivalent)		
Saleable ERUs obtained[27]	93.7	80.7	94.2	n/a	n/a

Source: The Group data

Waste processing techniques

Processing of the coal-bearing rocks at Snezhnyanskaya No 1 is made by the gravitational method on semi-steep separators. The production process uses environmentally friendly beneficiation method, without using chemically hazardous substances - water is used as working medium in the sewage lift station.

The basic technology of semi-steep separators usage is relatively new as it was developed in 1990s and was successfully applied at number of projects in Russia and Kazakhstan. The technological process is simple and does not require vast amounts of primary and secondary equipment, it is reliable and productive. Semi-steep separators have simple structure, are easy to handle and maintain. This technology has best cost-to-benefit ratio among other technologies commonly used in Ukraine.

ERUs determination procedure

The Group opted to carry out the JI projects under Track 2 procedure. In such a case, the JI Project and the quantity of ERUs it generates must be verified under the rules and procedures supervised by the Joint Implementation Supervisory Committee (JISC). The Group together with Global Carbon is responsible for preparation of report regarding the project indicators (confirmation of actual volumes of emissions reductions achieved as a result of the project life). The independent determination and the verification of the report are conducted by Bureau Veritas. Results of the determination and the verification procedure are supplied to the United Nations Framework Convention on Climate Change (UNFCCC) and published on their web-site (http://ji.unfccc.int). The JISC after consideration of the supplied data approves the actual volumes of green-house gas emissions reductions achieved by the project. After this approval the responsible Ukrainian governmental agency issues a letter of approval confirming the amount of ERUs allocated to the Group out of the total amount of green-house gas emissions quotas allocated to industrial sector of Ukraine and deposits them to the carbon account of the Group. At the final stage, ERUs can be sold by Global Carbon, an intermediary that is responsible for gathering bids for ERUs globally and facilitating the selling process for the company.

Coal beneficiation

Overview

The Group started its coal beneficiating business in 2006 when Postnikovskaya coal beneficiation plant operated by Donugletekhinvest LLC was acquired. The current annual beneficiation capacity of the plant is 720 thousand tonnes of ROM coal. The plant is primarily used for beneficiation of coking and dual-purpose coal extracted at CwAL LE Novodzerzhynskaya Mine, Nedra Donbasa LLC and Tekhinnovatsiya LLC. The Group fully satisfies

[26] *The volumes of waste processing of Antracit LLC has been recorded since Antracit LLC incorporation into the Group.*

[27] *Calculation of saleable ERUss is made for calendar year and not recalculated for financial year. Therefore herein volumes are presented for calendar years 2008, 2009 (approved by UNFCCC) and 2010 year (the Group's calculation submitted for verification).*

its needs in beneficiation services. Additionally, the plant beneficiates coal bought from the third parties and provides coal processing services to third parties. The table below shows coal beneficiation volumes including beneficiation of own mined coal, coal bought from third parties and coal beneficiated for third parties (coal beneficiation services):

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of tonnes)				
Beneficiation of own coal mined and bought from third parties	-	4	108	94	227
Coal beneficiation services to third parties	214	287	84	51	29
Total coal beneficiation	**214**	**291**	**192**	**145**	**256**

Source: The Group data

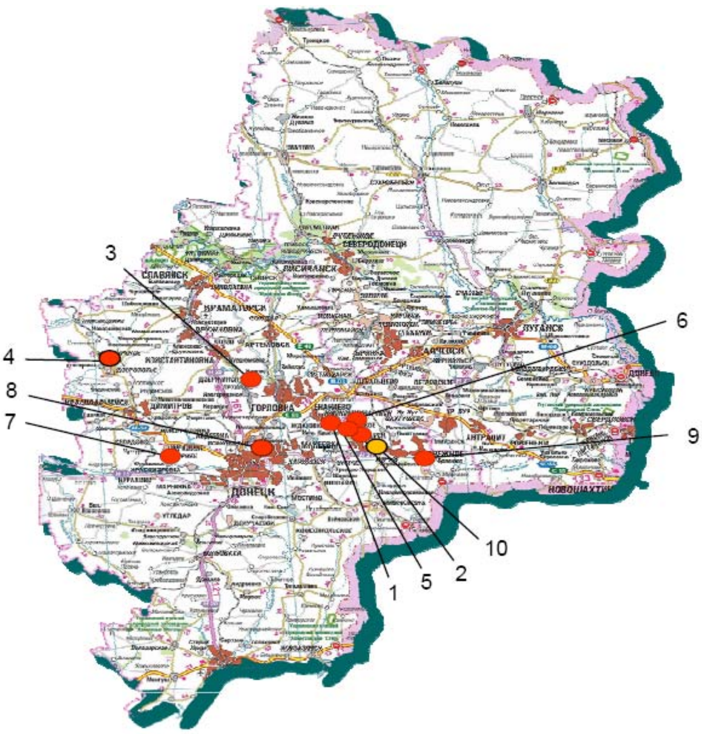
The plant is not able to process several grades of coal simultaneously. During last 1.5 years the Group has undertaken a significant modernization of the plant. During the modernization, the existing capacities of the plants were used only partially. In order to have sufficient capacity for beneficiation of the coal purchased from third parties and to provide coal beneficiation services to third parties, the Group has begun an expansion project at the plant aiming to increase the plant's capacity to 1,080 thousand tonnes per annum by the end of 2011 with possibility to process several grades of coal simultaneously.

Coal beneficiation techniques

Currently the Group is able to process all grades of coal trough application of gravitation beneficiation method. Gravitation beneficiation envisages the process of crushing the ROM coal and removing impurities in order to produce a cleaner saleable coal that meets certain specifications.

Description of the Facilities

The picture below shows the location of Group's facilities on the map of Donetsk oblast:



Legend:

1 Eximenergo PEK LLC
2 CwAL LE Sh/U Chapaeva
3 CwAL LE Novodzerzhynskaya Mine
4 Tekhinnovatsiya LLC
5 Donprombiznes LLC
6 Ugledobycha LLC
7 Donbasuglerazrabotka LLC
8 Nedra Donbasa LLC
9 Antracit LLC
10 Donugletekhinvest LLC

Donprombiznes LLC

The company operates and holds the appropriate licenses for Prepodobnogo Sergiya Radonezhskogo mine. The mine is located in the Shakhtyorsk District of Donetsk Region, approximately 12 km south of Kirovskoye and 60 km from Donetsk in the eastern part of the central coal area of Donbas. It was re-launched by the Group in

2002 after almost 20 years of conservation. The company extracted 68.5 thousand tonnes of coal during 9m FY2011.

Prepodobnogo Sergiya Radonezhskogo mine consists of the following fields of mines: Vinnytska, Rassvet and Zhdanivsko-Kapitalna No. 2. Zhdanivsko-Kapitalna No. 2 mine is mined by Eximenergo PEK LLC due to their proximity to the operating facilities of Eximenergo PEK LLC.

Donprombiznes LLC also holds licenses for Uspekh and Leader mine sectors that are operated on by Ugledobycha LLC and CwAL LE Sh/U Chapaeva LLC since these sectors are closer to the operating facilities of Ugledobycha LLC and CwAL LE Chapaeva LLC than to Donprombiznes LLC.

The company mines lean coal (coal grade T) and anthracite (coal grade A). The mine's coal has the following physical characteristics: ash content equals to 9-22%, moisture – 0.7-4.5%, sulphur – 2.8-3.7%. The coal seams' thickness is 0.6-0.9 m, while depth of occurrence is less than 550 m.

Coal extracted from Prepodobnogo Sergiya Radonezhskogo mine does not require further beneficiation at the Group's beneficiation plant. It is delivered to customers by railway. Donprombiznes LLC's own railway network is connected to the Bunkernaya Station of Donetsk Railway, Debaltsevo Division.

Donbasuglerazrabotka LLC

The company operates and holds the appropriate licenses for Svyatitelya Vasiliya Velikogo mine. The mine is located near the town of Gorniak, an urban type settlement located 45 km from Donetsk in the western part of the central coal area of Donbas. It was acquired by the Group in 2006 while extraction began in 2007. The company mined 19.9 thousand tonnes of coal in 9m FY2011. The company also holds license for Mogutchiy mine sector.

The company mines long-flame gas coal (coal grade DG) which has the ash-content level of 13-20%, moisture – 14-17% and sulphur – 1.3-1.8%. The coal seams' thickness is 1.2-2.6 m, while depth of occurrence is 50-580 m.

The extracted coal does not require further beneficiation at the Group's beneficiation plant. Once the company finishes basic processing using screeners, coal is loaded onto railcars and/or trucks for delivery to customers. The nearest railway stations are Tsukurikha and Kurakhovskaia.

Eximenergo PEK LLC

The company operates and holds licenses for Svyato-Andreevskaya mine, which was acquired by the Group in 2007. The mine is located in Zhdanovka, Shakhtyorsk District of the Donetsk Region, approximately 45 km southwest of Donetsk in the eastern part of the central coal area of Donbas. The company also holds license for Zhytomirskaya mine, which is operated by Ugledobycha LLC. In addition, the company operates two layers – M4 and M5 – license holder of which is Donprombiznes LLC. The company mined 119.7 thousand tonnes of coal in 9m FY2011.

Eximenergo PEK LLC mines lean coal (coal grade T), which has the following physical characteristics: ash content equals to 12-18%, moisture – 4.5-6%, sulphur – 1.3-1.9%. The coal seams' thickness is 0.6-1.0 m, while depth of occurrence is 50-910 m.

The extracted coal is transported to customers through nearby Nizhniaya Krynka railway station, which is located approximately 6 km to the west.

Ugledobycha LLC

The company operates and holds licenses for Svyato-Nikolayevskaya mine as well as Udacha and Rassypnianskii Krutoi mine sectors. The mine was acquired by the Group in 2004 while extraction began in 2005. Rassypnianskii Krutoi mine sector is currently not operated. The mine and the mine sectors are located in the Shakhtyorsk District of Donetsk Region, approximately 70 km from Donetsk in the eastern part of the central coal area of Donbas. The company also mines coal from Zhytomirskaya mine, license holder of which is Eximenergo PEK LLC. The company mined 62.7 thousand tonnes of coal in 9m FY2011.

The company mines lean coal (coal grade T) and anthracite (coal grade A). The coal has the following physical characteristics: ash content equals to 10-22%, moisture – 0.8-4%, sulphur – 1.8-3.4%. The coal seams' thickness is 0.7-1.5 m, the depth of occurrence is 50-500 m.

The extracted coal does not require further beneficiation at the Group's beneficiation plant, it is transported directly to customers through nearby Kumshatskiy railway station.

CwAL LE Sh/U Chapaeva

The company operates fields of Chapaeva, 1 Maya mine and Ternopolskaya mine. These mines partially share common infrastructure. The CwAL LE Sh/U Chapaeva holds two licenses: for Ternopolskaya mine and 1 Maya mine, while seams of Chapaeva mine are mined under the license issued to 1 Maya mine.

This company was consolidated into the Group in 2010. The mines are located near Shakhtyorsk and Kirovskoie in the Shakhtyorsk District, Donetsk Region, approximately 64 km from Donetsk in the eastern part of the central coal area of Donbas. The company mined 252.1 thousand tonnes of coal in 9m FY2011.

The company mines anthracite (coal grade T) and anthracite (coal grade A). The company's coal has the following physical characteristics: ash content equals to 12-23%, moisture – 1.0-5%, sulphur – 1.7-4.2%. The coal seams' thickness is 0.5-1.1 m, the depth of occurrence is 50-950 m.

The extracted coal does not require further beneficiation at the Group's beneficiation plant. The coal delivery to customers is done by rail via Ternopolskaya mine railway station (30% of the extracted coal) and through Prepodobnogo Sergiya Radonezhskogo mine own railway network (70% of extracted coal), to which it is transported by trucks.

Nedra Donbasa LLC

The company operates and holds licenses for Svyato-Serafimovskaya mine which was re-launched in 2007. The mine is located in the Chervonogvardeyskii district, the city of Makeyevka, approximately 1 km from Donetsk in the central part of the coal area of Donbas. The company mined 27.1 thousand tonnes of coal in 9m FY2011.

The company mines coking fat coal (coal grade Zh). The coal has the following physical characteristics: ash content equals to 16-28%, moisture – 5.4-7.6%, sulphur – 2.8-3.5%. The coal seams' thickness is 0.5-2.0 m, the depth of occurrence is 150-1025 m.

All extracted coal is supplied to the Group's beneficiation plant which is located approximately 90 km from the extraction site by railway through Chaykino railway station, to which it is transported by trucks.

Tekhinnovatsiya LLC

The company operates and holds licenses for Svyato-Pokrovskaya mine which was reopened in 2010. The Group invested heavily into the modernization of the mine during 2007-2010. The mine is located in the northwest portion of the Krasnoarmeyskiy coal-bearing area in Donbas, Dobropolie, and Alexandrovka District of the Donetsk region, in the western part of the central coal area of Donbas. The company mined the first coal after renewal in 9m FY2011 in amount of 51.9 thousand tonnes.

The company mines gas coal (coal grade G). The coal has the following physical characteristics: ash content equals to 7.2-9.4%, moisture – 7.5-9.0%, sulphur – 2.6-3.2%. The coal seams' thickness is 0.6-2.1 m, the depth of occurrence is 100-850 m.

All extracted coal is supplied to the Group's beneficiation plant which is located approximately 198 km from the extraction site by railway. From the mine the coal is transported to Legendarnaya railway station by trucks, the distance between the station and the mine is 6 kilometers.

CwAL LE Novodzerzhynskaya Mine

The company operates and holds licenses for Novodzerzhynskaya mine, which was acquired by the Group in 2011. The mine is located near the Town of Dzerzhynsk in the western part of the central coal area of Donbas. The company mined 125.0 thousand tonnes of coal in 9m FY2011.

The company mines coking fat coal (grade Zh). The coal has the following physical characteristics: ash content equals to 11-22%, moisture – 1.5-2.5%, sulphur –1.5-4.0%. The coal seams' thickness is 0.6-1.2 m, the depth of occurrence is 150-900 m.

All extracted coal is supplied to the Group's beneficiation plant which is located approximately 119 km from the extraction site through the company's railway station.

Antracit LLC

The company operates a waste cleaning plant Snezhnyanskaya No. 1 located in Snezhnoye, Donetsk oblast. The plant utilizes gravitational method of coal beneficiation. The gravitational semi-steep separators are supplied by a Russian producer Kenes. Antracit LLC also operates the jigger for initial waste processing near Northern part of the waste dump. The Group utilizes the strategy of selective processing of waste rock. If the physical characteristics of a specific lot of waste rock require that it is processed in order to become saleable coal, the Group processes this lot on Snezhnyanskaya No.1 plant. Alternatively, the Group sells the lot to customers after screening, but without processing.

The Group has commenced project of construction of dump processing unit Snezhnianskaya No.2 located nearby Northern part of waste dump rocks. This facility would be constructed from modules, which could be easily assembled, dismantled and relocated to the new sites of dumps in future. Also it is planned to use more advanced technology of dense-medium separation. The Group plans to complete construction by the end of 2011.

Final products are transported by trucks. Antracit LLC owns storage with capacity of 1.1 thousand tonnes of coal.

Donugletekhinvest LLC

Donugletekhinvest LLC runs the Postnikovskaya coal beneficiation plant located in Shakhtersk, Donetsk region. The plant was built in 1956 and acquired by the Group in 2006. As at acquisition production facilities were in poor conditions and almost fully out of operations, nominal beneficiation capacity was 120 thousand tonnes of ROM lean coal (grade T) per annum. In 2006, the plant was completely overhauled and its equipment was partially replaced with the new one. As a result of these measures the plant's annual beneficiation capacity has increased to 480 thousand tonnes of ROM lean coal (grade T) and gas coal (grade G). After additional modernization since 2007 the Plant has been able to process anthracite coal (grade A) and after the reconstruction in 2009 and 2010 years - coking coal (grade Zh). After installation of two spiral separators produced by Ukrainian producer in October 2010, total beneficiation capacity of the plant has increased up to 720 thousand tonnes of ROM coal per annum.

The plant is able to process all grades of thermal and coking coal extracted in the region by gravitation beneficiation method at OM-12/3 jigging machine supplied by Ukrainian manufacturer. The targeted characteristics of saleable coal provided by the plant are the following: ash content c. 9%; moisture level c. 10.5%; sulphur content c. 2.5%.

The plant fully satisfies the Group's requirements in coal beneficiation services, however further increase of mining volumes will require expansion of beneficiation capacities. The Group has commenced modernization of the plant in order to increase its capacity up to 1,080 thousand tonnes of ROM coal per annum by the end of 2011. As a result of these improvements the plant will be able to process several grades of coal simultaneously.

The coal is transported to and from the plant via direct railway connection. The plant operates storage with capacity of 120 thousand tonnes of coal.

Key Suppliers

Overview

Goods and services required for the Group's operations are supplied by third or affiliated parties. When goods and services are supplied by affiliated parties, they are provided on the arm length basis.

Raw materials

One of the most important materials used by the Group is metal support for the mines. Metal support is purchased from local producers DonERM LLC and ZDNPTs Geomekhanika via dealer DES LLC. The Group signs annual framework agreements with DES LLC while the price and volume parameters are set on a monthly basis. The Group pays in advance and is provided with special volume discounts. The Group also purchases locking elements for mines support from the producer, Donabasskrep' LLC, which is related party of the Group, see "*Related Party Transactions – Purchases from Related Parties*" for the details.

As support material the Group also uses wooden products. Wooden products are mainly purchased via commodity exchanges from state-owned forestries as well as from private suppliers. The Group buys wooden products all year round to have extra stock at all times to avoid seasonal shortages. For example, during hot summers wood cutting may be prohibited due to wild fires.

The Group also purchases a wide range of spare parts, mainly for the mining equipment. The key suppliers for the Group are: Kompaniya Alexandr LLC, one of the largest dealers of Russian mining equipment in Ukraine, OJSC Kharkov Machine Building Plant Svet Shakhtera and Mining machines of Ukraine LLC. The main supplier of the electric cable is OJSC Berdyansk Cable Plant.

The Group regularly purchases fuel for its car park from Lexus-1 LLC and Agronafta LLC. The lubricants for mining equipment are provided by Agrenol LLC. The explosive materials are provided by the major Ukrainian producer of explosives, Shostka State Enterprise Impuls.

Electricity

The major supplier of electricity to the Group is the State Enterprise Regional Electricity Networks. Electricity tariffs are subject to regulation by the National Energy Regulation Commission of Ukraine (NERC), which sets minimum tariffs for both industrial and household customers. The Group pays for electricity at the prevailing wholesale electricity rate in Ukraine at the time of the purchase. The monthly payments for electricity are made in advance in the first half of the month based on the expected consumption volume. In case of the overuse of electricity based on the actual results for a given month, the difference is paid during first half of the next month.

Services

The Group is provided with the following key services: transportation, current and capital repairs, drivage and installation works. Railway transportation services are provided by the State Enterprise Donetska Zaliznitsia, which is a subdivision of Ukrzaliznytsia, the Ukrainian state-owned railway monopoly. The railway transportation services are provided on prepayment basis. The state railway operator also provides cargo cars to the Group. Automotive transportation services (transportation of employees by buses and cargo transportation by trucks) are provided by Donetskaya avtotransportnaya komapniya LLC, Donbas Auto-Lux LLC and several other smaller suppliers.

The Group also receives services of capital repairs of mining equipment from Mechanic LLC, construction works and equipment installation services from Ugletekhnik LLC and drivage services from Donbasugleprohodka LLC. Mechanic LLC, Ugletekhnik LLC, and Donbasugleprohodka LLC are related parties to the Group, see "*Related Party Transactions – Purchases from Related Parties*" for details.

Transport and logistics

Overview

The Group's operating companies are located in Donetsk region – the No.1 Ukrainian region by density of railways. The Group utilizes the railway system both for intra-group purposes (i.e. delivery of ROM coal from a mine to the coal beneficiation plant) and for saleable coal delivery to final customers. The Group has a long-term relationship and permanent agreements with the state railway monopoly Ukrzaliznitsa on supplying of railway transportation services by its cars. The Group fully prepays for Ukrzaliznitsa's services obtaining a priority while receiving transportation services over other clients of Ukrzaliznitsa. The Group did not face any shortages of cars or similar problems while working with Ukrzaliznitsa, but this risk may appear going forward, please see *Risk Factors - The Group depends on relations with third parties.*

Intra-group transportation

The table below shows the breakdown of the Group's legal entities that operate mines by their coal beneficiation requirements and access to railway[28]:

	Total Proved and Probable Recoverable Reserves	Total coal extraction for 9m FY2011	Coal beneficiation requirement	Availability of railway connection	Distance to coal beneficiation plant
	(in million tonnes)	(in thousand tonnes)			
Donbasuglerazrabotka LLC	1.28	20	No	Yes	161
Donprombiznes LLC	35.28	68	No	Yes	51
Eximenergo PEK LLC	5.2	120	No	Yes	92
Ugledobycha LLC	9.08	63	No	Yes	29
CwAL LE Sh/U Chapaeva	43.75	252	Partially	Yes	51
Nedra Donbasa LLC	2.35	27	Yes	Yes	90
Tekhinnovatsiya LLC	26.81	52	Yes	No[29]	198
CwAL LE Novodzerzhynskaya Mine	20.25	125	Yes	Yes	119
Total	**144**	**727**			

Source: The Group data

Postnikovskaya coal beneficiation plant also has a railway connection. Coal extracted from Svyato-Pokrovskaya mine operated by Tekhinnovatsia LLC is transported by trucks to the leased railway reloading station located within 6 kilometers. The lease agreement on the reloading site is prolonged on an annual basis. The Group is the only potential leasee for the station, so it believes that the risk of losing the leasehold is insignificant. The Group plans to build a railway branch with reloading facilities near Svyato-Pokrovskaya mine.

Approximate costs of railway transportation from Tekhinnovatsia LLC (railway station Legendarnaya), CwAL LE Novodzerzhynskaya Mine and Nedra Donbasa LLC to Group's coal beneficiation plant are US$ 3.2, US$ 2.7 and US$ 2.3 per ROM tonne, respectively.

[28] *The table excludes Antracit LLC, coal processed by which do not require further pre-sale beneficiation.*

[29] *The distance from Svato-Pokrovskaya mine operated by Tekhinnovatsiya LLC to the nearest railway station Legendarnaya is 6 km. When needed the coal is transported to the uploading facilities of the railway station by trucks.*

The Group operates eight own trucks with total caring capacity of 13-20 tonnes each for coal transportation between mines and railway stations. To fully satisfy its own transportation needs, the Group plans to acquire eight new tracks with caring capacity 20 tonnes each.

The Group has approximately 250 thousand tonnes of coal storage facilities, which are open-air ground areas and bins for coal storage. This amount includes 120 thousand tonnes of storage capacity operated by Postnikovskaya coal beneficiation plant and 130 thousand tonnes of storage capacity nearby the mines. The current storage facilities fully satisfy the Group's existing needs, however, due to expected increase of sales in the following years, the Group plans to expand its storage capacity.

Delivery to customers

The Group supplies more than 50% of its sales to customers located within 200 kilometres radius from Donetsk (based on 9m FY2011 results). Delivery to customers is performed mainly under the following INCOTERMS delivery terms:

- FCA basis, when the Group's customers arrange and pay for delivery directly from a mine or the coal beneficiation plant. This delivery term is used mainly for supplies to Ukrainian customers. For 9m FY2011 approximately 69.2% of the total Group's coal sales were made under the FCA basis.
- CPT port basis, when the Group arranges and pays for delivery of coal from a mine or the coal beneficiation plant to a sea port. This delivery terms is used primary for the Groups' export sales. Due to significant growth of export sales in 9m FY2011, the Group significantly increased its sales on the CPT port basis, to approximately 25.9% of the total Group's coal sale. While increasing its export sales, the Group plans to provide reloading and freight services in the port in order to work directly with its end customers. Currently a major part of coal delivered on the CPT port basis goes to coal traders that carry out further transportation from the port to the final customers (mainly to PGP Varna and customers in Turkey). Distances from the Postnikovskaya coal beneficiation plant to the nearest ports are the following: Mariupol' – 162 kilometers, Berdyansk – 249 kilometers, Sevastopol – 686 kilometers, Kerch – 744 kilometers, Yuzhniy – 862 kilometers, Izamail – 951 kilometers. The total transportation costs form the Group's facilities to PGP Varna through Mariupol' and Varna sea ports equals approximately US$ 30 per tonne.
- CPT destination station basis, used to deliver coal mainly to selected municipalities and households in Donetsk region clients. The Group pays for and arranges the delivery of coal from a mine or the coal beneficiation plant directly to customer's railway station. The share of this delivery method decreased in sales to approximately 4.9% in 9m FY2011.

Regardless of the delivery term used for the sale of coal, the transportation costs are reflected in the final product price and are indirectly paid by the end customer. The table below shows the Group's coal sales breakdown by the delivery method.

	Nine months ended March 31,			
	2010		**2011**	
	(in thousands of tonnes)	(in thousands of US$)	(in thousands of tonnes)	(in thousands of US$)
FCA	511	29,803	907	75,418
CPT Port	68	3,645	413	28,243
CPT Destination Station	102	4,881	99	5,318
Total	**681**	**38,329**	**1,419**	**108,979**

Source: The Group data

Marketing and Sales

Overview

The Group has a wide portfolio of coal grades that are sold to different type of customers both in Ukraine and abroad.

- Anthracite (grade A) is supplied to energy generation plants, when thermal lean coal (grade T) is supplied both to energy generation plants and cement plants.
- Thermal long-flame gas coal (grade DG) is supplied predominantly to household and municipalities.
- Coking fat coal (grade Zh) is supplied to coking plants.
- Dual-purpose gas coal (grade G), that can be applied as thermal or coking coal by customers, is supplied to coking plants after blending with coking fat coal (grade Zh) or other coking coal grades.

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of tonnes)				
Thermal coal, including	**802**	**950**	**818**	**650**	**1,216**
Anthracite (grade A) and lean coal (grade T)	802	926	788	627	1,198
Long-bituminous gas coal (grade DG)	-	24	30	23	18
Coking coal (grade Zh)	5	24	46	8	181
Dual-purpose gas coal (grade G)	-	87	38	24	22
All grades total	**807**	**1,061**	**901**	**681**	**1,419**

Source: The Group data

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
Thermal coal, including	**64,659**	**76,410**	**41,954**	**34,816**	**73,189**
Anthracite (grade A) and lean coal (grade T)	64,659	74,765	40,039	33,246	71,712
Long-bituminous gas coal (grade DG)	-	1,645	1,915	1,570	1,477
Coking coal (grade Zh)	570	2,811	7,868	1,239	33,344
Dual-purpose gas coal (grade G)	-	6,527	3,285	2,274	2,446
All grades total	**65,229**	**85,748**	**53,107**	**38,329**	**108,979**

Source: The Group data

The Group sells its products mainly on the Ukrainian market to power generation plants in Eastern Ukraine and exports thermal coal to power generation plants to the neighboring countries. Revenues from export sales represented approximately 23.1%, 14.1%, 21.9% and 1.6% of total sales in 9 months of FY2011, FY2010, FY2009 and FY2008 respectively. The following tables show the Group's domestic and export sales in volume and value terms respectively:

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
Ukraine	64,147	65,627	45,218	35,173	83,763
Export sales	1,082	20,121	7,889	3,156	25,216
Total	**65,229**	**85,748**	**53,107**	**38,329**	**108,979**

Source: The Group data

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of tonnes)				
Ukraine	797	806	776	621	1,091
Export sales	10	255	125	60	328
Total	**807**	**1,061**	**901**	**681**	**1,419**

Source: The Group data

The Group's Ukrainian customers are split into the following groups:

Power generation plants. The Group has been consistently increasing its thermal coal sales to privately owned power generation holdings and plants such as DTEK, Dniproenergo, Tekhnova LLC (Chernigovskaya PGP and Cherkasskaya PGP) and others. The Group managed to be not dependent on supplies to state-owned power generation plants.

Metallurgy companies. The Group established relationships with coking plants and metallurgical holdings while trading third-parties' coking coal and enhanced them since start of its own coking coal sales in May 2008. At the moment the Group works with all major integrated metallurgical holdings and independent steel mills in Ukraine, in particular with Metinvest, Donetskstal, Industrial Union of Donbas, Arcelor Mittal Kryvy Rig and others.

Cement plants. Currently the Group sells its thermal coal to Mykolayivcement, owned by Lafarge, OJSC Podilskiy Cement, controlled by the Cement Roadstone Holdings, and plans to expand its sales to other companies in the sector.

Municipalities and households. An insignificant part of the Group's thermal coal is sold to municipal power and heat generation plants, particularly Donetsk, Odessa, Sumy, Kherson, Zhytomyr and Crimea. Certain amounts of coal are sold to households which are switching to coal from natural gas due to its permanent price increase during recent years.

The Group's key foreign customers are primarily power generation plants that increased consumption of thermal coal switching from natural gas and from thermal coal supplied from other countries, due to its higher price because of transportation costs. Currently the group works with the following foreign customers directly and through the coal traders:

Foreign power generation plants. The Group works with almost all large energy holdings and thermal power plants located in the neighboring countries such as Moldavian GRES (Moldova), PGP Svilosa (Bulgaria), PGP Varna (Bulgaria), PGP Vojany (Slovakia).

Cement plants. Currently the Group sells its thermal coal to Lafarge Ciment in Moldova, and plans to expand its sales to cement plants in CEE region.

Coal Energy estimates annual coal demand of its existing foreign consumers in the range of 3.8 million – 5.1 million tonnes.

The following tables show the Group's sales by its key clients in volume and value terms respectively:

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of tonnes)				
DTEK	692	611	462	426	142
Metinvest	-	-	75	36	82
Donetskstal	-	-	-	-	79
Other	115	450	364	219	1,116
Total	**807**	**1061**	**901**	**681**	**1419**

Source: The Group data

	Year ended June 30,			Nine months ended March 31,	
	2008	**2009**	**2010**	**2010**	**2011**
	(in thousands of US$)				
DTEK	48,396	43,565	22,161	20,146	9,472
Metinvest	-	-	8,566	3,380	12,710
Donetskstal	-	-	-	-	12,893
Other	16,833	42,183	22,380	14,803	73,932
Total	**65,229**	**85,748**	**53,107**	**38,329**	**108,979**

Source: The Group data

Pricing

The pricing of coal being sold by the Group depends on coal type, specifically coking coal or thermal coal. Prices for thermal coal on the domestic market correlate with global prices because Ukraine is net exporter of thermal coal. Domestic prices depend from regulated price of coal extracted by state-owned mines and price policy of DTEK, the largest private thermal coal supplier with significant thermal coal trading operations. Ukrainian domestic coking coal prices are set by arrangements between the largest coking coal producers like state mines controlled by Ministry of Coal Industry, Zasiad'ko mine, Pokrovskoye mine and key consumers Metinvest, Industrial Union of Donbas, Donetskstal, Arcelor Mittal Kryviy Rih, Evraz Holding.

Coal Energy uses flexible approach to pricing, adjusting prices on the month basis for all its contacts. The price of each coal supply is formed on the basis of the formula or scale specified in the contract, which includes the basic price and coal quality metrics, showing how the basic price for each specific shipment should be adjusted to account for actual quality parameters departure from basic norms.

For domestic market key quality parameters are levels of ash, moisture and sulphur. The scale for the price adjustments is the following:

- Ash: for departure from basic norm by 1% the price is adjusted by 2.5%;
- Moisture: for departure from basic norm by 1% the price is adjusted by 1.3%;
- Sulphur: for departure from basic norm by 1% the price is adjusted by 5.0%.

For export sales the key quality metrics are calorific value and level of sulphur. The scale for the price adjustments is the following:

- Sulphur: for departure from basic norm by 1% the price is adjusted by 5.0%;
- Calorific value: price is adjusted according to the following formula:

$$Pa = (Pc*Qa)/Qc,$$

Where,

Pa – actual price,

Pc – base price according to the contract,

Qa – actual calorific value,

Qc–base calorific value according to the contract.

Apart from market competitive forces the pricing policy adopted by the Group could be affected by the state coal market regulations.

Framework contracts

Generally, coal supply contracts are entered into by the Group and its customers for 12 month, with price and volume being fixed for each month based on the spot market prices and demand of a specific customer. However, in the fourth quarter of FY2011 the Group started shipments to number of its key customers under framework contracts with fixed volume and price of shipped coal for period up-to 6 months. These contacts allow to hedge the Group against decrease of price and/or demand (for example due to seasonality on the market) ensuring sales to a specific customer. The Group has already signed contacts for shipment of thermal coal for the following customers: DTEK, PGP Vojany (Slovakia) and Lafarge (Moldova). The Group expects to sell 162 thousand tonnes of coal under framework contracts in the fourth quarter to FY2011, which constitutes approximately 57% of total coal sales in the third quarter of FY2011 in volume terms. Going forward Coal Energy will rationally decrease size of sales through framework contacts in order to avoid market fluctuation and ensure sales revenues and volumes.

Coal is supplied either under the 100% advance payment terms, or under the deferred payment terms. The advance payment terms are applied sales of thermal, dual-purpose and coking coal. The deferred payment terms are used in particular for agreements with certain key customers of coking coal.

Trading of third-parties coal

The Group used to trade third-parties coal. The Group used its longstanding relationships with its Ukrainian clients in order to consolidate significant amounts of coal from smaller miners and resell these volumes to the Group’s clients. Such operations generated additional profit for the Group and allowed Coal Energy to expand its market share. However, simultaneously with development of its own mining operations the Group has focused on sales of the own mined coal. During 9 months of FY2011 coal trading operations generated only 6.4% of the Group’s total sales in value terms.

Sales and marketing strategy

The Group plans to further strengthen its position on the Ukrainian and export markets while realizing the following strategy:

Develop sales to the existing clients through the framework agreements. Coal Energy plans to sell most part of its output through the frameworks agreements by FY2016. This approach will provide additional predictability to the Group’s operations and help to avoid negative price and volume fluctuations in its sales. The Group plans to start shipments according to direct agreements from fourth quarter of 2011 financial year.

Achieve completely direct sales. Currently, majority of CPT port sales (approximately 30% of sales in 9m FY2011 in value terms) has been arranged through traders that bought Coal Energy’s coal in a port. The Group plans to extend its transportation leverage from CPT port basis to CIF basis, in order to get access to final customers of its products and avoid usage of traders. Such extension will be possible together with increase of Coal Energy export sales volume.

Expand storage facilities and further develop transportation infrastructure. The Group plans to build railway branch and reloading facilities near Svyato-Pokrovkaya mine, expand capacities of existing railway stations and build additional storage capacities, in order to keep low transportation costs while increasing extraction volumes.

Provide optimal products portfolio for different customers using coal trading operations. Having access to all large coal customers in Ukraine and neighboring countries the Group can consolidate significant volumes of coal from smaller coal miners in Ukraine and sell these volumes to its clients. Planned capacity expansion of Postnikovskaya coal beneficiation plant and building of additional coal beneficiation plant near CwAL LE

Chapaeva will ensure Group's ability to process own mined coal and coal bought from third parties. The Group plans to keep trading operations on the level sufficient for purposes of having wide range of coals for its clients.

Get access to new clients and new applications of coal. The Group plans to enhance its sales to cement plants, that have been switching from natural gas to thermal coal as key source of energy, and increase sales of coal for purposes of pulverized coal injection technology, that has been actively used by all major steel mills in Ukraine, also in Turkey, Bulgaria and several other markets of group export operations.

Competition

Historically, Ukraine has been the primary market for the Group's coal sales. However, the Group is now actively expanding its sales into the neighboring countries, where the Group believes it has a natural logistical advantage. Steep deficit of coking coal in Ukraine provides favorable environment for Coal Energy as a local coking coal producer. Besides this advantage, Coal Energy believes that it has relatively fewer competitors in Ukrainian market due to its long-standing historical customer base, technical compatibility with energy generation and steel plants and a wide range of coal grades in its products portfolio. On the export markets, where the Group sells thermal coal, Coal Energy has established relationship with all large consumers and plans to dominate over Russian and other remote coal suppliers while having logistical advantage.

Personnel

As of March 31, 2011, the Group employed about 6,700 full time employees. Additional information concerning the average number of the Group's employees by category for FY2008, FY2009, FY2010 and 9 months of FY2011 is set forth in the table below.

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
			(employees)		
Mining	1,354	1,892	1,495	1,180	2,187
Support production	2,400	3,045	2,137	1,658	3,769
Administrative and sales personnel	397	424	297	226	548
Total	**4,151**	**5,361**	**3,929**	**3,064**	**6,504**

Source: The Group data

Changes in the number of staff reflected the overall dynamics in the production volumes. Growth of staff by 29.1% in FY2009 was in line with 20.7% growth of Group's coal mining, development of new mine fields. Headcount decrease in FY2010 compared to FY2009 by 1,432 employees or by 26.7% is explained by lay-offs undertaken by the Group for cost-cutting purposes as a response to decrease in production volumes by 40.9% year-on-year. The lower decrease of headcount is explained by the required level of workforce regardless mining volumes and the Group's strategy of keeping its most qualified operational employees. Increase in headcount in 9m FY2011 by 3,440 employees y-o-y (or 112.3%) took place due to incorporation of CwAL LE Sh/U Chapaeva (with average number of employees at the end of 9 months FY2011 - 1,953) and CwAL LE Novodzerzhynskaya Mine (with average number of employees at the end of 9 months FY2011 - 944) in the Group.

The primary reason for the Groups high headcount number is that the Group significantly utilizes labour work in mining instead of using machineries. The Group's goal is to bring its current workforce in line with the international industry standards by reducing its headcount, implementing broad mechanization program on its mines, and therefore increasing work efficiency.

No written employment agreements (contracts) are concluded with any of the employees of the Group's Ukrainian companies. This is in compliance with the applicable Ukrainian law as well as corresponds to the wide-spread employment practice. In the absence of written employment agreements, terms and conditions of employment are regulated by law and collective bargaining agreements, if such are concluded between the companies and their employees. Three Group's Ukrainian companies have entered into collective bargaining agreements. Such arrangements do not provide for any significant additional benefits for the employees other than those required by Ukrainian law.

Six of the Group's companies have internal trade union units that are included in the all-Ukrainian Trade Union of Workers of Mining Industry. Ukrainian workers of such companies are members of this trade union. Ukrainian workers of Tekhinnovatsiya LLC (Svyato-Pokrovskaya mine), in addition, are members of the Independent Trade Union of Miners of Ukraine. Under Ukrainian law, the trade unions act as representatives of employees but do not have any direct influence on the management of any of the Group's companies. In particular, no senior representative of the trade union is a member of any management or supervisory body in the Issuer or in any Group company.

In general, the Group considers its employee relations to be good. There has been no significant industrial action or labour dispute at the Group's operating companies since their establishment.

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

Salary levels at the Group's operating companies are set with reference to the statutory minimum wage. The majority of operational personnel receive salary in the range of US$400 – US$500 per month. Salary levels are higher for the personnel working in strenuous working conditions and qualified employees. Additional compensation is paid for the overtime work and shift work. The workers are also entitled for a bonus payment based upon their production levels.

During the last several years the Group aimed to keep its core, most qualified operational personnel, even when production fallen. For that purposes the Group used to shorten the working week and significantly decrease salaries for such personnel, however preserving these personnel for the time when the market rebound. For the part of these employees the Group paid state-regulated minimum wage according to the Industry Collective Bargaining Agreement with the Ministry of Energy and Coal Industry, coal enterprises and other coal industry stakeholders dated August 7, 2001, allowing such measures for coal mines due to temporary financial difficulties. This strategy has been proven to be efficient, because in FY2011 when the Group has been permanently increasing its mining operations, Coal Energy ensures that the required number of the personnel being immediately available.

The Group plans to increase average level of compensation to its employees following the increase in mining output and increasing level of mechanization on its mines.

The Group makes mandatory contributions to the Ukrainian State Pension Fund and other state social security funds reach up-to 49% of total payroll. The Company's pension provisions are calculated based on the individual salary of its employees, in accordance with respective laws and regulations of Ukraine. Coal Energy does not finance any voluntary (non-State) retirement schemes for its employees and is not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

There is no automatic retirement age for workers, although the statutory retirement age is 60 for men and 55 for women. Employees working in hazardous conditions may retire earlier, at age 50 or 55, depending on their type of employment. The average age of employees at the mine is 39 years.

The Group's Operating Companies have a legal obligation to compensate the Ukrainian State Pension Fund for its expenses on payment and delivery of pensions to be paid to certain categories of the employees and former employees who are eligible for early retirement benefits. The Group's Operating Companies contribute to mandatory Ukrainian State administered pension schemes for its employees. These schemes comprise a defined contribution scheme and a defined benefit scheme. The defined contribution scheme is administered by the Ukrainian State Pension Fund. The defined benefit scheme covers employees working in hazardous conditions who are entitled to retire before the normal state retirement date under Ukrainian law. The Ukrainian State Pension Fund initially pays pensions to eligible employees at the statutory rates and is reimbursed in respect of such payments by the operating companies of the Group. The amount of reimbursement is 20 % of the Ukrainian State Pension Fund's expenses on payment and delivery of pensions, which is subject to annual increases by 10 % per year up to 100 % of actual expenses on payment and delivery of pensions until eligible employees reach the statutory retirement age. Such rule was adopted in 2002, thus, in 2011, the employers must compensate 90 per sent of the State Pension Fund's expenses on payment and delivery of pensions to the employees who already retired. The Group does not have any unfunded pension liabilities.

Health and Safety

The Group is required to comply with a range of health and safety laws and regulations, and considers the health and safety of its employees to be a priority. All personnel are given annual medical tests and provided with special clothing, footwear and other protective equipment as required by applicable regulations. The Group's mines are subject to an annual inspection by the State Committee of Industrial Safety, and to an annual and quarterly inspection by the Labour Protection and Mining Supervision, which is responsible for inspecting working conditions, safety standards and equipment. Moreover, the Group's companies are subject to extraordinary/special inspections conducted by the Labour Protection and Mining Supervision authority in case of industrial accidents. The Group believes that it is in compliance in all material respects with applicable health and safety legislation in Ukraine.

Environment

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

There are environmental laws in Ukraine, applicable to the Group's operations, relating to environmental protection and, in particular, to use of natural resources, emissions into the atmosphere and water, as well as waste disposal. The Group holds a number of environmental licenses and permits, including permits for atmospheric emission control, solid waste disposal, mine waste disposal and special use of fresh water. All permits are subject to annual renewal, except permits for emissions into the atmosphere and special water use. The Group believes that it has all the permits required for its current operations (please see section "Specific environmental risks" for exceptions). The relevant Ukrainian authorities determine the permissible levels of discharge into the atmosphere and water, as well as permissible amounts of waste generation. The Group is required to pay quarterly environmental charges to the State based on the approved quotas (calculated separately for each pollutant) and, to the extent that the Group exceeds the quotas, it will have to pay a penalty amounting to five times the amount of the relevant charge. In case of increase of production, the Group may need to apply to the regional authorities for new emissions quotas.

The Group's mining and production facilities are also subject to environmental monitoring and regulation with respect to, amongst other things, monitoring air, dust and gas emissions, waste disposal and storage and water usage and water quality monitoring by environmental regulators. The management considers that the Group is in compliance with Ukrainian environmental laws in all material respects.

The management considers that the Group has an effective internal environmental management and monitoring system.

Ukrainian environmental laws also require reclamation and restoration of mining areas. The Group has closure and rehabilitation plans in place for the current mines.

Insurance

The Group has insured its principal assets which have been pledged or mortgaged as collateral for the loans granted to the Group Companies against risk of loss or damage caused by fire, natural disasters and burglary. As required by law, the Group maintains mandatory insurance of members of volunteer fire brigades and civil liability of owners of motor vehicles. The Group does not have full coverage against losses arising from the interruption of its business or certain damage to its property and equipment, including environmental damage, and against loss of products until delivery to the customers.

The Group believes that it maintains insurance coverage at a level which is customary for Ukrainian companies.

See "*Risk Factors - Risks Related to the Company's Business and Industry — the Group's insurance coverage may be inadequate*".

Properties

The Group Companies own all of its production facilities and administrative buildings and underground complexes comprising mines, save for CwAL LE Sh/U Chapaeva, which leases the integral property complex from the State Property Fund of Ukraine till 11 February 2058, and CwAL LE Novodzerzhynskaya Mine, which leases the integral property complex from the State Property Fund of Ukraine till April 27, 2059. The companies of the Group exercise the right of ownership on real estate objects on the basis of: contracts of purchase and sale, resolutions of competent authorities, with certification of the ownership on real estate, certificates of ownership, in-kind contributions of real estate and court resolutions. The production real property was acquired by the Group from the third parties, state or through the public tenders. As a matter of fact, the acquired real property of mines constitutes integral mining property complexes.

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

Encumbrances over real property

The real property and production assets of the Group in major cases are mortgaged and pledged to secure the repayment of the Group's loans. Among others, the following property is mortgages by the Group:

– buildings and structures of the Svyato-Serafimovskaya mine owned by Nedra Donbasa LLC;
– warehouses and production premises of former state owned mine No. 3 owned by Donprombiznes LLC;
– complex of buildings located in Rozivka Village, owned by Eximenergo PEK LLC;
– buildings of former Donetskaya mine and buildings of former Zhytomyrska Mine, owned by Ugledobycha LLC;
– several individual production buildings of Svyato-Pokrovskaya mine owned by Tekhinnovatsiya LLC;
– several individual production buildings located in Kopani village, owned by Tekhinnovatsiya LLC;
– beneficiation plant owned by Antracit LLC.

Research and Development

The Group regularly seeks to improve the operations at its facilities, principally by improving operating efficiency, reliability and capacity. Most such efforts constitute incremental improvements to current activities, and, as a result, are undertaken in connection with regular operational maintenance and monitoring. The Group does not believe that its research and development activities are significant for its results of operations.

Legal Proceedings

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

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

The Issuer has a one-tier corporate governance structure and is administered and managed by the Board of Directors.

Composition

The Board of Directors consists of a minimum of 3 and a maximum of 10 directors, according to Art. 8 of the Articles of Association of the Issuer. Directors of the Issuer are appointed by the General Meeting of Shareholders by a simple majority vote of the Shares present or represented for a term of office which may not exceed six years. The exact number of directors, their remuneration and terms of their office are determined by the General Meeting of Shareholders. The directors may be dismissed at any time, with or without cause, at the sole discretion of the General Meeting of Shareholders, and may be reappointed without restriction for consecutive terms of office. In the event of a vacancy in the office of a director because of death, retirement or otherwise, such vacancy may be filled on a temporary basis until the next General Meeting of Shareholders is held, in compliance with applicable provisions of Luxembourg law.

Powers

The Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in the Issuer's interests and within the objectives and purposes of the Issuer. All powers not expressly reserved by law or by the Articles of Association to the General Meeting fall within the competence of the Board of Directors.

Vis-à-vis third parties, the Issuer is validly bound by the joint signature of any two directors, or by the signature(s) of any other person(s) to whom authority has been delegated by the Board of Directors.

In the event the General Meeting has appointed different classes of directors (namely class A Directors and class B Directors) the Issuer will only be validly bound by the joint signature of two directors, one of whom shall be a class A Director and one class B Director (including by way of representation), or by the single signature of a person appointed by at least one class A and one class B director.

Functioning

The Board of Directors may only act at duly convened meetings of the Board of Directors or by written resolutions signed by all directors. The Board of Directors shall meet upon call by the chairman, or any two directors, at the place and time indicated in the notice of meeting, the person(s) convening the meeting setting the agenda.

Any director may participate in a meeting of the Board of Directors by videoconference, which constitutes his/her presence in person at the meeting.

The Board of Directors may act validly and validly adopt resolutions only if at least a majority of the directors are present or represented at a meeting, and, in the event the General Meeting has appointed different classes of directors - namely class A directors and class B directors - including at least one director of class A and one director of class B. Any resolutions of the Board of Directors may only be validly taken if approved by the majority of Directors. In the case of a tie, the proposed decision is considered as rejected.

Board committees

The Board of Directors may establish one or several committees composed of members of the Board of Directors and / or external persons to whom it may delegate powers and functions from time to time. At least one independent director with finance and accounting expertise is a member of the audit committee.

Members of the Board of Directors

As at the date hereof, the Issuer's Board of Directors is composed of 6 directors. The table below sets forth the names, respective ages, positions, election date, and terms of office of the current members of the Board of Directors.

Name	Age	Position/Function	Class
Viktor Vyshnevetskyy	43	Chairman of the Board of directors, executive director	Class A director
Andrey Bolshakov	36	Executive director	Class A director
Mykhailo Zolotarov	31	Executive director	Class A director
Oleksandr Reznyk	37	Executive director	Class A director
Arthur David Johnson	73	Non-executive director	Class A director
Gwenaëlle, Bernadette, Andrée, Dominique Cousin	38	Non-executive director	Class B director
Jacob Mudde	37	Non-executive director	Class B director

All the members of the Board of Directors except Mr. Johnson were appointed on May 17, 2011 and Mr. Johnson was appointed on June 10, 2011. Their term of office will expire on May 17, 2017 and June 10, 2017 respectively.

The following is a summary of the relevant expertise and experience of the current members of the Issuer's Board of Directors.

Victor Vyshnevetskyy founded the business of the Group in early 2000s. Since that time he has held various executive positions within the Group. Viktor Vyshnevetskyy was appointed as the Chairman of the Issuer's Board of Directors on May 17, 2011. He is also the chief executive officer of the Group. At present in his capacity Mr. Vyshnevetskyy oversees the strategic development and overall management of the Group. Mr. Vyshnevetskyy graduated from Donetsk National Technical University in 1986 with a degree in mining engineering. He is a PhD in Techniques.

Andrey Bolshakov has been a business development director and a member of the Issuer's Board of Directors since May 2011. Since joining the Group in 2010, his time has been devoted primarily to business development and relations with Group's various commercial and financial partners. In years 1998-2000 he worked as a Deputy General Director at Closed Joint-Stock Company Syncor; during 2002-2003, Mr. Bolshakov held a consultant's position with McKinsey & Co. in Moscow, Russia; in 2003-2004 he worked on the positions of Advisor to the CEO and Deputy Director of Strategy and IT at Open Joint-Stock Company of Electrification and Energy Irkutskenergo in Irkutsk, Russia; since 2004 till 2006 he was engaged as the Industry Group Manager at SCM. Just before jointing the Issuer, during years 2006-2010, Mr. Bolshakov assumed a position of the Director for Strategy and Investment in Metinvest Holding. Mr. Bolshakov graduated from Irkutsk State University, Russia, in 1997 with the specialization in international economics. He also holds a bachelor degree in business and management from University of Maryland (1996) and MBA degree from Harvard Business School (2002).

Mykhailo Zolotarov has been a director of mining operations and a member of the Issuer's Board of Directors since May 2011. Mr. Zolotarov is responsible for operational management of the Group's mining assets. His professional experience includes holding positions of an engineer at the Leased Enterprise "Zasyadko Mine" (1999-2005), the Deputy Operations Director at Donprombiznes LLC (2005-2006) and at Eximenergo PEK LLC (2007-2008), and the Director position at CwAL LE Sh/U Chapaeva (2009-2010).

Mr. Zolotarov graduated from Donetsk National Technical University in 2005 with a degree in mining and specialization of a mining engineer-electrician.

Oleksandr Reznyk has been a director of the coal beneficiation and waste processing operations and a member of the Issuer's Board of Directors since May 2011. Mr. Reznyk is overseeing the Group's waste dump processing and coal beneficiation businesses. Before jointing the Issuer, Mr Reznyk worked as the Director at Donbasuglerazrabotka LLC (2004-2007), Director at Research and Manufacturing Association "Mechanic" (2007-2011) and the Chief Manager at Association of Coal Producers "Nedra Donbasa" (since 2010 till present). Mr. Reznyk graduated from Donetsk National Technical University in 1996 with a degree in Mining and specialization of a mining engineer-electrician.

Arthur David Johnson has been appointed as the independent non-executive director and member of the Issuer's Board of Directors in June 2011. Mr. Johnson is responsible for strategic advisory to the Chairman and monitoring of Group's operational and financial activities. Mr. Johnson has more than 50 years of international experience in mining and related industries working with leading companies from the sector. Since 2004 Mr. Johnson has been a member of the Board of Directors of Mechel, one of the leading Russian mining and metals companies. Since 2008 Mr. Johnson has been a Chairman of the Board of Directors of Neuerth Coal Mining PVT Ltd (India). In 1990-2009, Mr. Johnson was a Managing Director and Chairman of Joy Mining Machinery UK Ltd. In 1985-1990, Mr. Johnson was a Managing Director of Dosco Overseas Engineering, a UK-based mining equipment manufacturer, where he began as a mining engineer in 1960. Mr. Johnson is Joy Mining Machinery's representative on both the Coal Industry Advisory Board and the World Coal Institute. In 1990-

1992, he served as President of the Association of British Mining Equipment Companies. In 1998, he was awarded the Order of Friendship by the Russian government for services to the Russian coal industry. Mr. Johnson is a qualified mining engineer, he obtained the Mining Qualifications Board Certificate of the UK in 1958.

Gwenaëlle, Bernadette, Andrée, Dominique Cousin has been appointed as an independent non-executive director and member of the Issuer's Board of Directors since May 2011. Mrs. Cousin's professional experience consists of holding positions of the Client Administrator at Credit Industriel de Lóuest, France (1996), Securities Administrator at Clearstream Banking, Luxembourg (1997), Senior External Auditor at Deloitte & Touche S.A., Luxembourg (1997-2000), and Corporate Finance Manager at Deloitte & Touche, Luxembourg (2000-2003). Mrs. Cousin studied in Business College of University of Cincinnati, USA, where she took Management Courses in 1995. In year 1996 she completed business course in International Finance, Financial Management and Financial Markets offered by AUDENCIA (formerly Nantes Graduate School of Management). Finally, in the year 2002, Mrs. Cousin completed her education as the Chartered Accountant with Order des Experts-Comptables Luxembourgeois, Luxembourg.

Jacob Mudde has been appointed as an independent non-executive director and member of the Issuer's Board of Directors since May 2011. Mr. Mudde started in 1997 as the Administrator Cash and Banking at PriceWaterHouseCoppers shares service centre (Netherlands) B.V. In year 1998 he became an Assistance Concern Controller at Brunel International NV; in 1999 – Account Manager at Amaco (Netherlands) B.V., from 2001 till 2007 Mr Mudde held position of the Senior Account Manager with Amaco (Curasao) N.V. In 1994 Mr. Mudde obtained European Master (LL.M) in Law and Economics from International School of Law and Economics at the University of Hamburg, University of Ghent and Manchester University and Master in Law (LL.M) in Private Law and Corporate Law from Erasmus University Rotterdam.

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

Name	**Positions held**
Victor Vyshnevetskyy	*Current directorships:* President of Research and Manufacturing Association "Mechanic" (since 2007) *Former directorships:* NONE
Andrey Bolshakov	*Current directorships:* Development director at Nedra Donbasa LLC (since 2010) *Former directorships:* Director on Strategy and Investment at Metinvest Holding LLC (2006-2010)
Mykhailo Zolotarov	*Current directorships:* Deputy director at Tekhinnovatsiya LLC (since 2011) *Former directorships:* Deputy Director at Association Research and Manufacturing Association "Mechanic" (2010-2011) Director at CwAL LE Sh/U Chapaeva (2009-2010) Deputy Director of the State-Owned enterprise Sh/U im. Chapaeva (2008-2009) Deputy Operations Director at Donprombiznes LLC (2005-2006) and at Eximenergo PEK LLC (2007-2008),
Oleksandr Reznyk	*Current directorships:* Chief Manager at Association of Coal Producers "Nedra Donbasa" (since 2010) Director on innovation development at Eximenergo PEK LLC (since 2011) *Former directorships:* Director in Innovating Development at Research and Manufacturing Association "Mechanic" (2007-2011) Director at Donbassugleprohodka LLC (2004-2007)

Name	Positions held
David Johnson	*Current directorships:* Independent Board Director of MECHEL OAO, RUSSIA (since 2004) Non Executive Chairman of Neuerth Coal Mining Pvt Ltd, India (since 2008) *Former directorships:* Chairman of the Board of Directors of Joy Mining Machinery UK Ltd. (2003-2009)
Gwenaëlle, Bernadette, Andrée, Dominique Cousin	Mrs. Cousin (B Director of the Issuer) is currently and has been in the last five years a director in various companies administered by Equity Trust Co (Luxembourg) S.A., her current employer. These positions did not have any relation to her membership in the Board of Directors and do not create any conflict of interest.
Jacob Mudde	Mr. Mudde (B Director of the Issuer) is currently and has been in the last five years a director in various companies administered by Equity Trust Co (Luxembourg) S.A., his current employer. These positions did not have any relation to his membership in the Board of Directors and do not create any conflict of interest.

The business address of Messrs. Vyshnevetskyy, Bolshakov, Zolotarov, Reznyk, and Johnson is Ukraine, 83001, Donetsk, 11, Komsomolsky Prospekt. The business address for Mrs. Cousin and Mr. Mudde is: 46A, Avenue J. F. Kennedy, L-1855, Luxembourg.

Committees of the Board of Directors

As at the date of this Prospectus, the Board of Directors has established from among its members the Audit Committee. The Issuer has no intention to establish the Remuneration Committee. The tasks and duties contemplated by a remuneration committee and selection and appointment committee will be performed by the entire Board of Directors.

Audit Committee

In accordance with Article 13.2 of the Issuer's Articles of Association, the Audit Committee shall be composed solely of independent members of the Board of Directors. The Audit Committee is composed of the following directors: Mr. David Johnson, Mrs. Gwenaëlle, Bernadette, Andrée, Dominique Cousin and Mr. Jacob Mudde. The Audit Committee will assist in supervising the activities of the Board of Directors with respect to:

- monitoring the integrity of the financial information provided by the Issuer, in particular by reviewing the relevance and consistency of the accounting methods used by the Issuer and the Group (including the criteria for the consolidation of the accounts of companies in the Group),
- 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,
- ensuring the effectiveness of the internal audit function (is such is appointed in the Issuer), in particular by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the department's budget, and by monitoring the responsiveness of management to its findings and recommendations.

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

Management Team of the Group

In the opinion of the Issuer, apart from the Board of Directors members, the following persons, being the key executives responsible for management and operations of the Ukrainian Operating Companies, are the most important for the Group (the "Management Team"). A brief description of qualifications and professional experience of the Management Team is presented below:

Alexander Ilchenko is the chief financial officer of the Group. Mr. Ilchenko is responsible for financial reporting and auditing, budgeting, capital resources planning and financial risk assessment of our Group. Mr. Ilchenko's experience includes positions of the Chief Engineer at LLC PU Artemygol (2000-2003), Head of Planning and Economic Department at Joint-Stock Company Donnbasshahtostroy (2003-2007), Deputy Director of Economics and Finance at CwAL LE Sh/U Chapaeva (2009). Mr. Ilchenko obtained mining construction engineer degree from Donetsk Polytechnic University (1993) and a degree in Business Economics from Donetsk National Technical University (2010).

Ihor Nikitenko is the head of sales and trading department of the Group and responsible for managing the sales function of the Group and developing relationships with commercial partners. During years 2004-2005, Mr. Nikitenko worked as the engineer at Gorenergo LLC; afterwards, during 2005-2007 he worked on the positions of a specialist of the Department of Commercial Operations and senior engineer of the Department of Market Analysis of DTEK. During 2007-2008 Mr. Nikitenko worked as a senior specialist on marketing in Donprombiznes LLC. Mr. Nikitenko graduated from Donetsk National Technical University in 2004 with a degree in mining engineering.

Yuliya Kopytko as a head of legal department of the Group is responsible for providing legal support to all Coal Energy business operations. During 2005-2007 she worked as a legal advisor to LLC Trading House "Amstor" and afterwards she was engaged as the Chief Legal Adviser at LLC CB "Ukrainian Financial World" (2007-2008). In 2008-2011, Ms. Kopytko held a position of the Director of Legal Department at LLC "URM Group". In 2006, Mrs. Kopytko graduated from Donetsk National University with a Master degree in law.

Alexander Chausovskyy has been the Head of the IFRS Reporting Department since 2011 and responsible for preparation of Coal Energy's consolidated financial statements under IFRS and monitoring of financial indicators. Before joining the Group, Mr. Chausovskyy worked first as an expert at Ernst and Young LLC, Kyiv (2007- 2011). Mr. Chausovskyy graduated from Donetsk National Technical University in 2007 and obtained a degree of a manager-economist.

The business address of the Management Team is Ukraine, 83001, Donetsk, 11, Komsomolsky Prospekt.

Shares or Share Options held

Except for Mr. Vyshnevetskyy, who indirectly holds 50 % of the Issuer's share capital as on the date of the Prospectus, no other member of the Board of Directors and no other member of the Management Team directly or indirectly any Shares or stock options over such Shares in the Issuer. For information on the shareholding of Mr. Vyshnevetskyy see "Principal Shareholder".

At the date of this Prospectus, the Issuer has no stock option plan or other arrangements in place for members of the Board of Directors, the Management Team or Group employees pursuant to which such persons can acquire shares or options of such shares in the Issuers' capital or its subsidiaries. The Issuer may however implement such arrangements in the future.

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

Remuneration and Terms of Service Contracts

The remuneration of the members of the Board of Directors will be determined by the Board of Directors, in accordance with remuneration policy to be adopted by the General Meeting of Shareholders not later than at the first meeting after the Admission. As the Issuer has only recently been established and most members of the Board of Directors have been appointed in May 2011, the Issuer has not paid historically any remuneration to members of the Board of Directors. Current A-class members of the Board of Directors, except for Mr. Johnson, as well as Management Team, are employed by the Group's Operating Companies. Historically and in 2010 FY they received the remuneration from the Beneficiaries' group: Mr. Victor Vyshnevetskyy UAH 198,000 (USD 25,000), Mr. Mykhailo Zolotarov UAH 180,000 (USD 22,700), and Mr. Oleksandr Reznyk received UAH 180,000 (USD 22,700); Mr. Alexander Ilchenko UAH 120,000 (USD 15,150), Mr. Igor Nikitenko UAH 120,000 (USD 15,150), Ms. Yuliya Kopytko UAH 120,000 (USD 15,150). Mr. Andrey Bolshakov and Mr. Alexander Chausovskyy were not with the Group in the 2010 FY.

The total remuneration, paid by the Beneficiaries' group to the members of the Board of Directors and the Management Team in the latest ended financial year was approximately UAH 918,000 (USD 116,000).

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

The remuneration of the members of the Management Team will be determined by the Board of Directors, in accordance with remuneration policy to be adopted by the General Meeting of Shareholders not later than at the first meeting after the Admission. As the Issuer has only recently been established, the Issuer has not paid historically any remuneration to members of the Management Team. Current members of the Management Team are employed by the Group's operating companies.

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

Non-compete compensation and employment termination compensation

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

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

Other information on the Members of the Board of Directors and the Management Team

At the date of this Prospectus and in the last five years, except as stated above, none of the members of the Board of Directors and the Management Team:

- has been convicted of any offences relating to fraud;
- has been the subject of any official public incrimination or has been sanctioned by statutory or regulatory authorities (including professional associations) or
- has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conducting the affairs of any company;
- has been associated with any bankruptcy, receivership or liquidation, or similar proceedings, in their capacity as members of any administrative, managing, or supervisory body or as a senior executive.

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

There are no actual or potential conflicts of interest between the obligations of the members of the Board of Directors members and the Management Team, toward the Issuer and their respective private interests and duties or obligations to the Issuer. Due to the fact that interests of the Group are not always in line with the interests of the Principal Shareholder, who is also an owner of other businesses, there is a potential conflict of interest between private interests of Mr. Viktor Vyshnevetskyy and the interests of the Issuer, see *"Risk Factors - Existing shareholder will continue to exert significant influence on the management following the Offering"*.

The transactions among the Group and the other businesses of the Principal Shareholder are normally performed on arm's length basis. However, the Issuer received interest free loans from related companies. Under the applicable Ukrainian legislation, a Ukrainian company, which does not have the status of a financial institution, may grant only interest-free loans because granting an interest-bearing loan is regarded as providing financial credit, which can only be extended by a licensed banking or a financial institution. Given that none of the Group companies is a licensed financial (or banking) institution, intra-group funding must legally only be provided in the form of interest-free loans.

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

Corporate governance

Luxembourg

In April 2006, the Luxembourg Stock Exchange (the "LxSE") issued the "Ten principles of corporate governance of the Luxembourg stock exchange" (second edited-revised version dated October 2009) (the "Luxembourg Corporate Governance Code"). The Luxembourg Corporate Governance Code sets forth ten principles regarding in particular the fiduciary duties of the directors, the creation of committees, publication of information in the annual management report and the rights of the shareholders. Each principle is specified by recommendations. The LxSE is responsible for monitoring the application of the principles set out in the Luxembourg Corporate Governance Code.

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

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

Poland

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

MATERIAL CONTRACTS

The following contracts are the contracts that (i) have been entered into by the Company or any of its Group Subsidiaries within the two years immediately preceding the date of this Prospectus which are or may be material to our business or (ii) have been entered into by the Company or any of its Group Subsidiaries at any other time but which contain provisions under which the Company or any of its Group Subsidiaries has an obligation or entitlement that is material to the Group as at the date of this Prospectus

Financing agreements

Kreditprombank Revolving Loan Facilities

On November 5, 2010, Donantracit LLC entered into a revolving loan facility (the “Revolving Loan Facility”) with Kreditprombank (the “Lender”). The Revolving Loan Facility provides for a Ukrainian Hryvnia denominated term loan facility in the aggregate amount not exceeding UAH25 million. The final repayment date is November 4, 2013. The interest rate, term of repayment and specific purpose for financing are set out for each loan tranche extended by the Lender on the basis of separate additional agreements concluded within term of validity of the Revolving Loan Facility. In particular, the loan tranche in the aggregate amount of UAH 25 million, granted under Additional Agreement No.1 dated November 5, 2010, is bearing an interest of 18 % per annum with the repayment date of November 4, 2011. The Revolving Loan Facility was granted for financing equipment and other working capital purposes. The Lender has the right to unilaterally change the interest rate due to change of rates at the loan market and change of refinance rate of the National Bank of Ukraine. If Donantracit LLC fails to pay any amount payable under the Revolving Loan Facility on time, the Lender has the right to withdraw the outstanding amount out of the other settlement and deposit accounts opened by Donantracit LLC with the Lender, and to increase the interest at a rate of an additional 2 % per annum over the usual interest rate. Donantracit LLC is obliged to notify the Lender of any changes in Donantracit LLC’s constituent documents, legal address, bank requisites, and management by giving three days’ notice. Under the Revolving Loan Facility agreement, the Lender has the right to accelerate the loan, upon giving three days’ notice, in the event of a breach by Donantracit LLC of any of the terms, including failure to provide the Lender with the requested documents, improper use of the loan, worsening of its financial condition. Donantracit LLC’s obligations are secured by mortgage of Donbasuglerazrabotka LLC and Nedra Donbasa LLC, by pledge of mine’s equipment provided by Donbasuglerazrabotka LLC and Nedra Donbasa LLC, by pledge of excavations and mines’ facilities provided by Donbasuglerazrabotka LLC and Nedra Donbasa LLC.

On April 29, 2011, Donantracit LLC entered into a revolving loan facility (the “Revolving Loan Facility”) with Kreditprombank (the “Lender”). The Revolving Loan Facility provides for a Ukrainian Hryvnia denominated term loan facility in an aggregate amount not exceeding UAH14 million. The final repayment date is April 28, 2014. The interest rate, term of repayment and specific purpose for financing are set out to each separate loan tranche provided by the Lender on the basis of the additional agreements concluded within the term of validity of the Revolving Loan Facility. The first loan tranche in aggregate amount, UAH14 million, granted under Additional Agreement No.1 dated April 29, 2011, is bearing interest 18 % per annum with repayment date of April 27, 2012. The Revolving Loan Facility was granted for financing coal outputs, equipment, payment of salaries and working capital purposes. The Lender has the right to unilaterally change the interest rate due to change of rates at the loan market and change of refinance rate of the National Bank of Ukraine. If Donantracit LLC fails to pay any amount payable under the Revolving Loan Facility on time, the Lender has the right to withdraw the outstanding amount out of the other settlement and deposit accounts opened by Donantracit LLC with the Lender, and to increase the interest at a rate of an additional 2 % per annum over the usual interest rate. Donantracit LLC is obliged to notify the Lender of any changes in Donantracit LLC’s constituent documents, legal address, bank requisites, and management by giving three days’ notice. Under the Revolving Loan Facility agreement, the Lender has the right to accelerate the loan, upon giving three days’ notice, in the event of a breach by Donantracit LLC of any of the terms, including failure to provide the Lender with the requested documents, improper use of the loan, worsening of its financial condition. Donantracit LLC’s obligations are secured by pledge of property rights to proceeds to be obtained under certain contracts concluded by Donantracit LLC, Vugletekhnik LLC, Donbaskrip LLC, by pledge of certain movable property of Donprombiznes LLC and Agroindustrial Firm “Aval” LLC, by mortgage of Agroindustrial Firm “Aval” LLC and by suretyships provided by Mr. Vyshnevetskyy, Ms. Vyshnevetska and CwAL LE Sh/U Chapaeva.

On March 25, 2011, Donbasuglerazrabotka LLC entered into a revolving loan facility (the “Revolving Loan Facility”) with Kreditprombank (the “Lender”). The Revolving Loan Facility provides for a Ukrainian Hryvnia denominated term loan facility in an aggregate amount not exceeding UAH15 million. The final repayment date is March 24, 2014. The interest rates, term of repayment and specific purpose for financing are to be determined in amendments to the Revolving Loan Facility with respect to each loan facility to be provided within Revolving Loan Facility. Namely, the first loan tranche was extended by the Lender pursuant to Additional Agreement

No.1 dated March 25, 2011 in the amount UAH 15 million, bearing interest 18 % per annum with the final repayment date of March 23, 2012. The Revolving Loan Facility was granted for payment of equipment, salary payment and other working capital purposes. The Lender has the right to unilaterally change the interest rate due to change of rates at the loan market and change of refinance rate of the National Bank of Ukraine. If Donbasuglerazrabotka LLC fails to pay any amount payable under the Revolving Loan Facility on time, the Lender has the right to withdraw the outstanding amount out of the other settlement and deposit accounts opened by Donbasuglerazrabotka LLC with the Lender. Furthermore, Donbasuglerazrabotka LLC beginning from April 2011 and within validity of Revolving Loan Facility is obliged to maintain 90 percent of all cash incomes in bank accounts opened with the Lender. Failure of Donbasuglerazrabotka LLC to comply with mentioned provision of Revolving Loan Facility will give the right to the Lender to increase the interest at a rate of an additional 2 % per annum over the usual interest rate. Under the Revolving Loan Facility agreement, the Lender has the right to accelerate the loan in the event of a breach by Donbasuglerazrabotka LLC of any of the terms, including failure to provide the Lender with the requested documents, improper use of the loan, worsening of its financial condition, upon giving three days' notice. Donbasuglerazrabotka LLC's obligations are secured by property suretyships provided by Antracit LLC that mortgaged and pledged its immovable property and equipment, and by suretyships provided by Mr. Vyshnevetskyy, Ms. Vyshnevetska.

Ukrainian Business Bank Revolving Loan Facility

On May 27, 2010, CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine entered into two separate agreements on a revolving loan facility (the "Revolving Loan Facility") with Ukrainian Business Bank (the "Lender"). The Revolving Loan Facility provides for a US dollar denominated short term loan facility in an aggregate amount not exceeding US$630,000 for each CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine. The final repayment date was May 27, 2011 and the facility was duly repaid. The amount advanced (US$630,000) bore interest at the rate of 18 % per annum. The Revolving Loan Facility was granted for working capital purposes. If companies were to fail to pay any amount payable under the Revolving Loan Facility on time, the Lender had the right to withdraw the outstanding amount out of the other settlement and deposit accounts opened by companies with the Lender, and to charge interest at a rate of 36 % per annum on the overdue amount. Companies were obliged to notify the Lender of any changes in its shareholding structure, change of its interest in other entities, legal address, bank requisites, and management by giving three days' notice. Under the Revolving Loan Facility agreement, the Lender had the right to accelerate the loan in the event of a breach by companies of any of the terms of their agreements, including failure to provide the Lender with the requested documents and proper security, improper use of the loan, worsening of their financial condition. The companies' obligations were secured by a pledge of 45,587.123 tonne of coal owned by CwAL LE Sh/U Chapaeva.

On August 4, 2010 Antracit LLC entered into revolving loan facility (the "Revolving Loan Facility") in the aggregate amount not exceeding EUR 3 million bearing interest 16 % per annum with final repayment date of January 20, 2011. As of February 28, 2011 the Lender postponed the repayment date to August 31, 2011 and limited the amount of the loan facility up to EUR 2,110 million. The interest rate remained unchanged. The Revolving Loan Facility was granted for working capital purposes, settlements with contractors, payment for acquired equipment, rendered services and other business transactions. Under the Revolving Loan Facility agreement, the Lender has the right to accelerate the loan in the event of a breach by Antracit LLC of any of the terms of the agreement on the Revolving Loan Facility, including failure to pay any amount payable under the Revolving Loan Facility on time, provide the Lender with the requested documents and proper collateral, improper use of the loan. Antracit LLC's obligations are secured by pledge of corporate rights in the charter capital of Antracit LLC provided by Mr. Vyshnevetskyy and Nertera Investments Limited.

On February 23, 2011 CwAL LE Sh/U Chapaeva, Eximenergo PEK LLC and Ugledobycha LLC entered into three separate agreements on overdrafts with the Lender. All three agreements on overdrafts provide for a UAH denominated overdrafts in aggregate amounts up to UAH 1,000,000.00 for Ugledobycha, UAH 4,000,000.00 for Eximenergo PEK LLC and UAH 4,000,000.00 for CwAL LE Sh/U Chapaeva. The terms of all three overdrafts are the same, those are: the final repayment date is August 22, 2011 and the interest rate is 18 % per annum. If companies fail to pay any amount payable under their overdrafts on time, the Lender has the right to charge interest at a rate of 36 % per annum on the overdue amount and to levy a penalty at double refinancing rate of the National Bank of Ukraine effective as at the time of overdue amount existence.

Katiema Enterprises Limited Loan Facilities

On December 2, 2008, Eximenergo PEK LLC entered into a loan facility agreement (the "Facility Agreement") with Neoform Universal LLP, a company incorporated in Great Britain. On January 28, 2009, Neoform Universal LLP assigned its rights under the Facility Agreement to Katiema Enterprises Limited, a company incorporated in Cyprus (the "Lender"). The Facility Agreement provides for a US dollar denominated term loan facility in an aggregate amount not exceeding US$4.8 million. The final repayment date is December 2, 2013. The loan facility was granted to finance the company's business activity as specified in its charter. The amount advanced under the Facility Agreement bears interest at the rate of 15 % per annum. If Eximenergo PEK LLC fails to pay any amount payable under the Facilities Agreement on time, the overdue amount bears interest at a rate of 30 % per annum. The loan facility is secured by a pledge of equipment and a mortgage of immoveable property. In accordance with the Ukrainian legislation, the Facility Agreement was registered with the National Bank of Ukraine, as certified by the Certificate of Registration N0. 881, dated December 10, 2008, as amended on February 12, 2009 to reflect the change of the Lender. Joint Stock Company "Ukrainian Business Bank" is a bank that performs monitoring of the Facility Agreement and has the right to request the National Bank of Ukraine to cancel the registration of the Facility Agreement if Eximenergo PEK LLC fails to submit to the bank the respective reports on the facility utilization within two reporting quarters and initiate foreclosure of collaterals in the event of a breach by Eximenergo PEK LLC of any of the terms of the Facility Agreement.

On December 19, 2008, Ugledobycha LLC entered into a loan facility agreement (the "Facility Agreement") with Katiema Enterprises Limited, a company incorporated in Cyprus (the "Lender"). The Facility Agreement provides for a US dollar denominated term loan facility in an aggregate amount not exceeding US$6.3 million. The final repayment date is December 19, 2013. On March 10, 2009, Ugledobycha LLC entered into another loan facility agreement with the Lender for a US dollar denominated term loan facility in an aggregate amount not exceeding US$3.9 million. The final repayment date is March 10, 2014. Both loan facilities were granted to finance Ugledobycha LLC's business activity as specified in its charter. The amount advanced under the Facility Agreement as of December 19, 2008 bears interest at the rate of 15 % per annum. If Ugledobycha LLC fails to pay any amount payable under this Facilities Agreement on time, the overdue amount bears interest at a rate of 30 % per annum. The amount advanced under the Facility Agreement as of March 10, 2009 bears interest at the rate of 15.5 % per annum. If Ugledobycha LLC fails to pay any amount payable under this Facilities Agreement on time, the overdue amount bears interest at a rate of 31 % per annum. The loan facility under the Facility Agreements as of December 19, 2008 is secured by a pledge of equipment and a mortgage of immovable property owned by Ugledobycha LLC. The loan facility under the Facility Agreements as of March 10, 2009 is secured by a pledge of equipment and a mortgage of immovable property owned by the third party, Agroindustrial Firm "Aval" LLC, acting as a property surety. In accordance with the Ukrainian legislation, the Facility Agreements were registered with the National Bank of Ukraine, as certified by the Certificates of Registration No. 886, dated December 22, 2008, and No. 900, dated March 13, 2009, respectively.

Other Material Agreements

On February 23, 2011, Donprombiznes LLC entered into an agreement with DRGN Limited, a company incorporated in Cyprus (the "DRGN Limited" and the "SPA 1" respectively) on purchase of 13,158 shares (the "Shares 1") in a Ukrainian open joint stock company "Electrometallurgical plant "Dniprospetsstal" named after A.M.Kuzmin ("Dniprospetsstal"), for the consideration in the amount of UAH 20,591,780.82, payment of which has been deferred for 60 days. According to the additional agreement to the SPA 1 dated June 7, 2011, the purchase price has been increased to UAH21,607,671.23 and the payment has been deferred until August 5, 2011.

On February 23, 2011, Donprombiznes LLC entered into agreement with Joint Venture Limited Liability Company "Dragon Capital", a company incorporated in Ukraine (the "Dragon Capital" and "SPA 2" respectively), on sale of the Shares 1 for the consideration in the amount of UAH 20,000,000.00 with its immediate payment.

On March 10, 2011, Donprombiznes LLC entered into agreement with DRGN Limited ("SPA 3") on purchase of 20,000 shares in Dniprospetsstal (the "Shares 3") for the consideration in the amount of UAH 30,887,671.23 with payment deferred for 60 days, and agreement with Dragon Capital ("SPA 4") on sale of the Shares 3 for the consideration in the amount of UAH 30,000,000.00 with its immediate payment. According to the additional agreement to the SPA 3 dated June 7, 2011, the purchase price has been increased to UAH32,174,794.52 and the payment has been deferred until August 5, 2011.

Payment obligations of Donprombiznes LLC under SPA 1 and SPA 3, which remain outstanding, in particular, UAH21,607,671.23 and UAH32,174,794.52 respectively, are secured with property surety of 100% participatory interest in the charter capital of Donprombiznes LLC issued by Mr. Vyshnevetskyy (1% participatory interest) and Nertera Investments Limited (99% participatory interest). Additionally, obligations of Donprombiznes LLC under SPA 1 are secured with pledge of participatory interest of 1% in statutory capital of Tekhinnovatsiya LLC and under SPA 3 – with surety of CwAL LE Sh/U Chapaeva and guaranty of Coal Energy S.A.

Coal Supply Agreements

The core activity of the Issuer is coal mining. According to that fact, most of the material agreements concluded by the Issuer of its subsidiaries are coal supply agreements. The Group's production is sold in Ukraine and abroad. The Group supplies coal on the basis of a number of agreements executed with the members of the Group and other companies related to the Group, as well as with the third parties. The coal is supplied on the basis of annual agreements or, as the case may be, on a one-off basis. The agreements are mostly valid till the end of the calendar year, but they may be automatically prolonged if none of the parties terminates the agreement. The coal is supplied under Incoterms terms specified either in the agreements themselves or in the specifications or annexes to them. The agreements provide either for prepayment or deferred payment of the purchase price.

Tables below contain a list of substantial agreements concluded by the Group.

1. Contracts with Ukrainian consumers

№	Contracting party	Supplier	Valid from (dd.mm.yyyy)	Valid till (dd.mm.yyyy)	Delivery terms
	DTEK Group (DTEK Trading)	Donantracit LLC	28.08.2009	31.12.2011	FCA, dispatch railway station or automobile
			28.10.2009	31.12.2010	DDP, destination railway station
			28.12.2009	31.12.2010	
	Private Enterprise "Kifa"		28.12.2009	31.12.2010	FCA, dispatch railway station
	Metinvest Holding LLC		01.09.2009	31.12.2010	FCA, destination railway station
			29.12.2010	31.12.2011	Railway transportation in accordance with Incoterms 2000 (the exact code to be indicate in specifications)
	Construction Company Glifada LLC		02.11.2009	31.12.2009 (automatic prolongation)	FCA, dispatch railway station
	Ugol Ukrainy LLC		14.01.2009	28.02.2009	FCA, dispatch railway station
	Ecostandart-Ukraina LLC		26.01.2011	31.12.2011 (automatic prolongation)	Railway or automobile transportation
	Megion Private Enterprise Production-Commercial Firm		13.10.2011	31.12.2011 (automatic prolongation)	Railway or automobile transportation
	Intercoltrade LLC		10.12.2010	31.12.2011	Railway transportation in accordance with Incoterms 2000 (the exact code to be indicate in specifications)
	Enterprise "Rosman" of "Union of Organizations of Handicapped in Ukraine"		5.11.2010	31.12.2010 (automatic prolongation)	Railway or automobile transportation
	Soyuz-Industriya LLC		12.03.2008	31.12.2011 (automatic prolongation)	Railway or automobile transportation
	State Enterprise "Vugillya Ukrayiny"	CwAL LE Sh/U Chapaeva	1.02.2010	Performance of obligations by parties	FCA, destination railway station
	Met-A-Tet 1 LLC	Donugletekh invest LLC	01.09.2010	31.12.2010 (automatic prolongation)	Railway or automobile transportation
	Company "Auto-Doc" LLC	Antracit LLC	10.02.2011	31.12.2011	CPT warehouse OF Postnikovskaya, town of Shakhtersk

2. Export contracts

№	Contracting party	Supplier	Valid from (dd.mm.yyyy)	Valid till (dd.mm.yyyy)	Delivery terms
1.	Bremer International Limited (British Virgin Islands)	CwAL LE Sh/U Chapaeva	01.10.2010	31.12.2011	Transportation in accordance with Incoterms 2000 (the exact code to be indicate in annexes to agreement)
	Toptrade LLC (Russia)		14.12.2010	31.12.2011	Railway transportation, other terms of supply to be indicated in annexes to the agreement
	Company "Intreal Corporation" (Panama)		01.11.2010	until full fulfillment of obligations	Transportation in accordance with Incoterms 2000 (the exact term to be indicate in annexes to agreement)
2.	Bremer International Limited (British Virgin Islands)	Ugledobycha LLC	30.09.2010	31.12.2011	
	Company "Intreal Corporation" (Panama)		15.11.2010	until full fulfillment of obligations	
3.	Bremer International Limited (British Virgin Islands)	Eximenergo PEK LLC	18.10.2010	31.12.2011	
	Company "Euromin S.A." (Switzerland)		13.01.2011	31.12.2011	
4.	Company "Santolina Consultants Inc."		12.10.2010	31.12.2011	
5.	Bremer International Limited (British Virgin Islands)	Donprombiznes LLC	30.09.2010	31.12.2011	
	Company "Intreal Corporation" (Panama)		30.09.2010	until full fulfillment of obligations	
	Euroquest Group Ltd (Republic of Marshal Islands)		08.02.2011	31.12.2011	

Other material agreements

CwAL LE Sh/U Chapaeva Integral Property Complex Lease

CwAL LE Sh/U Chapaeva operates on the basis of the property leased from the State. On February 11, 2009, CwAL LE Sh/U Chapaeva and the State Property Fund of Ukraine entered into the lease agreement of the integral property complex of the State Enterprise Shakhtoupravlinnia named after V.I. Chapaev (the "Lease Agreement"), under which all movable and immovable property of the State Enterprise were transferred into the leasehold of CwAL LE Sh/U Chapaeva, which became a successor of the State Enterprise's rights and liabilities. The term of the Lease Agreement is 49 years and it expires on February 11, 2059. The monthly lease payment is a fixed fee amounting to UAH485,280.72 (approximately US$60,660), which is subject to monthly adjustment according to the inflation index. The lease payment may be changed by the landlord in case of change in the method of calculation of lease payment and other tariffs applicable for the state property. The Lease Agreement provides for standard provisions, which comply with the legislative requirements, and does not have any onerous provisions. As required by the Lease Agreement, CwAL LE Sh/U Chapaeva undertakes to insure the leased property in favor of the landlord on annual basis, which the company duly fulfils. Under the Lease Agreement, the company is also obliged to procure safety labor conditions and environment protection, performance of the collective agreement, due payment of wages, and it is prohibited to reduce the staff without the trade union's prior consent. The company can alienate or otherwise dispose the lease property, or alter, reconstruct, re-equip and otherwise improve the leased property only upon the landlord's consent. The landlord may initiate the termination of the Lease Agreement in the event of worsening if the leased property condition; however, the lease termination at the initiative of any party is subject to consideration by the competent court.

CwAL LE Sh/U Chapaeva has no duly registered rights to use the land beneath the integral property complex. Though this should not affect the lease rights to such integral property complex, however, the area of the lands, used by the Group may be decreased in case of a dispute. The company filed documents for obtaining the lease rights to the respective land plot.

The lease agreement regarding the lease of the Chapaeva Integral Property Complex has not been notarized or state registered. Due to legislative uncertainties in the procedure for execution and notarization of the integral property complex lease agreements in Ukraine, the validity of the lease agreement regarding the Chapaeva Integral Property Complex may be challenged. Should this be the case, the final decision in the dispute will be made by a competent court.

CwAL LE Novodzerzhynskaya Integral Property Complex Lease

CwAL LE Novodzerzhynskaya Mine operates on the basis of the property leased from the State. On April 27, 2010, CwAL LE Novodzerzhynskaya Mine and the State Property Fund of Ukraine entered into the lease agreement of the integral property complex of the State Enterprise “Novodzerzhynskaya mine” (the “Lease Agreement”), under which all movable and immovable property of the State Enterprise were transferred into the leasehold of CwAL LE Novodzerzhynskaya Mine, which became a successor of the State Enterprise’s rights and liabilities. The term of the Lease Agreement is 49 years and it expires on April 27, 2059. The monthly lease payment is a fixed fee amounting to UAH274,080.28 (approximately US$34,260), exclusive of VAT, which is subject to monthly adjustment according to the inflation index. The lease payment may be changed by the landlord in case of change in the method of calculation of lease payment and other tariffs applicable for the state property. The Lease Agreement provides for standard provisions, which comply with the legislative requirements, and does not have any onerous provisions. As required by the Lease Agreement, CwAL LE Novodzerzhynskaya Mine undertakes to insure the leased property in favor of the landlord on annual basis, which the company duly fulfils. Under the Lease Agreement, the company is also obliged to procure safety labor conditions and environment protection, performance of the collective agreement, due payment of wages, and it is prohibited to reduce the staff without the trade union’s prior consent. The company can alienate or otherwise dispose the lease property, or alter, reconstruct, re-equip and otherwise improve the leased property only upon the landlord’s consent. The landlord may initiate the termination of the Lease Agreement in the event of worsening if the leased property condition; however, the lease termination at the initiative of any party is subject to consideration by the competent court.

The lease agreement regarding the lease of the Novodzerzhynskaya Mine Integral Property Complex has not been notarized or state registered. Due to legislative uncertainties in the procedure for execution and notarization of the integral property complex lease agreements in Ukraine, the validity of the lease agreement regarding the Novodzerzhynskaya Mine Integral Property Complex may be challenged. Should this be the case, the final decision in the dispute will be made by a competent court.

Placement Agreement

Company intends to enter into an agreement with, among others, the Principal Shareholder, under which the Company agreed to take all actions in connection with the Offering which it is supposed to take, in particular, to issue the Offer Shares at the Offer Price, which will be offered and allocated in accordance with the provisions of section *Offering and Plan of Distribution* of the Prospectus and the Placement Agreement. The Company will bear and pay all costs and expenses incurred in connection with the Offering.

Significant change in the Issuer’s position

There have been the following significant changes in the Issuer’s position since the date of the last financial information:

Financing agreements

On April 29, 2011, Donantracit LLC entered into a revolving loan facility with Kreditprombank. The Revolving Loan Facility provides for a Ukrainian Hryvnia denominated term loan facility in an aggregate amount not exceeding UAH14 million. See “*Material Contracts - Kreditprombank Revolving Loan Facilities*”.

Revolving loan facilities of CwAL LE Sh/U Chapaeva and CwAL LE Novodzerzhynskaya Mine entered into with Ukrainian Business Bank have been duly repaid. See “*Material Contracts - Ukrainian Business Bank Revolving Loan Facility*”.

Changes to material agreements

On June 7, 2011, Donprombiznes LLC entered into additional agreement with DRGN Limited on purchase of 13,158 shares in “Dniprospetsstal”, according to which the payment obligation of Donprombiznes LLC has been increased to UAH21,607,671.23 and the payment has been deferred until August 5, 2011.

On June 7, 2011, Donprombiznes LLC entered into additional agreement with DRGN Limited on purchase of 20,000 shares in “Dniprospetsstal”, according to which the payment obligation of Donprombiznes LLC has been increased to UAH32,174,794.52 and the payment has been deferred until August 5, 2011.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. Other than the transactions with entities under common control described herein, the Group did not engage in any transactions with members of the Board of Directors during the period under review.

The terms and conditions of sales to and purchases from related parties are determined based on arrangements specific to each contract or transaction. The Group seeks to conduct all transactions with entities under common control or otherwise related to it on market terms and in accordance with relevant Ukrainian legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. Loans are granted by the related parties under the terms which differ from market terms.

The Group's transactions and balances with related parties for FY2008, FY2009, FY2010, 9 months of FY2010 and 9 months of FY2011were as follows:

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
Income from sales of finished products, goods	4,435	7,762	1,131	254	10,265
Income from rendering of services	2,643	648	19	18	11
Income from sales property, plant and equipment	20	898	74	36	-
Income from operating lease	25	18	2	2	3
Purchases of inventories	5,502	14,442	5,378	2,272	15,831
Purchases of property, plant and equipment	2,203	1,275	537	32	874
Purchases of services	2,806	2,011	516	258	2,306
Operating lease expenses	341	130	112	84	82

Source: Consolidated Financial Statements

	Year ended June 30,			Nine months ended March 31,	
	2008	2009	2010	2010	2011
	(in thousands of US$)				
Held-to-maturity investments	-	50	533	313	2,578
Loans issued	8,248	9,533	15,738	-	6,239
Trade receivables	2,047	1,963	1,612	5	919
Other receivables	93	165	11	6	3
Advances paid	21	128	151	-	698
Trade payables	2,674	717	3,664	541	4,975
Other payables	2,005	130	676	90	562
Advances received	-	-	604	-	-
Interest-free financial liabilities	1,956	8,773	13,419	3,756	5,961

Source: Consolidated Financial Statements

The Group's revenues from sales of the finished products and services to related parties for the financial year 2008, 2009 and 2010 and 9 months 2011 were US$7,078 thousand, US$8,410 thousand, US$1,150 thousand and US$10,276 thousand, respectively, which constituted 10.8%, 9.2%, 2.1% and 9.4% of the total turnover, respectively.

Purchases from Related Parties

Apart from Coal Energy, the Beneficial Owner of the Group indirectly controls other companies comprising so-called group Mechanic. These companies are specialized in production of mining equipment, spare parts and metal ware for mines. Specific companies from Mechanic provide also construction services for Ukrainian mines.

The Group transacts with the following related parties that produce spare parts, equipment and provide repair services and construction works for coal mines:

- Mechanic LLC provides the services of capital repairs of mining equipment. The total value of the services and supplementary materials provided to the Group during 9 months of FY2011 was equal to US$3.14 million.
- Vugletechnic LLC undertakes construction works and installation of mining equipment. Total value of services provided to the Group during 9 months of FY2011 was equal to US$0.67 million.
- Donbasugleprohodka LLC provides drivage service to the Group's mines. Total value of services provided to the Group during 9 months of FY2011 was equal to US$0.18 million.
- Donabasskrep' LLC produces and supplies to the Group locking elements for mines support. Total value of supplies provided to the Group during 9 months of FY2011 was equal to US$0.24 million.

The Group procures certain part of raw materials from the trading companies that are related parties to the Group. The Group purchased raw materials from Nedrarazrabotka LLC, Prom-Geologiya LLC, Initsiativa LLC and Donugletechresurs LLC at total amount of US$6.94 million during 9 months of FY2011.

The Group plans to centralize procurement function and decrease share of raw materials purchases from related parties in the future.

The Group works with its suppliers that are related parties on arms' length basis as well as with other suppliers of similar products and services. All such purchases are generally conducted via Group's tender committees.

Sales to Related Parties

The Group has acquired Techinvest LLC on March 12, 2008, which consequently has been specializing on export coal sales of the Group. Starting from June 2, 2010 Techinvest LLC was formally excluded from the Group however still being indirectly controlled by the Principal Shareholder. During 9m FY2011 Techinvest LLC continued undertaking export sales in the total amount of US$10.3 million, however since the third quarter of FY2011 the Group reconsidered its export selling strategy towards direct contracts with customers. Due to that export sales through Techinvest LLC decreased significantly and amounted only to US$ 0.1 million during the third quarter of FY2011. The management intends to completely discontinue export sales though Techinvest in FY2012.

Loans and Guarantees

As of March 31, 2011 the Group's companies received loans from the related parties at the amount of US$6.0 million, and provided loans to the related parties at the amount of US$6.2 million. The Beneficiaries have issued personal suretyships as a security for the repayment of the bank loans by Donantracit LLC and Donbasuglerazrabotka LLC and property suretyship (pledge of 1% participatory interest in Donprombiznes LLC and Antracit LLC) as a security for payment obligations of Donprombiznes LLC under share purchase agreements with DRGN Limited.

Loan obligations of Donbasuglerazrabotka LLC are secured by suretyships provided by Mr. Vyshnevetskyy, Ms. Vyshnevetska and by corporate suretyships provided by Mechanic LLC, Vugletechnic LLC and Donbasskrep' LLC that are related to the Group.

Loan obligations of Donantracit LLC are secured by suretyships provided by Mr. Vyshnevetskyy, Ms. Vyshnevetska, by pledge of coal and certain movable property and by mortgage of Agroindustrial Firm "Aval" LLC, Nedra Donbasa LLC.

For more information on the loan and related suretyships agreements see: "*Business Description—Material Contracts—Financing agreements*".

Reorganisation

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

Initial Public Offering

The Company intends to enter into Placement Agreement in relation to the Initial Public Offering. See *"Material Contracts-Placement Agreement".*

THE ISSUER

The Issuer

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

The Issuer was incorporated as a public limited holding company by a notarial deed certified by Joelle Baden, a notary residing in Luxembourg, Grand Duchy of Luxemburg, on June 17, 2010. The Issuer was registered with *Registre de Commerce et des Sociétés* in Luxembourg under registration number B 154.144. The Articles of Association of the Issuer were published on July 19, 2010 in the *Mémorial C, Recueil des Sociétés et Associations* (the "Mémorial C") number 1473. The Issuer's registered office is at 46A, avenue J. F. Kennedy, L-1855, Luxembourg, Grand Duchy of Luxembourg. The telephone number of the Issuer's registered office in Luxembourg is +352 42 71 711.

Coal Energy S.A. is a holding company incorporated in Luxembourg, whose principal assets are its equity interests in its operating subsidiaries, the majority of which are incorporated and operate in Ukraine.

The Group's headquarter in Ukraine is located at 11, Komsomolsky Prospekt, Donetsk, 83001, Ukraine. Its telephone number is +38 (062) 335-63-47.

Corporate Purpose

According to Article 4 of the Issuer's Articles of Association the purpose of the Issuer is the acquisition of ownership interests, in Luxembourg or abroad, in any companies or enterprises in any form whatsoever and the management of such ownership interests. The Issuer may in particular acquire by way of subscription, purchase and exchange or in any other manner any stock, shares and securities of whatever nature, including bonds, debentures, certificates of deposit and other debt instruments and more generally any securities and financial instruments issued by any public or private entity whatsoever. It may participate in the creation, development and control of any company or enterprise. It may further invest in the acquisition and management of a portfolio of patents and other intellectual property rights.

The Issuer may borrow in any way. It may issue notes, bonds and debentures and any kind of debt or other equity securities. The Issuer may lend funds, including the proceeds of any borrowings and/or issues of debt securities to its subsidiaries, affiliated companies or to any other companies which form part of the same group of companies as the Issuer. It may also give guarantees and grant security interests in favour of third parties to secure its obligations or the obligations of its subsidiaries, affiliated companies or any other companies, which form part of the same group of companies as the Issuer.

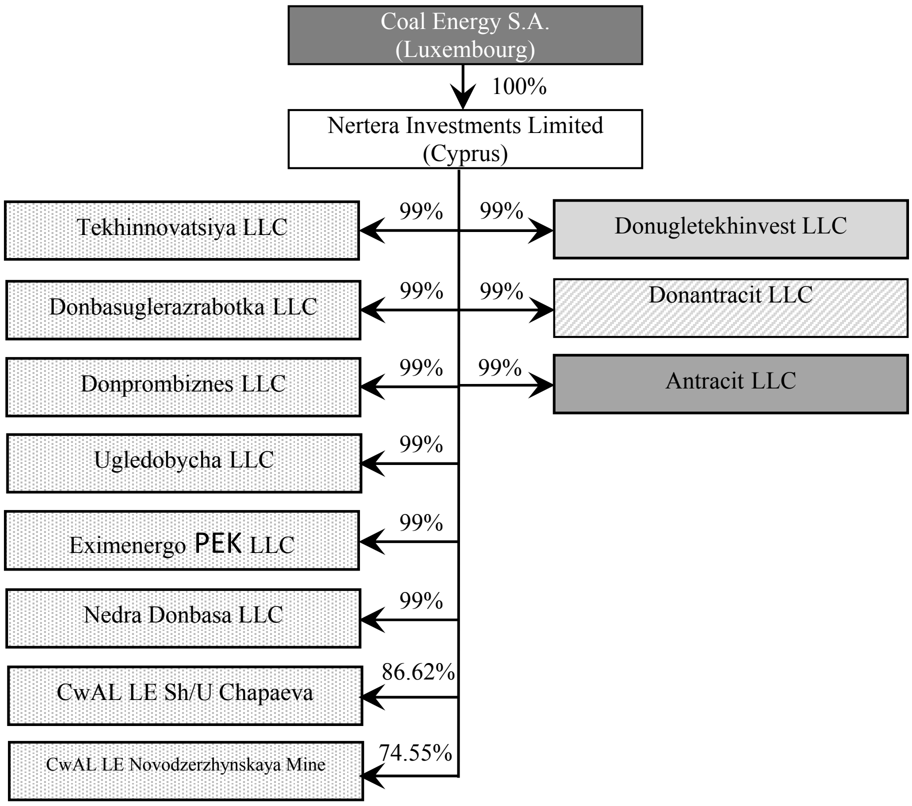
The Issuer may further mortgage, pledge, hypothecate, transfer or otherwise encumber all or some of its assets. The Issuer may generally employ any techniques and utilise any instruments relating to its investments for the purpose of their efficient management, including techniques and instruments designed to protect the Issuer against credit risk, currency fluctuations risk, interest rate fluctuation risk and other risks.

The Issuer may carry out any commercial, financial or industrial operations and any transactions with respect to real estate or movable property or which may be or are conducive to the above-mentioned activities.

Description of the Group

The Group underwent a substantial reorganization in 2009 and 2010 in order to establish a consolidated group for the purposes of listing on the WSE. To this end, control over subsidiary enterprises was consolidated by the group holding company (the Issuer) established in Luxembourg.

The following chart describes our principal subsidiaries and interests in those as of date hereof. For more detailed description of the assets see: *"Business Description"*.



Source: The Group data

Nertera Investments Limited does not hold 100% of interest in all of its subsidiaries due to requirements of Ukrainian law according to which a company with a single shareholder may not be a sole participant in a limited liability company, and a company may be a single participant only in one limited liability company. Thus, the outstanding percentages in Nedra Donbasa LLC (1%), Donbasuglerazrabotka LLC (1%), Donugletekhinvest LLC (1%), Antracit LLC (1%), Donprombiznes LLC (1%) and Eximenergo PEK LLC (1%) belong to Mr Viktor Vyshnevestkyy. The remaining interest in the capital of the Donantracit LLC (1%), Tekhinnovatsiya LLC (1%), and Ugledobycha LLC (1%) is held by Donprombiznes LLC.

CwAL LE Novodzerzhynskaya Mine and CwAL LE Sh/U Chapaeva have been initially established by the employees of the state enterprises owning the respective mines. Thus, the remaining interests in the charter capital of CwAL LE Novodzerzhynskaya Mine (25.452%) are held by 707 individuals and the remaining interests in the charter capital of CwAL LE Sh/U Chapaeva (13.38%) are held by 1,338 individuals.

Coal Energy S.A. (the "Issuer")

The table below indicates the most important corporate information on the Issuer:

Company name:	Coal Energy S.A.
Registered office:	46A, Avenue J. F. Kennedy, L-1855Luxembourg
Date of incorporation:	June 17, 2010
Registration number:	B154.144
Shareholding:	Lycaste Holdings Limited – 100%

The Issuer acts as a holding company for the Group. It does not carry on any activity except for holding shares in Nertera Investments.

The information on Coal Energy S.A. is presented in more detail in section *"General information on the Issuer"*.

Nertera Investments

The table below indicates the most important information on Nertera Investments

Company name:	Nertera Investments Limited
Registered office:	Lampousas, 1 P.C. 1095, Nicosia, Cyprus
Date of incorporation:	June 9, 2010
Registration number:	HE 268603
Shareholding:	Coal Energy S.A. - 100%
Names of the board of directors members	Inter Jura CY (Directors) Limited Inter Jura CY (Management) Limited

Nertera Investments acts as an intermediary holding company for the Group through which the Issuer holds shares in the Ukrainian operating companies. It does not carry on any activity except for holding shares in the Ukrainian operating companies.

Ukrainian operating companies

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

Company name:	**Donugletekhinvest LLC**
Registered office:	105 Illicha Avenue, Donetsk, 83059, Ukraine
Date of incorporation:	January 24, 2005
Registration number:	33371718
General Director:	Mr. Yuriy Buzoverya

Company name:	**Donantracit LLC**
Registered office:	111 Illicha Avenue, Donetsk, 83059, Ukraine
Date of incorporation:	November 15, 2007
Registration number:	35560004
General Director:	Mr. Dmytro Firsov

Company name:	**Donprombiznes LLC**
Registered office:	112 Universytetska Street, Donetsk, 83004, Ukraine
Date of incorporation:	September 4, 1995
Registration number:	23610149
General Director:	Mr. Oleksander Sukach

Company name:	**Eximenergo PEK LLC**
Registered office:	1 Zhmury Street, Donetsk, Donetsk, 83007, Ukraine
Date of incorporation:	October 18, 1999
Registration number:	30597632
General Director:	Mr. Andrey Kulikov

Company name:	**Donbasuglerazrabotka LLC**
Registered office:	1 Zhmury Street, Donetsk, Donetsk, 83007, Ukraine
Date of incorporation:	August 31, 2004
Registration number:	33161575
General Director:	Mr. Viktor Romensky

Company name:	**Nedra Donbasa LLC**
Registered office:	1 Zhmury Street, Donetsk, Donetsk, 83007, Ukraine
Date of incorporation:	May 24, 2004
Registration number:	32931612
General Director:	Mr. Valeriy Shtanko

Company name:	**Tekhinnovatsiya LLC**
Registered office:	2a Kharytonova Street, Donetsk, 83023, Ukraine
Date of incorporation:	July 20, 2007
Registration number:	35293307
General Director:	Mr. Dmytro Lygach

Company name:	**Ugledobycha LLC**
Registered office:	112 Universytetska Street, Donetsk, 83004, Ukraine
Date of incorporation:	July 22, 2002
Registration number:	32116830
General Director:	Mr. Oleksiy Pozdnyakov

Company name:	**CwAL LE Sh/U Chapaeva**
Registered office:	Leningradska Street, Shahtarsk, 86200, Ukraine
Date of incorporation:	July 12, 2008
Registration number:	35879173
General Director:	Mr. Volodymyr Elagin

Company name:	**CwAL LE Novodzerzhynskaya Mine**
Registered office:	1 Festyvalna Street, Dzerzhynsk, 85201, Ukraine
Date of incorporation:	October 13, 2008
Registration number:	36182252
General Director:	Mr. Viktor Nikitin

Company name:	**Antracit LLC**
Registered office:	105 Illicha Avenue, Donetsk, 83059, Ukraine
Date of incorporation:	April 26, 2002
Registration number:	31906082
General Director:	Mr. Dmytro Medyantsev

Corporate Resolutions and the Share Capital

Upon the Issuer's incorporation its issued share capital was EUR 31,000 divided into 31,000 shares with a nominal value of EUR 1.00 each, and was fully paid up with cash.

On March 31, 2011, which is the date of the most recent balance sheet included in the historical financial information, the Issuer's share capital was EUR 31,000 divided into 31,000 shares with a nominal value of EUR 1.00 EUR each, and was fully paid up with cash. As of that date there was no authorized capital, no shares not representing capital, no shares held by the Issuer itself or by subsidiaries of the Issuer, no convertible or exchangeable securities or securities with warrants.

On May 15, 2011, upon a sole shareholder resolution for the purpose of envisaged initial public offering in Warsaw the issued share capital of the Issuer was increased from EUR 31,000 by an amount of EUR 200,000 up to an amount of EUR 231,000 through the issue of 200,000 new shares with a nominal value of EUR 1.00 each and the articles of association of the Issuer was completely restated.

On June 10, 2011, pursuant to an amendment of the articles of association of the Issuer the currency of the share capital of the Issuer was converted to US$, par value of shares was reduced to one cent (US$ 0.01) each. As a result of these changes the share capital was represented by 33,758,340 shares.

By virtue of described above shareholder's resolution dated June 10, 2011, the Board of Directors has been authorized to issue up to 17,000,000 new shares in the Issuer share capital during the period expiring five (5) years after the date of the publication of the authorization given by the General Meeting to the Board of Directors to increase the share capital in the Luxembourg official gazette (*Mémorial C, Recueil des Sociétés et Associations*), with the power to limit or exclude any preferential subscription rights of the existing shareholders. Pursuant to Luxembourg corporate law, an appropriate report on the motives and reasons of the right to suppress the shareholder's preferential subscription rights has been submitted by the Board of Directors to the General Meeting.

On June 28, 2011, upon a sole shareholder resolution the amount of the authorized share capital was decreased from USD170,000 to USD 120,000 represented by 12,000,000 shares having a nominal value of USD 0.01 each and the Articles of Association of the Issuer were respectively amended.

The Board of Directors intends to use the authorisation to issue the Offer Shares in the Offering. As a result of the Offering, the issued share capital of the Issuer may be increased up to US$ 450,111.2 through the issuance of up to 11,252,780 Offer Shares.

The table below shows the current Issuer's issued and paid-up share capital and the Company's issued and paid-up share capital after all of the Offer Shares have been issued:

Issued ordinary share capital	Cumulative number of shares	Nominal value (US$ per share)
Current shares issued as at the date hereof	33,758,340	0.01
Offer Shares to be issued for the Offering	11,252,780	0.01
Total issued shares post-Offering	45,011,120	0.01

Form and Transfer of the Issuer's Shares

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

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

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

All of the Shares are ordinary shares and carry equal rights. There are no different voting rights, and each share shall carry one vote.

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

Bearer Shares

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

- date of the constitutive instrument of the Issuer and the date of its publication;
- capital of the Issuer, number and type of Shares as well as the nominal value of the Shares;
- brief description of the contributions made to the Issuer and the conditions on which they are made;
- any special advantages conferred upon the founders;
- duration of the Issuer; and
- the day and time of the annual General Meeting and the municipality in which it is to be held.

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

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

Registered shares

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

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

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

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

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

Conversion of shares

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

Book-entry form in Poland

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

Rights attached to Shares

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

Voting Rights

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

The annual General Meeting should be held each year on the 20th day of May at 11:00 or if such day is a legal or a bank holiday in Luxembourg, on the following business day in Luxembourg at the registered office of the Issuer or at such other place as specified in the notice of the meeting. General Meetings may be convened by the Board of Directors. Shareholders representing 10% of the Issuer's issued share capital may, pursuant to Article 70 of the Companies' Act 1915, request the Board of Directors to convene a General Meeting, the request being made in writing with an indication of the agenda. The Board of Directors must then convene the General Meeting within a period of one month starting on the date of receipt of the written request from the shareholders. An extraordinary General Meeting can be held whenever the Board of Directors deems it necessary. The Board of Directors should determine the items on the agenda of such meeting.

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

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

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

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

Dividends and Other Distributions

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

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

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

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

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

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

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

Issue of Shares and Pre-emptive Rights

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

Each holder of the Shares should have pre-emptive rights to subscribe for any issue of the Shares *pro rata* to the aggregate amount of such holder's existing holding of the Shares. Each holder should, however, have no pre-emptive right on the Shares issued for a contribution in kind or in case of exclusion of such pre-emptive rights by the Board of Directors within the limits of the authorization given by the General Meeting. In addition, each shareholder should have no pre-emptive right with respect to a person who exercises a previously acquired right to subscribe for the Shares if pre-emptive rights of existing shareholders in connection with such subscription were duly suppressed.

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

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

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

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

Repurchase of the Issuer's Own Shares

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

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

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

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

Capital Reduction

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

Annual Accounts

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

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

Liquidation Rights

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

Amendments to the Rights of Shareholders

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

Challenging resolutions of General Meetings

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

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

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

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

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

PRINCIPAL SHAREHOLDER

Principal Shareholder

As at the date of this Prospectus, 100% of the outstanding share capital of the Issuer is held by Lycaste Holdings Limited. Lycaste Holdings Limited is a Cypriot entity, with its registered office at Lampousas, 1, P.C. 1095, Nicosia, Cyprus. The company is owned by two natural persons, Ukrainian citizens Mr. Viktor Vyshnevetskyy and Mrs. Maryna Vyshnevetska, holding 50% of shares each. Lycaste Holdings Limited is a holding company which does not carry out any operating activity or hold any assets except for holding shares in the Issuer.

Change of control

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

Dilution

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

	Shares owned prior to the Offering		Shares owned after the Offering(1)	
Shareholder	**Number of shares**	**%**	**Number of shares**	**%**
Lycaste Holdings Limited	33,758,340	100	33,758,340	75
Public	-	-	11,252,780	25
Total	33,758,340	100	45,011,120	100

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

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

Lock-up agreements

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

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

THE OFFERING AND PLAN OF DISTRIBUTION

General Information

The Issuer is offering for subscription up to 11,252,780 Offer Shares. The Offer Shares are being offered at the Offer Price, which shall be determined through a book-building process and after taking into account other conditions.

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

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

All of the Offer Shares have been assigned ISIN code LU0646112838.

Publication of the Prospectus

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

Notices

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

Corporate resolutions

By virtue of resolution dated June 10, 2011 the sole shareholder resolved to create an authorized capital of US$170,000. During a period of time of five (5) years from the date of publication of the resolution to create the authorised capital or, as the case may be, a resolution renewing such authorisation in the Official Gazette of the Grand Duchy of Luxembourg, the *Memorial C, Recueil des Societes et Associations*, the Board of Directors is authorised to issue shares, to grant options to subscribe for shares and to issue any other instruments convertible into shares within the limit of the authorized shares capital, to such persons and on such terms as it shall see fit, and specifically to proceed to such issue without reserving a preferential subscription right for the existing shareholders.

The Board of Directors has authorized any directors to individually take any and all actions in connection with the Offering.

On June 28, 2011 upon a sole shareholder resolution the amount of the authorized share capital was decreased from USD170,000 to USD 120,000 represented by 12,000,000 shares having a nominal value of USD 0.01 each.

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

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

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

Expected timetable of the Offering

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

Publication of Prospectus	on or about July 4, 2011
Institutional Book-building	July 13, 2011 – July 15, 2011 until 4 pm CET
Pricing and Initial Allotment Date	on or about July 15, 2011
Subscriptions by Retail Investors	July 18, 2011 – July 21, 2011
Subscriptions by Institutional Investors	July 18, 2011 – July 21, 2011
Allotment Date	on or about July 25, 2011
Settlement Date	on or about July 27, 2011
Delivery Date	on or about August 2, 2011
Listing Date (listing of and start of trading in the Shares on the WSE)	on or about August 4, 2011

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

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

Place of Subscription

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

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

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

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

Book-building

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

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

The book-building process will end on or about July 15, 2011. However, the deadline for receipt of indications of interest from the Institutional Investors may be extended or shortened at the discretion of the Managers.

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

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

Eligible Investors

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

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

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

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

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

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

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

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

Currency of the Offering

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

Issuance of Offer Shares

The Offer Shares will be issued on the Delivery Date, which is expected to be on or about August 2, 2011.

Purchase by management

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

Offer Price

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

The Offer Price will not exceed PLN 32 (the "Maximum Price"). The Maximum does not necessarily reflect, or is close to, the final Offer Price.

During a book-building process amongst Institutional Investors invited by the Managers, such Institutional Investors interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, which they will be willing to pay. The book-building, is expected to cease on or about July 15, 2011, but the deadline for receipt of indications of interest from the Institutional Investors may be extended or shortened at the discretion of the Managers.

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

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

The Issuer will announce the final Offer Price on the Pricing and Initial Allotment Date, through a press release in Poland and in a manner compliant with applicable regulations as well as market practice in Poland. The Offer Price will be filed with the CSSF, notified to the PFSA and published on the website of the Issuer www.coalenergy.com.ua, on the website of the Co-Lead Manager www.dmbzwbk.pl and on the website of the Luxembourg Stock Exchange www.bourse.lu on or around July 15, 2011.

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

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

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

Final number of Offer Shares

The final number of the Offer Shares in the Offering will not be higher than 11,252,780. The Issuer reserves the right to allocate in total a smaller number of Offer Shares than the total maximum number. This may happen, for instance, as a result of insufficient demand at a price level satisfactory to the Issuer.

On the Allotment Date the Issuer will announce the final number of the Offer Shares through a press release in Poland and in accordance with applicable regulations as well as market practice in Poland. The final number of Offer Shares offered in the Offering will be filed with the CSSF, notified to the PFSA and published on the website of the Issuer www.coalenergy.com.ua, on the website of the Co-Lead Manager www.dmbzwbk.pl and on the website of the Luxembourg Stock Exchange www.bourse.lu.

Subscription and Allotment

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

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

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

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

Subscription and Allotment by Institutional Investors

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

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

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

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

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

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

Subscription and Allotment by Retail Investors

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

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

Retail Investors may subscribe for a minimum of 50 Offer Shares and not more than 100,000 Offer Shares. The Retail Investor may make any number of subscriptions provided that the total number of Offer Shares subscribed by it does not exceed 100,000 Offer Shares. If a Retail Investor subscribes in total for more than 100,000 Offer Shares he will be deemed to subscribe for 100,000 Offer Shares. Multiple subscriptions are permitted provided that they do not exceed in total 100,000 Offer Shares.

Purchase orders from the Retail Investors should be submitted at the final Offer Price.

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

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

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

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

Payment for the Offer Shares

Payment for the Offer Shares by Institutional Investors

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

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

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

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

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

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

Payment for the Offer Shares by Retail Investors

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

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

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

Withdrawal of Subscription

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

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

Results and Closing of the Offering

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

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

Supplements to the Prospectus

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

Change of terms of the Offering

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

Cancellation or postponement of the Offering

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

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

Any decision on cancellation, suspension, postponement or changes of dates of the Offering will be published by way of an update report and a press release in Poland in a manner compliant with applicable regulations, as well as market practices in Poland. In this case the respective supplement will be filed with the CSSF, notified to the PFSA, and published on the website of the Issuer www.coalenergy.com.ua, on the website of the Co-Lead Manager www.dmbzwbk.pl and on the website of the Luxembourg Stock Exchange www.bourse.lu. The Offering may not be cancelled or suspended after the official trading in the Offer Shares on the WSE has begun.

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

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

Overallotment

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

Registration and Delivery of the Offer Shares

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

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

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

Delivery of the Offer Shares will be made in accordance with settlement instructions placed by investors upon subscription, through the facilities of the NDS, by registration of the Offer Shares on the Investors' securities accounts indicated by such Investors. Delivery of the Offer Shares is expected to take place on or about August 2, 2011, barring unforeseen circumstances, by appropriate entry on the Investor's securities accounts held through members of the NDS. The exact delivery dates will depend on timing of registration of Offer Shares in the facilities of the NDS.

No share certificates or other documents confirming subscription of the Offer Shares will be issued by the Issuer to Investors. Investors shall be notified of registration of the Offer Shares on their securities accounts in accordance with the rules applicable at their respective investment firms or banks holding securities accounts. However, the date of delivery of such notifications shall not affect the date of the first listing of the Offer Shares and such notices may be delivered following the first day of listing of Offer Shares on the Warsaw Stock Exchange.

All payments under the Offer Shares will be made through the NDS.

Listing and Trading

The Issuer intends to apply for admission of all the Offer Shares to listing and trading on the main market of the WSE, immediately after the Settlement Date. The main market of the WSE is a regulated market pursuant to MiFID. The Issuer expects that the trading in the Shares on the WSE will commence on August 4, 2011 or as soon as possible thereafter.

In connection with the listing of the Shares on the WSE, all the Offer Shares will be registered with and cleared through the NDS which is the central clearinghouse and depository of securities in Poland, including those listed on the WSE. The NDS will act as paying agent for any distributions payable to holders of the Offer Shares.

Investors trading on the WSE should consider that since under the laws of Luxembourg no court registration process is needed in order to validly issue new shares, the Offer Shares will be eligible for the listing application upon payment by investors, together with the Issuer's existing Shares. Consequently, the Issuer will not be seeking to apply for listing on the WSE of any temporary share receipts, such as "rights to shares" (*prawa do akcji*) within the meaning of the Act on Trading in Financial Instruments.

At present the Issuer does not intend to seek a listing of the Shares at any stock exchange other than the WSE but may consider such listing in the future.

Offering Agent

The Issuer has appointed Dom Maklerski BZ WBK S.A. with its seat at Plac Wolności 15, Poznań, Poland, to act as offering agent with respect to the Shares for the purposes of the public offering in Poland and admission to trading on the main market of the WSE.

PLACING

The Issuer intends to enter, prior to the Pricing and Allotment Date, into a placement agreement (the "Placement Agreement") in respect of the Offering with the Lead Manager and the Co-Lead Manager, in which the Lead Manager and the Co-Lead Manager will commit, on a best efforts basis, to procure subscribers for the Offer Price.

Dragon Capital (Cyprus) Limited, a company incorporated under the laws of Cyprus, company code HE 171623, whose registered office is at Agiou Pavlou, 15, Ledra House, Agios Andreas, P.C. 1105 Nicosia, Cyprus, acts as a Lead Manager of the Offering.

Dom Maklerski BZ WBK S.A. whose registered office is at Plac Wolności 15, 60-967 Poznań, Poland, acts as the Co-Lead Manager and offering agent in Poland for the purposes of the Offering in Poland and admission to trading on the WSE.

Bank Zachodni WBK S.A., whose registered office is at Rynek 9/11, 50-950 Wroclaw, Poland, acts as Advisor in the Offering, providing financial, organizational and management advice to the Issuer in connection with preparation of the Offering.

Jaspen Capital Partners Limited, a company incorporated in Ukraine, company code 37534998, whose registered office is 7 Yaroslaviv Val, 2nd floor, Kyiv, 01034, Ukraine, acts as a financial advisor to the Issuer (the "Financial Advisor").

In connection with the Offering, the Issuer has agreed to pay to the Managers and the Financial Advisor a fee of up to 3.6% of the gross proceeds from the placement and sale of the Offer Shares. In addition, the Issuer has agreed to indemnify the Managers against certain liabilities and to reimburse the Managers for certain of their expenses in connection with the management of the Offering. The Managers are entitled in certain circumstances to be released and discharged from their respective obligations under the Placement Agreement prior to the Listing Date. Such circumstances include the non-satisfaction of certain conditions precedent and the occurrence of certain force majeure events.

Underwriting

The Issuer does not intend to enter into any underwriting agreements in connection with the Offering.

Stabilization

The Managers did not undertake to enter into any transactions aiming at stabilization of the price of Offer Shares.

Other Relationships

The Lead Manager and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer and the Principal Shareholder and any of its affiliates. The Lead Manager and its affiliates have received and may receive in the future customary fees and commissions for these transactions and service.

Expenses of the Offering

As of the date of this Prospectus, the Issuer estimates the amount of fixed expenses for preparation of the Offering at approximately US$ 1.5 million. These expenses consist of costs of preparation of the Prospectus, advisory services, marketing of the Offering and costs of analyses prepared with respect to the Offering, and does not include the fees depending on the actual value of the Offer Shares sold in the Offering.

The final amount of expenses will be calculated after the Offering and will be published within two weeks from the Settlement Date in the same manner as the Prospectus.

The Issuer agreed to pay all commissions and expenses in connection with the Offering. However, Investors will bear their own costs connected with the evaluation and participation in the Offering, i.e. standard brokerage fees charged by broker.

Lock-up Agreement

For description of lock-up agreements, concluded with regard to the Issuer's Shares please see Section *Principal Shareholder*, subsection *Lock-up agreements* above.

Interests of Natural and Legal Persons Participating in the Offering

The Lead Manager has contractual relationship with the Issuer in connection with the Offering and the Admission. The Co-Lead Manager has contractual relationship with the Issuer and has been mandated to act as the Offering Agent for the Offering in Poland and listing of the Issuer's Shares on the WSE.

The Managers advise the Issuer and the Principal Shareholder in connection with the Offering and Admission and coordinate the structuring and execution of the transaction. Furthermore, the Managers are involved in the Prospectus preparation process. If the transaction is successfully executed, the Managers will receive a combined commission which depends on the actual value of sold Offer Shares.

Dom Maklerski BZ WBK S.A. has a contractual responsibility in connection with the Offering and the admission of the Sale Shares to listing and trading on the WSE, and has been mandated to act as the Co-Lead Manager and the Offering and Listing Agent for the Sale Shares.

Dom Maklerski BZ WBK S.A. advises in connection with the Offering and admission to the offering and listing and is involved into the structuring and execution of the transaction. If the transaction is successfully executed, Dom Maklerski BZ WBK S.A. will receive a combined commission which depends on the actual value of the Sale Shares sold in the offering.

Dom Maklerski BZ WBK S.A. or its affiliates may acquire in connection with the Offering the Offer Shares as Investors and hold or sell those Shares for their own account, also outside of the offering period, which shall not constitute a preferential allotment. Dom Maklerski BZ WBK S.A. does not intend to disclose the extent of such investments or transactions unless required by law.

Dom Maklerski BZ WBK S.A. and its affiliates have engaged in and may in the future engage in investment banking, advisory services and other commercial dealings in the ordinary course of business with the Issuer and the Principal Shareholder and any of its affiliates. Dom Maklerski BZ WBK S.A. and its affiliates may receive in the future receive customary fees and commissions for these transactions and services.

Bank Zachodni WBK S.A., which is a mother company of the Co-Lead Manager, has contractual relationship with the Issuer and acts as an advisor in the Offering. The advisor will receive a fee for its services which depends on the actual value of the Offer Shares sold in the Offering.

The Managers or their affiliates may acquire in connection with the Offering the Offer Shares as investors and hold or sell those Shares for their own account, also outside of the offering period, which shall not constitute a preferential allotment. The Managers do not intend to disclose the extent of such investments or transactions unless required by law.

The Managers and their respective affiliates have in the past engaged and may in the future engage in investment and commercial banking and other commercial dealings in the ordinary course of business with the Principal Shareholder or with the Issuer, for which they have received customary fees and commissions.

Jaspen Capital Partners Limited has contractual relationship with the Issuer and acts as a financial advisor to the Issuer with respect to the Offering and will receive a fee for its services which depends on the actual value of the Offer Shares sold in the Offering.

SELLING RESTRICTIONS

Important information about this Prospectus

This Prospectus constitutes a prospectus within the meaning of the Prospectus Directive and the Prospectus Act 2005 (which implemented the Prospectus Directive into Luxembourg law), for the purpose of giving the information with regard to the Issuer and the Offer Shares it intends to offer pursuant to this Prospectus which is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

This Prospectus constitutes a prospectus in the form of a single document within the meaning of article 5.3 of Prospectus Directive and article 8 of the Prospectus Act 2005. This Prospectus has been filed with, and was approved on July 4, 2011 by the CSSF, which is the competent authority in Luxembourg to approve this document as a prospectus. Under the Prospectus Directive and the Prospectus Act 2005, this Prospectus, once approved by the competent authority of one member state of the EU ("Home Member State") may be used for making a public offering and admission of securities to listing on a regulated market in another Member State of the EU ("Host Member State"), provided that the competent authority of the Home Member State provides the competent authority of the Host Member State with a certificate of approval of the Prospectus (in accordance with article 18 of the Prospectus Directive and article 19 of the Prospectus Act 2005).

The Issuer intends to undertake a public offering of the Offer Shares in Poland. Consequently, the Issuer will be authorized to carry out the Offering to the public in Poland, once the CSSF has provided the PFSA with (1) a certificate of approval of this Prospectus (in accordance with Art. 19 of the Prospectus Act 2005, Art. 18 of the Prospectus Directive and Art. 37 of the Public Offerings Act) and (2) a copy of the Prospectus together with a summary of the Prospectus in the Polish language and after the Prospectus in the English language and its summary in the Polish language have been made available to the public, which is equivalent to authorizing the Offering to the public in Poland.

For the purposes of the public offering in Poland the Issuer will publish a Polish translation of the summary of the Prospectus.

The Issuer accepts responsibility for the information contained in this Prospectus. The Issuer declares that, after having taken all reasonable care to ensure that such is the case, the information in this Prospectus is in accordance with the facts and does not omit anything likely to affect the importance of such information.

Investors are authorised to use this Prospectuses solely for the purpose of considering the purchase of the Offer Shares in the Offering. Investors acknowledge and agree that the Managers make no representation or warranty, express or implied, as to the accuracy or completeness of information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Managers.

No person is authorised to give information or to make any representation in connection with the Offering other than as contained in this Prospectus. If any such information is given or made, it must not be relied upon as having been authorised by the Issuer, the Managers or any of their affiliates or advisers or selling agents. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances imply that there has been no change in the affairs of the Issuer and its subsidiaries or that the information set forth in this Prospectus is correct as at any date subsequent to the date of this Prospectus.

In making an investment decision, prospective investors must rely upon their own examination of the Issuer and the terms of this Prospectus, including the risks involved. The distribution of this Prospectus and the offering of the Offer Shares in certain jurisdictions may be restricted by law. The Issuer and the Managers require persons into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the ordinary shares in any jurisdiction in which such offer or sale would be unlawful. No one has taken any action that would permit a public offering to occur in any jurisdiction except Poland.

No Public Offering outside Poland

This Prospectus has been prepared on the basis that there will be no public offers of the Offer Shares, other than the Offering to the public in the territory of Poland in accordance with the Prospectus Directive, as implemented in Luxembourg and Poland, respectively. Accordingly, any person making or intending to make any offering, resale or other transfer within the European Economic Area (the "EEA"), other than in Poland, of the Offer Shares may only do so in circumstances under which no obligation arises for the Issuer, the Principal Shareholder or the Managers to produce an approved prospectus or other offering circular for such offering. Neither the Issuer, the Principal Shareholder, nor the Managers have authorized, nor will any of them authorize, the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Managers under this Prospectus.

No action has been or will be taken by the Issuer, the Principal Shareholder or the Managers in any jurisdiction other than Poland that would permit a public offering of the Offer Shares, or the possession or distribution of this Prospectus or any other offering material relating to the Issuer or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of this Prospectus and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions on the distribution of this Prospectus and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. This Prospectus does not constitute an offer to subscribe for or buy any of the Offer Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Notice to Investors

Because of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the shares offered hereby.

No actions have been taken to register or qualify the Offer Shares or otherwise permit a public offering of the Offer Shares in any jurisdiction other than in Poland. The distribution of this Prospectus and the offer of the the Offer Sharesin certain jurisdictions may be restricted by law, and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

Notice to Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any Offer Shares may not be made in that Relevant Member State, other than the offer in Poland after the publication of a Prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that it may make an offer of the Offer Shares to the public in that Relevant Member State under the following exemptions under the Prospectus Directive, if such exemptions have been implemented in that Relevant Member State:

- to legal entities which are qualified investors as defined under the Prospectus Directive;
- by the Managers to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons, as permitted under the Prospectus Directive; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Offer Shares shall result in a requirement for the Issuer and the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State (other than, in the case of paragraph (a) below, persons in Poland receiving the offer in Poland contemplated in the Prospectuses) who receives any communication in respect of, or who acquires any the Offer Shares under, the offer contemplated in the Prospectuses will be deemed to have represented, warranted and agreed to and with each of the Issuer and the Managers limited that:

(a) it is a qualified investor as defined under the Prospectus Directive; and

(b) in the case of any the Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale.

For the purposes of the provisions and representations above, the expression an "offer to the public" in relation to any the Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering so as to enable an investor to decide to purchase any the Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to investors in the United Kingdom

This Prospectus and any other material in relation to the securities described herein may only be distributed to and may only be directed at persons in the United Kingdom (the "UK") that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom the Prospectus may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order and (iii) to whom it may otherwise lawfully be distributed (all such persons together being referred to as "Relevant Persons"). The Offer Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such the Offer Shares will be engaged in only with, Relevant Persons. This document and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) by recipients to any other person in the UK. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

No prospective investor should consider any information in this Prospectus to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountant and other advisers for such advice. None of the Issuer and the Managers makes any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in such shares by such offeree or purchaser.

The Managers are acting solely for the Issuer and no one else in connection with this offering and is not, and will not be, responsible to any other person for providing advice in respect of this offering or for providing the protections afforded to their respective clients. The Managers and certain related entities may acquire a portion of the Offer Shares for their own accounts.

In connection with this offerings, the Managers and any affiliate acting as an investor for its own account may aquier the Offer Shares and in that capacity may retain, purchase or sell for its own account the Offer Shares and any of the Issuer's other securities or related investments and may offer or sell the Offer Shares or other investments otherwise than in connection with this offerings. Accordingly, references in this document to the Offer Shares being offered should be read as including any offering of securities to the Managers and any affiliate acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

In relation to member states of the EEA other than the United Kingdom, there may be further rules and regulations of such country or jurisdiction within the EEA relating to the offering of the Offer Shares or distribution or publication of this Prospectus or any other offering material or advertisement; persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the offer of Offer Shares applicable in such EEA member state.

United States

The Offer Shares have not been, and will not be, registered under the US Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions in reliance on Regulation S under the US Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the US Securities Act.

Each of the Managers has agreed that, except as permitted by the Placement Agreement, it will not offer, sell or deliver the Offer Shares within the United States or to, or for the account or benefit of, US persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the closing date, and that it will have sent to each dealer to which it sells Offer Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Offer Shares within the United States or to, or for the account or benefit of, US persons.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Offer Shares outside the United States and for the listing of the Offer Shares on the main market of the Warsaw Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Offer Shares, in whole or in part, for any reason.

Canada

This Prospectus is not, and under no circumstances is to be construed as, a Prospectus, an advertisement or a public offering of the securities described herein in any province or territory of Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Japan

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organized under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Russia

The Shares are not being offered or sold and may not be offered or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

CERTAIN LUXEMBOURG AND POLISH SECURITIES MARKET REGULATIONS AND PROCEDURES AND THE WARSAW STOCK EXCHANGE

The Issuer intends to apply for admission to trading and to list all of the Offer Shares on the main markets of the WSE. As a result, the Issuer will be subject to certain Polish securities and capital market regulations, in particular with respect to disclosure of information. The Issuer will also be subject to supervision of relevant regulatory authorities and of the PFSA in particular. Moreover, the Issuer, being incorporated under the laws of Luxembourg, will be subject to certain aspects of the European Union and Luxembourg securities regulation as well as the Public Takeover Law.

The information set out below describes certain aspects of Luxembourg and Polish securities market regulation regarding mandatory takeover bids, squeeze-out and sell-out rules that will apply to the Shares once the Offer Shares are admitted to trading on the WSE and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg and Polish securities market regulatory considerations that may be relevant to a decision to acquire, hold or dispose of the Shares. Each prospective investor should consult a professional legal adviser regarding legal consequences of acquiring, holding and disposing of the Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation, in force as at the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

European Union Tender Offer Regulations

In the absence of regulatory guidance, a clear resolution to conflicts of laws issues relating to various tender offer regulatory regimes cannot be provided. The relevant conflict of laws provisions of the Takeover Directive explicitly state that if the offeree company’s shares are not admitted to trading on a regulated market in the Member State in which the company has its registered office, and if the offeree company’s shares are admitted to trading on regulated markets in another Member State, the authority competent to supervise the bid shall be that of the Member State on the market of which the shares are admitted to trading.

In respect of governing law, matters relating to the consideration offered in the case of a bid, in particular the price, and matters relating to the bid procedure, in particular the information on the Managers’ decision to make a bid, the contents of the offer document and the disclosure of the bid, shall be dealt with in accordance with the rules of the Member State of the competent authority. In matters relating to the information to be provided to the employees of the offeree company and in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the applicable rules and the competent authority shall be those of the Member State in which the offeree company has its registered office.

Luxembourg regulations

Luxembourg Mandatory Takeover Bids

The Luxembourg law on public takeovers dated May 19, 2006 (the "Public Takeover Law") applies to takeover bids in relation to the securities of companies governed by the law of a Member State of the European Union or the European Economic Area, when all or some of those securities are admitted to trading on a regulated market in one or more Member States of the European Union or the European Economic Area. The term "securities" refers to shares and global depository receipts.

As far as the competent authority is concerned, the Public Takeover Law states that if the offeree company’s securities are not admitted to trading on a regulated market in the Member State in which such offeree company has its registered office, the competent authority to supervise the bid shall be the authority of the Member State of the regulated market on which the offeree company’s securities are admitted to trading, i.e. in the present case the competent financial authority in Poland.

In relation to matters concerning the information to be provided to the employees of the offeree company and in relation to matters concerning the applicable company law, in particular the percentage of voting rights which confers control (in Luxembourg the threshold is fixed at 33 1/3% of the voting rights) and any derogation from the obligation to launch a bid, as well as the conditions under which the board of the offeree company may undertake any action which might result in the frustration of the bid, the applicable rules and the competent authority shall be those of the Member State where the offeree company has its registered office, i.e. the CSSF which is the competent financial authority in Luxembourg.

Squeeze-out Rules

Under the Public Takeover Law if any natural or legal person holds a total of at least 95% of a company's share capital carrying voting rights and 95% of such company's voting rights as a result of a public takeover bid within the meaning of Article 2 (1) a) of the Public Takeover Law regarding the shares of a target company, such person may acquire the remaining shares in the target company by exercising a squeeze-out against the holders of the remaining shares pursuant to Article 15 of the Public Takeover Law.

Sell-out Rules

According to Article 16(1) of the Public Takeover Law, if any natural or legal person, alone or together with persons acting in concert with it, hold(s) a total of at least 90% of a company's share capital carrying voting rights and 90% of such company's voting rights as a result of a public takeover bid regarding the shares of a target company, any shareholder may exercise a sell-out with respect to his/her shares.

Polish regulations

The Takeover Directive allows the Member States to introduce, next to the mandatory takeover bids, additional protection of the interests of the minority shareholders, such as the obligation to make a partial bid where the offeror does not acquire control of the company. Poland introduced such additional instruments.

Pursuant to Article 72 of the Polish Public Offerings Act, any acquisition of shares in a public company in secondary trading and within a period of less than 60 days by a shareholder who holds shares entitling it to less than 33% of votes at a general shareholders' meeting, leading to the increase of its share in the total number of voting rights by more than 10%, shall be effected exclusively through a public tender offer.

Furthermore, any acquisition of shares in a public company by a shareholder who holds shares entitling it to at least 33% of votes at a general shareholders' meeting, in secondary trading and within a period of less than twelve months, leading to the increase of its share in the total number of voting rights by more than 5%, shall be effected exclusively through a public tender offer.

Additionally a shareholder that wishes to cross the 33% voting rights threshold is obliged to launch a public tender for shares that will entitle it to hold 66% of votes. However, if the indicated thresholds are exceeded due to the acquisition of shares in a public offering, in-kind contribution, merger or division of a company, amendments to the articles of incorporation of the company or occurrence of certain other events, the shareholder must either launch a public tender as described above within three months, or sell the appropriate amount of shares so that the number of votes to which the shareholder is entitled is no more than 33% of votes.

It should be noted that Polish law explicitly excludes application of Polish regulations concerning thresholds only with respect to 66% threshold as the mandatory threshold under the Takeover Directive. In such case, Luxembourg threshold of 33 1/3% should apply. On the other hand, the additional threshold of 33% stipulated in Polish law is a separate obligation imposed by Poland irrespective of the Takeover Directive. Therefore, the announcement of a take-over bid when exceeding 33 1/3% of votes to satisfy the obligations imposed by the Takeover Directive should be deemed a different obligation from the obligation to announce a bid for 66% of votes when exceeding 33% of votes to satisfy additional Polish requirements.

The regulations set a number of detailed conditions to be followed in connection with a public tender offer, including without limitation the rules of determining the tender price, required security and settlement.

The Warsaw Stock Exchange

The WSE operates one of the two regulated markets in Poland within the meaning of the MiFID. The other regulated market (BondSpot, the subsidiary of the WSE) concentrates mainly on bond trading and OTC transactions. The WSE is a private joint-stock company and is controlled by the Polish State. Members of the WSE include banks and Polish and international brokers.

Shares listed on the WSE may be traded in a continuous price-setting system or in the single-price auction system, depending on capitalisation and intensity of trading. In addition, there are two markets for shares: Basic and parallel, the latter being for smaller, less liquid issuers. Shares of all listed companies on the WSE regulated market are classified into four segments according to their capitalisation: MINUS 5, 5 PLUS, 50 PLUS or 250 PLUS. To be traded in a specific market and segment, certain non-statutory criteria must be met by the securities in addition to the statutory listing criteria. Shares of companies which have high price volatility, or which are under bankruptcy proceedings may be classified into the Alert List segment and then moved to listing under the single-price auction system.

Settlement of all transactions executed on the WSE is handled by the NDS, a joint-stock company in which the WSE has a 33.3% stake (with the remaining shares held by the National Bank of Poland and the State Treasury of the Republic of Poland).

The electronic trading system used by the WSE is WARSET, a trading system similar to the system used in Paris, Brussels, Amsterdam, Chicago, and Singapore.

As of June 29, 2011, shares of 416 companies were listed on the WSE.

TAXATION

The information set out below describes the principal Luxembourg and Polish tax consequences of the acquisition, holding and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg and Polish tax considerations that may be relevant to a decision to acquire, hold or dispose of the Issuer's Shares. Each prospective investor should consult a professional tax adviser regarding tax consequences of acquiring, holding and disposing of the Issuer's Shares under the laws of their country and/or state of citizenship, domicile or residence. Should any withholding taxes be payable on amounts payable by the Issuer, the Issuer assumes responsibility for withholding of such taxes at the source.

This summary is based on tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as at the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

Taxation in Luxembourg

Please be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate shareholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge, invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Taxation of the Issuer

Withholding Tax

Dividends paid by the Issuer to the shareholders are as a rule subject to a 15% withholding tax in Luxembourg. However, subject to the provisions of an applicable double tax treaty, the rate of withholding tax may be reduced. Furthermore, a withholding exemption may apply if at the time the income is made available, (i) the receiving entity is an eligible parent and (ii) has held or commits itself to hold for an uninterrupted period of at least 12 months a participation of at least 10% of the share capital of the Issuer or a participation of an acquisition price of at least EUR 1.2 million. Eligible parents include either (a) another company covered by Article 2 of the amended EU Parent-Subsidiary Directive, or a Luxembourg permanent establishment thereof, or (b) a company resident in a State having a double tax treaty with Luxembourg and subject to a tax corresponding to Luxembourg corporate income tax or a Luxembourg permanent establishment thereof, or (c) a company limited by share capital (*société de capitaux*) or a cooperative society (*société coopérative*) resident in the European Economic Area other than an EU Member State and liable to a tax corresponding to Luxembourg corporate income tax, or a Luxembourg permanent establishment thereof, or (d) a Swiss company limited by share capital (*société de capitaux*) which is effectively subject to corporate income tax in Switzerland without benefiting from an exemption.

No withholding tax is levied on capital gains and liquidation proceeds. The Issuer assumes responsibility for withholding taxes at source.

Income tax

The Issuer is a fully-taxable Luxembourg company. The net taxable profit of the Issuer is subject to Luxembourg corporate income tax and municipal business tax.

The taxable profit as determined for corporate income tax purposes is applicable, with minor adjustments, for municipal business tax purposes. Corporate income tax was levied at an effective maximum rate of 21.84% in 2010 (inclusive of the 4%surcharge for the employment fund) and 22.05% in 2011 (inclusive of the 5% surcharge for the employment fund). Municipal business tax is levied at a variable rate according to the municipality in which the company is located (6.75% in Luxembourg-city). The maximum aggregate corporate income tax and municipal business tax rate consequently amounts to 28.59% for companies located in Luxembourg-city in 2010and 28.8 % in 2011.

Under the participation exemption regime, dividends derived from shares may be exempt from income tax if (i) the distributing company is a qualified subsidiary ("Qualified Subsidiary") and (ii) at the time the dividend is put at the Issuer's disposal, the Issuer has held or commits itself to hold for an uninterrupted period of at least 12 months a qualified shareholding ("Qualified Shareholding"). A Qualified Subsidiary means (a) a company covered by Article 2 of the amended EU Parent-Subsidiary Directive or (b) a non-resident company limited by share capital (*société de capitaux*) liable to a tax corresponding to Luxembourg corporate income tax. A Qualified Shareholding means shares representing a direct participation of at least 10% in the share capital of the Qualified Subsidiary or a direct participation in the Qualified Subsidiary of an acquisition price of at least EUR 1.2 million. Liquidation proceeds are assimilated to a received dividend and may be exempt under the same conditions. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by the Issuer on shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Under the participation exemption regime, capital gains realized on shares may be exempt from income tax at the level of the Issuer if at the time the capital gain is realized, the Issuer has held or commits itself to hold for an uninterrupted period of at least 12 months shares representing a direct participation in the share capital of the Qualified Subsidiary (i) of at least 10% or of (ii) an acquisition price of at least EUR 6 million. Shares held through a tax transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity. Taxable gains are determined as being the difference between the price for which shares have been disposed of and the lower of their cost or book value.

Net Worth Tax

The Issuer is as a rule subject to Luxembourg net worth tax at the rate of 0.5% applied on net assets as determined for net worth tax purposes. Net worth is referred to as the unitary value (*valeur unitaire*), as determined at January 1, of each year. The unitary value is in principle calculated as the difference between (i) assets estimated at their fair market value (*valeur estimée de réalisation*), and (ii) liabilities vis-à-vis third parties.

Under the participation exemption, a Qualified Shareholding held in a Qualified Subsidiary by the Issuer is exempt.

Other taxes

The issuance of the Shares against contributions in cash as well as other amendments to its articles of incorporation are currently subject to a EUR 75 fixed duty. The disposal of the Shares is not subject to a Luxembourg registration tax or stamp duty, unless recorded in a Luxembourg notarial deed or otherwise registered in Luxembourg.

Taxation of the shareholders

Taxation of Luxembourg resident shareholders

Individual shareholders

Dividends and other payments derived from the Shares by resident individuals shareholders, who act in the course of the management of either their private wealth or their professional / business activity, are subject to income tax at the progressive ordinary rate (with a top effective marginal rate of currently 38.95% including solidarity surcharge). Under current Luxembourg tax laws, 50% of the gross amount of dividends received by resident individuals from (i) a fully-taxable Luxembourg resident company limited by share capital (*société de capitaux*), (ii) a company limited by share capital (*société de capitaux*) resident in a State with which Luxembourg has concluded a double tax treaty and liable to a tax corresponding to Luxembourg corporate income tax or (iii) a company resident in a EU Member State and covered by Article 2 of the EU Parent-Subsidiary Directive is exempt from income tax. A tax credit is as a rule granted for the 15% withholding tax.

Capital gains realized on the disposal of the Shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative gains and are subject to income tax at ordinary rates if the Shares are disposed of within 6 months after their acquisition or if their disposal precedes their acquisition. A participation is deemed to be substantial where a resident individual shareholder holds, either alone or together with his spouse/partner and/or minor children, directly or indirectly at any time within the 5 years preceding the disposal, more than 10% of the share capital of the Issuer. Capital gains realized on a substantial participation more than 6 months after the acquisition thereof are subject to income tax according to the half-global rate method, (i.e. the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A shareholder is also deemed to alienate a substantial participation if he acquired free of charge, within 5 years preceding the transfer, a participation that was constituting a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same 5-year period). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the Shares.

Capital gains realized on the disposal of the Shares by resident individual shareholders, who act in the course of their professional / business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Luxembourg resident corporate shareholders

Dividends and other payments derived from the Shares by a Luxembourg fully-taxable resident company are subject to corporate income tax and municipal business tax, unless the conditions of the participation exemption regime, as described below, are satisfied.

Should the conditions of the participation exemption not be fulfilled, 50% of the dividends received by a Luxembourg fully-taxable resident company from the Issuer are exempt from corporate income tax and municipal business tax. A tax credit is as a rule granted for the 15% withholding tax and any excess may be refundable.

Under the participation exemption regime, dividends derived from the Shares by a Luxembourg fully-taxable resident company may be exempt from income tax if cumulatively (i) the shareholder is a Luxembourg resident fully-taxable company and (ii) at the time the dividend is put at the shareholder's disposal, the shareholder has held or commits itself to hold for an uninterrupted period of at least 12 months a Qualified Shareholding in the Issuer. Liquidation proceeds are assimilated to receive dividends for the purpose of the participation exemption and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully-taxable resident company on the Shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Under the participation exemption regime, capital gains realized on the Shares by a Luxembourg fully-taxable resident company may be exempt from income tax at the level of the shareholder if cumulatively (i) the shareholder is a Luxembourg resident fully-taxable company and (ii) at the time the capital gain is realized, the shareholder has held or commits itself to hold for an uninterrupted period of at least 12 months Shares representing a direct participation (a) in the share capital of the Issuer of at least 10% or (b) of an acquisition price of at least EUR 6 million. Shares held through a fiscally transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Tax exempt shareholders

A shareholder who is either (i) an undertaking for collective investment subject to the amended law of December 20, 2002or the law of December 17, 2010, (ii) a specialized investment fund governed by the law of February 13, 2007, or (iii) a family wealth management company governed by the law of May 11, 2007, is exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the Shares are thus not subject to income tax in their hands.

Taxation of Luxembourg non-residents shareholders

Non-resident shareholders who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the Shares are attributable are generally not liable to any Luxembourg income tax, whether they receive payments of dividends or realize capital gains upon sale of Shares, except for a potential withholding tax (see above) and capital gains realised on a substantial participation (see above) before the acquisition or within the first 6 months of the acquisition thereof that are subject to income tax in Luxembourg at ordinary rates (subject to the provisions of an applicable double tax treaty).

Dividends received by a Luxembourg permanent establishment or permanent representative, as well as capital gains realised on the Shares, are subject to Luxembourg income tax, unless the conditions of the participation exemption regime are satisfied *i.e.* if cumulatively (i) the Shares are attributable to a qualified permanent establishment ("Qualified Permanent Establishment") and (ii) at the time the dividend is put at the disposal of the Qualified Permanent Establishment, it has held or commits itself to hold for an uninterrupted period of at least 12 months a Qualified Shareholding. A Qualified Permanent Establishment means (a) a Luxembourg permanent establishment of a company covered by Article 2 of the EU Parent-Subsidiary Directive, (b) a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) resident in a State having a tax treaty with Luxembourg and (c) a Luxembourg permanent establishment of a company limited by share capital (*société de capitaux*) or a cooperative society (*société coopérative)* resident in the European Economic Area other than a EU Member State. If the conditions of the participation exemption are not fulfilled, 50% of the gross amount of dividends received by a Luxembourg permanent establishment or permanent representative is exempt from income tax. A tax credit is further granted for the 15% withholding tax.

Under the participation exemption regime, capital gains realized on the Shares may be exempt from income tax if cumulatively (i) the Shares are attributable to a Qualified Permanent Establishment and (ii) at the time the capital gain is realized, the Qualified Permanent Establishment has held or commits itself to hold for an uninterrupted period of at least 12 months Shares representing a direct participation in the share capital of the Issuer (a) of at least 10% or (b) of an acquisition price of at least EUR 6 million.

Other taxes

Net Wealth Tax

Luxembourg net wealth tax will not be levied on the Shares in the hands of a shareholder unless (i) such shareholder is a corporate entity resident in Luxembourg other than (a) an undertaking for collective investment governed by the amended law of December 20, 2002,or the law of December 17, 2010 (b) a securitization company governed by the law of March 22, 2004, (c) a company subject to the law of June 15, 2004 on venture capital vehicles, (d) a specialized investment fund governed by the law of February 13, 2007, or (e) a family wealth management company governed by the law of May 11, 2007,or (ii) the Shares are attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg of a corporate entity. Further, Qualified Shareholding held in the Issuer by a Luxembourg resident fully-taxable company or attributable to a Qualified Permanent Establishment may be exempt from net wealth tax.

Inheritance tax and gift tax

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the Shares are included in his or her taxable basis for inheritance tax purposes. On the contrary, no inheritance tax is levied on the transfer of the Shares upon death of a shareholder in cases where the deceased was not a resident of Luxembourg for inheritance purposes.

Gift tax may be due on a gift or donation of the Shares, if the gift is embodied in a Luxembourg notarial deed or otherwise registered.

Taxation in Poland

This section provides information regarding the taxation of income related to holding and trading in shares admitted to trading on the regulated market. For the avoidance of doubt, all references to shares presented in this section also pertain to the Shares.

The information presented below is of a general nature and should not constitute the sole basis for evaluating the tax consequences of making any investment decisions. Potential investors are urged to consult their tax advisors. Please note that the information presented below has been prepared based on the legal statutes as at the date of the Prospectus.

Polish Corporate Investors

Taxation of Income Relating to Holding Shares

Dividends and other income (revenue) actually earned on holding shares (such as e.g. remuneration for redeemed shares- excluding buy-back of shares, liquidation proceeds)actually earned by legal persons and capital companies in organization, as well as other unincorporated entities (except civil, general, limited partnerships, professional partnerships, and limited joint-stock partnerships) with their registered office or place of management in Poland (the "Polish Corporate Shareholders"), shall be subject to taxation on the general rules under the Corporate Income Tax ("CIT") Act. They are taxed at the basic 19% rate.

Pursuant to Art. 20 section 3 of the CIT Act, an income tax exemption applies to dividends and other revenue earned on the holding of shares in companies whose seat or management office is outside Poland by Polish companies whose worldwide income is subject to CIT in Poland, regardless of where the source of income is located, if all of the following conditions are met:

- the entity which distributes the dividends and other revenue earned on shares is a company whose worldwide income (regardless of where the source of income is located) is subject to income tax in a European Union Member State other than Poland, or in a other Member State of the European Economic Area;

- Polish company holds directly not less than 10% of shares in the capital of the company referred to in item (a) above for an uninterrupted period of at least 2 years;
- the company which distributes the dividends and other revenue earned on shares does not benefit from the exemption from corporate income tax with respect to its all income, regardless of where the source of income is located.

CIT Act expressly provides that in order to benefit from the above exemption, the 2-year holding period requirement may be also met after the dividend is paid, provided that a given taxpayer would actually satisfy that requirement afterwards. Otherwise, a taxpayer who did not meet the 2-year holding period requirement would be obliged to pay the due income tax along with penalty interests.

The above exemption will not apply, however, if distributions are made upon liquidation of a company or upon buy-back of shares.

Moreover, dividends paid out by a Luxembourg company to Polish Corporate Shareholders may be exempt from Luxembourg withholding tax under Council Directive of July 23, 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, provided that the conditions specified by the Luxembourgian tax laws are satisfied.

The Double Tax Treaty concluded by the Republic of Poland and Grand Duchy of Luxembourg ("Double Tax Treaty") provides that dividends paid by a company with its registered office in Luxembourg to Polish Corporate Shareholders may be taxed both in Poland and Luxembourg, although such Luxembourg tax cannot exceed 5% of the gross amount of the dividend if the recipient of the dividend is a company (other than a partnership) holding at least 25% of the capital of the Luxembourg company distributing the dividend, or 15% of the gross amount of the dividend in all other situations.

It should be noted that in relation to the dividends which may be subject to taxation in Luxembourg, pursuant to Art. 24 sec. 1(a) of the Double Tax Treaty, an exemption from income tax applies in Poland.

Please note that the method of avoidance of double taxation (i.e. the exemption method) provided by the Double Tax Treaty with reference to dividends which are subject to withholding tax in Luxembourg, is unique compared with other double tax treaties entered into by Poland. Therefore, a tax advisor should be consulted regarding the possibility of applying this method in practice.

Pursuant to the provisions of the Double Tax Treaty, if Polish Corporate Shareholder carries on business in Luxembourg through a permanent establishment situated in Luxembourg (i.e. a fixed place of business through which the business of an enterprise is wholly or partly carried on), and the shares in respect of which the dividends are paid are effectively connected with such permanent establishment, dividends will be taxed in Luxembourg as business profits earned by that permanent establishment.

Taxation of Income from Disposal of Shares

Income earned by Polish Corporate Shareholders on disposal of shares of a Luxembourg company(including buy-back of shares) is subject to corporate income tax in Poland in accordance with the general rules. This income is aggregated with the business incomes of the given fiscal year, and subject to the general 19% CIT rate.

The income is computed as the difference between the revenue (in principle, the price agreed for the shares) and tax deductible costs (in principle, the costs of acquisition of the shares and costs related to the sale).

However, it should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, such agreed price may be challenged by the tax authorities.

Polish Individual Investors

Taxation of Income Relating to Holding Shares

Income earned by an individuals domiciled in Poland (the "Polish Individual Shareholders") on dividends and other income (revenue) actually earned on holding shares (such as e.g. remuneration for redeemed shares excluding buy-back of shares, liquidation proceeds) in a Luxembourg company is considered to be income from capital and it is not aggregated with incomes from other sources. Such income is subject to the 19% flat rate Personal Income Tax ("PIT"). The tax is settled on annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned.

It is not absolutely clear whether the tax due on dividend income earned by a Polish Individual Investor from a Luxembourg company shall be withheld by a Polish brokerage house assisting in the payment or not. On the one hand, there is a regulation (Art. 41 sec. 4 of the PIT Act) that clearly imposes on brokerage houses the obligation to withhold the tax. On the other hand, there is a regulation which provides that amounts of tax due on dividends earned outside Poland and the amounts of tax paid outside Poland on such dividends should be reported by a taxpayer (i.e. Polish Individual Investor) in his annual tax return (Art. 30a sec. 11). Most tax advisers seem to regard the latter provision as overruling the first one, and are thus of the opinion that a Polish brokerage house should not withhold any tax. However, in case of any doubts tax adviser should be consulted by a taxpayer.

The Double Tax Treaty provides that dividends paid by a company with its registered office in Luxembourg to Polish Individual Shareholders may be taxed both in Poland and Luxembourg, but such Luxembourg tax cannot exceed 15% of the gross amount of the dividend.

It should be noted that in relation to dividends which may be subject to tax in Luxembourg, the exemption with the progression method of avoidance of double taxation shall apply in Poland, pursuant to Art. 24 sec. 1(a) of the Double Tax Treaty. In accordance with these provisions, where a Polish Individual Shareholder receives dividends which may be taxed in Luxembourg, the Polish tax authorities shall exempt such income from tax. Nevertheless, when calculating the amount of tax on the remaining income such natural person, should take into account the exempted income from dividends.

Please note that the method of avoidance of double taxation (i.e. the exemption method) provided by the Double Tax Treaty with reference to dividends which are subject to withholding tax in Luxembourg, is unique compared with other double tax treaties entered into by Poland. Therefore, a tax advisor should be consulted regarding the possibility of applying this method in practice.

Pursuant to the provisions of the Double Tax Treaty, if the Polish Individual Shareholder carries on business in Luxembourg through a permanent establishment situated in Luxembourg (i.e. a fixed place of business through which the business of an enterprise is wholly or partly carried on) or performs in Luxembourg independent personal services from a fixed base situated in Luxembourg, and the shares in respect of which the dividends are paid are effectively connected with such permanent establishment or fixed base, dividends will be taxed in Luxembourg as business profits or as income from independent personal services earned by that permanent establishment or fixed base.

Taxation of Income from a Disposal of Shares

Income earned by a Polish Individual Shareholders on sale of shares (including buy-back of shares)should be classified as income from capital gains and as such it should not be combined with incomes from other sources but should be subject to the 19% flat PIT rate.

The income is computed as the difference between the revenue earned on disposal of shares (in principle, the price for the shares) and the related costs (in principle, the costs of acquisition of the shares and costs related to the sale). The tax is settled on annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned (this also being the deadline for paying the tax). No obligation exists to pay tax advances during the tax year.

The above is not applicable if a Polish Individual Shareholder holds the shares within the scope of its business activity. If this is the case, the income should be classified as a business income. In such case, income tax shall be paid at the progressive tax rates, which varies from 18% to 32%, or at the 19% flat rate (depending on the form of taxation chosen by the given individual).

It should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, this may be challenged by the tax authorities.

It should also be noted that pursuant to Art. 9 section 6 of the Polish PIT Act, losses incurred during a fiscal year on account of the disposal of shares may be deducted from the income received from that source over five consecutive fiscal years, provided that the amount of the deduction does not exceed 50% of the amount of the loss in any single fiscal year of the five-year period.

Foreign Investors

Individuals who do not have their place of residence in Poland and legal entities, companies in organization and other entities with no legal personality, if they are treated as tax residents under tax law of a given state, that have their registered office and place of management outside Poland are subject to PIT and CIT respectively, only with respect to the profits that are derive sources of income located on the territory of Poland.

Although this is not expressly provided for in Polish tax law, it should be noted that dividends from a Luxembourg company should not be treated as income derived from Poland, even if the company is listed on the Warsaw Stock Exchange. Consequently, it should be noted that dividends paid by a Luxembourg company to a foreign investor should not be subject to Polish income tax.

Polish tax law does not give clear direction on whether income from a sale of shares of a Luxembourg company should be treated as income derived from Poland if the shares are traded on the Warsaw Stock Exchange. It seems that the prevailing approach of the tax authorities is that trades on the Warsaw Stock Exchange shall be treated as, Polish source income. Consequently, as a rule, such income would be subject to Polish income tax and settled on general rules. In practice, however, most of the tax treaties would exempt such income from taxation in Poland. This should be verified on a case-by-case basis.

Tax on Civil Law Transactions

The tax on civil law transactions ("TCLT") is levied on agreements providing for a sale or exchange of rights, provided that these rights are executed in Poland or, if executed abroad, that the purchaser is a Polish tax resident and the transaction is effected in Poland.

The tax rate on the sale of shares and the exchange of shares is 1% at their market value and should be paid within fourteen days of the date on which the tax obligation arose (that is, the date the share or exchange agreement was concluded), unless the sale of shares and the exchange of shares agreements are concluded in a form of a notary deed. In that case the due tax should be collected by the notary public acting as a tax remitter. The purchaser of shares is liable for paying the due tax on civil law transactions. In the case of an exchange of shares, the liability for paying the due tax is borne jointly and severally by the parties to the exchange of shares transaction.

Exemptions from the tax on civil law transactions apply, without limitation, to transactions concerning the sale of financial instruments (including shares) to investment companies or to foreign investment companies or, through them, the sale of such instruments within the boundaries of a regulated market, and the sale of such instruments made by investment companies or foreign investment companies outside the boundaries of a regulated market, provided that such instruments were acquired by those companies within the boundaries of a regulated market, as defined in the Polish Act on Trading in Financial Instruments.

Additionally, civil law transactions are not subject to TCLT if at least one party of a given transaction is subject to VAT or is exempted from VAT with respect to such transaction, however, with exception of sale of shares agreement.

INDEPENDENT AUDITORS

The Consolidated Financial Statements for the years ended June 30, 2010, June 30, 2009 and June 30, 2008, presented in the Prospectus were audited by Interaudit S.a.r.l., an independent member of Baker Tilly International, with its seat at 119 Avenue de la Faiencerie, L-1511 Luxembourg, the grand Duchy of Luxembourg.

The Interim Combined Financial Statements presented in the Prospectus were reviewed by Interaudit S.a.r.l., an independent member of Baker Tilly, with its seat at 119 Avenue de la Faiencerie, L-1511 Luxembourg, the grand Duchy of Luxembourg.

Interaudit S.a.r.l. has given, and has not withdrawn, its written consent to the inclusion of its reports and the reference to themselves herein in the form and context in which they are included. Interaudit S.a.r.l. has no interest in the Issuer.

The signatory of the independent auditors' reports on the Consolidated Financial Statements, Interim Consolidated Financial Statements on behalf of Interaudit S.a.r.l. is Edward Kostka.

ADDITIONAL INFORMATION

Capitalized terms used in this Prospectus and not otherwise defined herein have the meaning ascribed to such terms in Annex I "*Defined Terms*".

This Prospectus has been prepared by the Issuer in connection with the Offering and Admission solely for the purpose of enabling a prospective investor to consider an investment in the Offer Shares. The information contained in this Prospectus has been provided by the Issuer and other sources identified herein.

Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should, therefore, read this Prospectus in its entirety, and in particular, a section "*Risk Factors*", when considering an investment in the Offer Shares. The contents of this Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice and not rely exclusively on the legal, financial or tax information contained in this Prospectus.

Save for the provisions of mandatory laws, no person is or has been authorized to give any information or to make any representation in connection with the Offering and/or Admission, other than as contained in this Prospectus, and if given or made, any other information or representation must not be relied upon as having been authorized by the Issuer, or by the Managers.

In this Prospectus, the terms "Issuer", "Company", "Coal Energy Group", "Group", "Coal Energy" and similar terms refer to Coal Energy S.A. and its direct and indirect consolidated subsidiaries, unless the context requires otherwise. Unless otherwise noted, references to "management" are to the members of the Board of Directors and the Senior Management, and statements as to the Issuer's beliefs, expectations, estimates and opinions are to those of the Issuer's management. The terms "Operating Companies" and "Operating Subsidiaries", refer to Ukrainian companies Antracit LLC, CwAL LE Novodzerzhynskaya Mine, CwAL LE Sh/U Chapaeva, Donantracit LLC, Donbasuglerazrabotka LLC, Donprombiznes LLC, Donugletekhinvest LLC, Eximenergo PEK LLC, Nedra Donbasa LLC, Tekhinnovatsiya LLC, and Ugledobycha LLC, and term "Group Subsidiaries" refers to any direct or indirect subsidiary of the Issuer, if the context indicates.

The corporate governance structure of the Issuer is set out in its Articles of Association which are available on the Issuer's website: www.coalenergy.com.ua.

Responsibility for this Prospectus

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer, which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Neither the delivery of this Prospectus nor any sale made hereby at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or any of its subsidiaries or the Issuer and its subsidiaries taken as a whole (the "Coal Energy Group", the "Group") since the date hereof or that the information contained herein is correct as of any date subsequent to the earlier of the date hereof or any date specified with respect to such information.

Neither the Managers nor the legal advisers to the Issuer accept any responsibility whatsoever for the contents of this Prospectus, or for its transaction, or for any other statement made or purported to be made by any of them or on their behalf in connection with the Issuer or the Offering. The Managers and the legal advisers to the Issuer accordingly disclaim all and any liability whether arising in tort or contract which they might otherwise have in respect of this Prospectus or any such statement. No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of the information set forth herein and nothing contained in this Prospectus is, or shall be relied upon as a promise or representation, whether as to the past or the future.

Notice to Prospective Investors

The distribution of this Prospectus and the Offering of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or any solicitation or invitation to purchase, any of the Offer Shares offered hereby in any jurisdiction in which such an offer or solicitation or invitation would be unlawful. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions, including those set out under "*Selling Restrictions*". Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition to the purchase of any Offer Shares in the Offering, each purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties and will be required to take certain actions described in particular in "*The Offering and Plan of Distribution*", which will be relied upon by the Issuer, the Managers and others. The Issuer and the Principal Shareholder reserve the right, in its sole and absolute discretion, to reject any purchase of Offer Shares that the Issuer, the Principal Shareholder, the Managers or any agents believe may give rise to a breach or a violation of any law, rule or regulation. See, in particular: "*Selling Restrictions*".

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other Unites States regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Presentation of Financial and Other Information

The Issuer maintains its financial statements (the "IFRS Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC") and as applicable in the respective years.

The IFRS Financial Statements included in this Prospectus comprise: (i) the reviewed Interim Consolidated Financial Statements of the Group for the nine months ended March 31, 2011; and (ii) the audited Consolidated Financial Statements of the Group for the years ended June 30, 2010, 2009 and 2008.

The financial statements included in the Prospectus are presented in US which is the accounting currency of the Group. The Operating Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the Combined Financial Statements, which have been prepared based on the Operating Subsidiaries' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in tables in this Prospectus have also been rounded and accordingly the totals in these tables may not add up to 100 %.

Unless otherwise indicated, all references in this Prospectus to "US$" or "US$" are to the lawful currency of the United States and all references to "EUR", "Euro" or "€" are to the lawful currency of the European Economic and Monetary Union, of which Luxembourg is a member. References to "UAH" or "Hryvnia" are to the lawful currency of Ukraine, whereas all references to "PLN" and "Polish zloty" are to the lawful currency of Poland, and all references to "RUB" or "Russian rouble" are to the lawful currency of the Russian Federation.

Potential investors should consult their own professional advisers to gain an understanding of the financial information contained herein.

Market, Economic and Industry Data

All references to market, economic or industry data, statistics and forecasts in this Prospectus consist of estimates compiled by professionals, state agencies, market and other organisations, researchers or analysts, publicly available information from other external sources as well as the Issuer's knowledge of the sales and markets and assessments made by the Group's management.

Certain statistical data and market, economic or industry information and forecasts relating to the world and Ukrainian coal mining industry and market have been extracted and derived from reports and analysis produced by, *inter alia*, the following sources:

- information available on website owned and operated by the State Statistics Committee of Ukraine (www. ukrstat.gov.ua);
- market researches available on website of the Global Information, Inc. (www.the-infoshop.com);
- reports published on www.researchandmarkets.com;
- statistical data of National Bank of Ukraine (www.bank.gov.ua);
- statistical data of National Bank of Poland (www.nbp.gov.pl).

While the Issuer has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Issuer nor the Managers have independently verified that data. The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as the Group is aware and able to ascertain from the information published by the cited sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. Subject to the foregoing, none of the Issuer or the Managers can assure investors of the accuracy or completeness of, or take any responsibility for, such data. The source for such third party information is cited whenever such information is used in this Prospectus.

With respect to industries in which the Group operates, some of estimates and assessments could not be substantiated by reliable external market and/or industry information as such information is not often available or may be incomplete. While the Issuer has taken every reasonable care to provide the best possible assessments of the relevant market situation and the information about the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigations of the relevant markets or employ a professional consultant. Industry publications generally state that their information is obtained from sources they believe reliable, but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. The Issuer has relied on the accuracy of such data and statements without carrying out an independent verification thereof, and therefore cannot guarantee their accuracy and completeness. Furthermore, the Issuer believes that its management's estimates and assessments are accurate and reliable; however, they have not been verified by independent external professionals. Consequently, the Issuer can guarantee neither their accuracy and completeness nor that estimates or projections made by another entity relying on other methods of collecting, analysing and assessing market data would be the same as the Issuer's.

Save where required by mandatory provisions of laws, the Issuer does not intend and do not undertake to update market, economic or industry data, statistics and forecasts contained in this Prospectus. Industry trends may change or significantly differ from the one projected in this Prospectus. Therefore investors should be aware that estimates made in this Prospectus may not be relied upon as indicatives of the Group's future performances and actual trends.

In this Prospectus, the Issuer makes certain statements regarding its competitive position, growth and market leadership. The Issuer believes these statements to be true based on market data and industry statistics regarding the competitive position of certain of the Group's competitors. In presenting the overview of the Group's competitive position in the relevant markets, the Issuer also relied on management's assessments and analysis of such competitive position. In making such assessments and analysis the management has used market information collected by its own employees and advisors for such purpose, either available on the basis of public information or derivable from the same.

Documents Incorporated by Reference

No documents or content of any website are incorporated by reference in this Prospectus.

Forward-looking Statements

Some of the statements in some of the sections in this Prospectus include forward-looking statements which reflect the Issuer's current views with respect to future events and financial performance of its Group. Such forward-looking statements can be identified by the use of forward-looking terminology, including the terms such as "believes", "expects", "estimates", "anticipates", "intends", "plans", "may", "will", "should", "would", "could" or, in each case, their negatives or other variations or comparable terms. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. Such items in this Prospectus include, but are not limited to, statements under "*Risk Factors*", "*Business Description*", "*Industry Overview*" and "*Operating and Financial Review*".

By their nature, forward-looking statements involve known and unknown risk and uncertainty, and other factors that may cause the Group's actual results, performances and achievements to differ materially from any future results, performances, achievements or developments expressed in or implied by such forward-looking statements. The Issuer has based these forward-looking statements on numerous assumptions regarding the Group's present and future business strategies, the Group's current expectations and projections about future events and the environment in which the Group will operate in the future. These forward-looking statements are subject to risks, uncertainties and assumptions about the Group, including, among other things:

- the Group's ability to develop and expand its business;
- the Group's ability to keep up with new technologies and expand into new markets;
- the Issuer's and the Group Subsidiaries ability to control their costs;
- the Group's future capital spending and availability of financial resources to finance capital spending;

- political and economic conditions in the countries in which the Group Subsidiaries operate;
- volatility in the world's securities markets;
- the effects of regulation (including tax regulations) in Luxembourg and other countries in which the Group Subsidiaries operate.

The forward-looking statements speak only as at the date of this Prospectus. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, whether to reflect any new information, future events, any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statements is based, except as required by law, including under the Prospectus Act 2005 and the Polish Public Offerings Act.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Prospective investors are cautioned not to place undue reliance on such forward-looking statements, which are based on facts known to the Issuer only as at the date of this Prospectus.

Documents Available for Inspection

Copies of the following documents will, when published, be available for inspection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer from the date of this Prospectus throughout its validity period:

- the most recent version of the Articles of Association;
- the audited Consolidated Financial Statements of the Group for the year ended June 30, 2010, 2009, and 2008 together with the auditor's reports;
- the reviewed Consolidated Financial Statements of the Group for the nine months ended March 31, 2011 together with the auditor's reports;
- this Prospectus (including a summary translated into the Polish language) and supplements thereto, if any;
- copies of all corporate resolutions mentioned in this Prospectus.

Moreover, the following documents will be available through the Issuer's website www.coalenergy.com.ua:

- this Prospectus together with a summary translated into the Polish language, and supplements;
- the most recent version of the Articles of Association.

INDEX TO FINANCIAL STATEMENTS

COAL ENERGY S.A.
Luxembourg
RCS Lux B 0154144

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the nine months
ended 31 March 2011
and
Independent auditor's review report

Contents

Statement of Management responsibility

Management of the Group is responsible for preparation of the interim consolidated financial statements of the Group in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

While preparing these interim consolidated financial statements, the Management bears responsibility for the following issues:

- selection of the appropriate accounting policies and their consistent application;
- making judgments and estimates that are reasonable and prudent;
- adherence to IFRS concepts or disclosure of all material departures from IFRS in the consolidated financial statements;
- preparation of the consolidated financial statements on the going concern basis.

Management confirms that it has complied with the above mentioned principles in preparing the interim consolidated financial statements of the Group.

The Management is also responsible for:

- keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;
- taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of management:

Chairman of the Board of directors
Vyshnevetskyy V.

Luxembourg
10 June 2011

interaudit

Cabinet de révision agréé

To the Board of Directors of
Coal Energy S.A.
46A, Avenue J.F.Kennedy
L-1855 Luxembourg

Independent auditor's review report on the interim consolidated financial statements as at March 31, 2011 and March 31, 2010

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of COAL ENERGY S.A. (the Group hereinafter), as at 31 March 2011 and 31 March 2010 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this Interim Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU). Our responsibility is to express a conclusion on these Interim Consolidated Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim consolidated statement consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

1. We did not participate in the stock taking of inventories and property, plant and equipment as at 30 June 2010, 30 June 2009 because we were engaged as the Group's auditors after these dates. We were unable to obtain sufficient evidence regarding the number of inventories and property, plant and equipment by means of other auditing procedures. Therefore, we are unable to confirm the inventories and property, plant and equipment in the consolidated statement of financial position as at 31 March 2010 and the cost of sales in the consolidated statement of comprehensive income for the nine months ended 31 March 2010.
2. We did not obtain sufficient evidence as to the completeness of disclosures on cross financing transactions with certain counterparties. Consequently, we are not able to confirm that the accounts payable, notes issued in the consolidated statement of financial position and equity distribution in the statement of changes in equity are recorded in full as at 31 March 2010.

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Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying Interim Consolidated Financial Statements does not give a true and fair view of the financial position Group as at 31 March 2011 and 31 March 2010, and of its financial performance and its cash flows for the nine months then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our review opinion, we draw your attention to the following:

As stated in Note 28 "Provisions", the Group conducts transactions, interpretation of which by tax authorities can substantially differ from their understanding by the Group, resulting in accrual of additional income tax for the Group. In this connection the Group recognizes additional provision on tax liabilities.

The interim consolidated financial statements have been prepared for the purpose of presenting the consolidated financial position, operating results and cash flows of the Group as if acquisitions of subsidiaries from the common controlling shareholder made in June 2010 had already taken place as at the date when control was obtained by the common controlling shareholder. The basis of preparation is described in note 2.3 "Basis of consolidation".

Note 33 "Related party transactions" describes that the Group concludes a significant portion of its transactions with related parties.

Luxembourg, June 10, 2011

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

Edward KOSTKA
Managing partner

BAKER TILLY INTERNATIONAL

interaudit

COAL ENERGY S.A.
Interim consolidated financial statements for nine months ended 31 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 31 MARCH 2011
(in thousands of USD, unless otherwise stated)

	Note	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Revenue	4	109 220	38 585
Cost of sales	5	(66 650)	(25 259)
GROSS PROFIT		**42 570**	**13 326**
General and administrative expenses	6	(2 804)	(935)
Selling and distribution expenses	7	(5 215)	(2 209)
Other operating income (expenses)	8	1 649	(2 422)
OPERATING PROFIT		**36 200**	**7 760**
Other non-operating expenses	9	(843)	(270)
Finance income	11	1 266	1 212
Finance costs	12	(5 989)	(5 508)
PROFIT BEFORE TAX		**30 634**	**3 194**
Income tax expenses (income)	14	(990)	122
PROFIT FOR THE PERIOD		**29 644**	**3 316**
OTHER COMPREHENSIVE INCOME:			
Effect of foreign currency translation		(46)	(563)
TOTAL OTHER COMPREHENSIVE INCOME		**(46)**	**(563)**
TOTAL COMPREHENSIVE INCOME		**29 598**	**2 753**
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the parent		28 702	3 274
Non-controlling interests		942	42
		29 644	**3 316**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent		28 649	2 714
Non-controlling interests		949	39
		29 598	**2 753**
Weighted average number of ordinary shares outstanding		31 000	31 000
BASIC EARNINGS PER ORDINARY SHARE (expressed in USD cents)		**926**	**106**

Notes on pages 10 to 26 are an integral part of these interim consolidated financial statements

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2011
(in thousands of USD, unless otherwise stated)

ASSETS	Note	At 31 March 2011	At 30 June 2010	At 31 March 2010
Non-current assets				
Property, plant and equipment	15	43 212	23 929	14 793
Intangible assets	16	9 148	9 864	1 087
Financial assets	17	3 072	919	113
Deferred tax assets	14	3 851	4 610	1 371
		59 283	**39 322**	**17 364**
Current assets				
Inventories	18	9 944	18 681	10 574
Trade and other receivables	19	3 756	11 111	6 865
Advances paid and deferred expenses	20	1 529	458	319
Financial assets	17	10 001	17 058	25 591
Prepayments of income tax		3	-	1
Other taxes receivable	22	731	977	4 857
Cash and cash equivalents	23	1 976	108	501
		27 940	**48 393**	**48 708**
TOTAL ASSETS		**87 223**	**87 715**	**66 072**
EQUITY AND LIABILITIES				
Equity				
Share capital	24	38	38	38
Retained earnings		8 308	22 750	20 453
Effect of foreign currency translation		(6 508)	(6 455)	(6 497)
Equity attributable to equity holders of the parent		**1 838**	**16 333**	**13 994**
Non-controlling interests		(1 688)	(145)	25
TOTAL EQUITY		**150**	**16 188**	**14 019**
Non-current liabilities				
Loans and borrowings	25	8 902	13 079	18 455
Obligations under finance lease	26	6 569	4 617	-
Defined benefits plan obligations	27	15 290	8 401	5 759
Provisions	28	7 356	2 052	537
Deferred tax liability	14	859	609	628
		38 976	**28 758**	**25 379**
Current liabilities				
Loans and borrowings	25	27 293	21 527	16 951
Obligations under finance lease	26	1 285	903	-
Trade and other payables	29	15 901	15 302	5 819
Income tax payable		291	21	14
Other taxes payable	22	3 327	1 260	375
Provisions	28	-	3 756	3 515
		48 097	**42 769**	**26 674**
TOTAL LIABILITIES		**87 073**	**71 527**	**52 053**
TOTAL EQUITY AND LIABILITIES		**87 223**	**87 715**	**66 072**

Notes on pages 10 to 26 are an integral part of these interim consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 31 MARCH 2011
(in thousands of USD, unless otherwise stated)

	Equity attributable to equity holders of the parent					
	Share capital	Retained earnings	Effect of foreign currency translation	Total	Non-controlling interest	Total equity
As at 30 June 2009	**38**	**20 973**	**(5 937)**	**15 074**	**90**	**15 164**
Profit for the year	-	3 274	-	**3 274**	42	**3 316**
Other comprehensive income	-	-	(560)	**(560)**	(3)	**(563)**
Total comprehensive income	**-**	**3 274**	**(560)**	**2 714**	**39**	**2 753**
Equity distribution	-	(3 794)	-	**(3 794)**	(104)	**(3 898)**
As at 31 March 2010	**38**	**20 453**	**(6 497)**	**13 994**	**25**	**14 019**
As at 30 June 2010	**38**	**22 750**	**(6 455)**	**16 333**	**(145)**	**16 188**
Profit for the year	-	28 702	-	**28 702**	942	**29 644**
Other comprehensive income	-	-	(53)	**(53)**	7	**(46)**
Total comprehensive income	**-**	**28 702**	**(53)**	**28 649**	**949**	**29 598**
Addition of subsidiary	-	591	-	**591**	202	**793**
Equity distribution	-	(43 735)	-	**(43 735)**	(2 694)	**(46 429)**
As at 31 March 2011	**38**	**8 308**	**(6 508)**	**1 838**	**(1 688)**	**150**

Notes on pages 10 to 26 are an integral part of these interim consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 31 MARCH 2011
(in thousands of USD, unless otherwise stated)

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
OPERATING ACTIVITIES		
Profit before tax	**30 634**	**3 194**
Adjustment to reconcile profit before tax to net cash flows		
Depreciation and amortization expenses	4 221	1 287
Finance income	(1 266)	(1 212)
Finance costs	5 989	5 508
Expenses for doubtful debts	11	-
Income from sale of property, plant and equipment	(235)	(41)
Writing-off of non-current assets	51	18
Profit from exchange differences	(73)	(146)
Income from writing-off of accounts payable	-	(8)
Income from current assets received free of charge	(2)	-
Movements in defined benefits plan obligations	2 326	1 256
Shortages and losses from impairment of inventory	89	154
Working capital adjustments:		
Change in trade and other receivables	6 773	9 490
Change in advances paid and deferred expenses	(1 039)	76
Change in inventories	9 199	(2 723)
Change in trade and other payables	(3 599)	(4 262)
Change in taxes payable	1 298	(18)
Change in provisions	-	702
	54 377	**13 275**
Income tax paid	(208)	(8)
Net cash flows from operating activities	**54 169**	**13 267**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(8 705)	(2 181)
Proceeds from sale of property, plant and equipment and intangible assets	236	193
Purchase of financial assets	(25 622)	(15 885)
Proceeds from sale of financial assets	34 036	7 418
Acquisition of a subsidiary, net of cash acquired	17	-
Net cash flows from investing activities	**(38)**	**(10 455)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	10 618	3 285
Repayment of loans and borrowings	(7 610)	(353)
Proceeds from interest free financial liabilities	25 553	19 490
Repayment of interest free financial liabilities and notes issued	(30 110)	(19 308)
Equity distribution	(46 429)	(3 898)
Interest paid	(4 279)	(1 951)
Net cash flows from financing activities	**(52 257)**	**(2 735)**
NET CASH FLOWS	**1 874**	**77**
Cash and cash equivalents at the beginning of the period	**108**	**436**
Effect of translation to presentation currency	(6)	(12)
Cash and cash equivalents at the end of the period	**1 976**	**501**

Notes on pages 10 to 26 are an integral part of these interim consolidated financial statements

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

1 General information

For the purposes of these interim consolidated financial statements, Coal Energy S.A. ("Parent company") and its subsidiaries ("Subsidiaries") have been presented as the Group as follows:

Parent company and its subsidiaries	Country of incorporation	Group shareholding, % as at		
		31 March 2011	30 June 2010	31 March 2010
Coal Energy SA	Luxembourg	100,00	100,00	100,00
Nertera Investments Limited	Cyprus	100,00	100,00	100,00
Donbasuglerazrabotka LLC	Ukraine	99,00	99,00	99,00
Donugletekhinvest LLC	Ukraine	99,00	99,00	99,00
Nedra Donbasa LLC	Ukraine	99,00	99,00	99,00
Donprombiznes LLC	Ukraine	99,00	99,00	99,00
Ugledobycha LLC	Ukraine	99,99	99,99	99,99
Donantracit LLC	Ukraine	99,99	99,99	99,99
Tekhinnovatsiya LLC	Ukraine	99,99	99,99	99,99
Eximenergo LLC	Ukraine	99,00	99,00	99,00
Antratcit LLC	Ukraine	99,00	99,00	99,00
Techinvest LLC	Ukraine	-	-	69,30
CwAL LE Sh/U Chapaeva	Ukraine	86,62	86,62	-
CwAL LE Novodzerzhynskaya Mine	Ukraine	74,55	-	-

The parent company, Coal Energy S.A., was incorporated in Luxembourg as a joint stock company on 17 June 2010. The registered office is located at 46A, avenue J.F.Kennedy, L-1855 Luxembourg.

Principal activities of the Group are coal mining, coal beneficiation, waste dumps processing and sales of marketable coal. Major production facilities of the Group are located in the Donetsk region of Ukraine.

These interim consolidated financial statements were authorized for issue by the Directors on 10 June 2011.

2 Basis of preparation of the interim consolidated financial statements

2.1 Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 31 March 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2010.

2.2 Significant accounting policies

The accounting policies, significant accounting judgements, estimates and assumptions adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2010.

2.3 Foreign currency translation

Exchange rates used in the preparation of these interim consolidated financial statements were as follows:

Currency	31 March 2011	Average for the nine months ended 31 March	30 June 2010	31 March 2010	Average for the nine months ended 31 March	30 June 2009
UAH/USD	7,9600	7,9253	7,9070	7,9250	7,9297	7,6303
EUR/USD	0,7039	0,7469	0,8149	0,7419	0,6989	0,7075

3 Acquisition of subsidiary

In 2010 the Group has gained the control over CwAL LE Novodzerzhynskaya Mine by obtaining 74,55% corporate rights. Information about such operations is presented below:

Company name	Country of incorporation	Type of activity	Date of acquisition	Group interest rate, %
CwAL LE Novodzerzhynskaya Mine	Ukraine	coal-mining industry	23 July 2010	74,55

The Group decides to measure non-controlling interest in the acquired companies at the non-controlling interest's proportionate share of the acquired companies identifiable net assets.

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

3 Acquisition of subsidiary (continued)

Information about the fair value of identifiable assets and liabilities of CwAL LE Novodzerzhynskaya Mine at the acquisition date is presented below:

	CwAL LE Novodzerzhynskaya	
	Fair value recognised on acquisition	**Previous carrying value in the subsidiary**
Non-current assets		
Property, plant and equipment	14 917	9 731
Deferred tax assets	-	863
Current assets		
Inventories	636	636
Trade and other receivables	1 709	1 709
Advances paid and deferred expenses	40	40
Financial assets	-	-
Other taxes receivable	21	21
Cash and cash equivalents	17	17
Non-current liabilities		
Obligations under finance lease	(1 996)	(1 996)
Defined benefits plan obligations	(4 661)	(4 661)
Environmental obligations	(1 271)	(1 271)
Deferred tax liability	(433)	-
Current liabilities		
Loans and borrowings	(954)	(954)
Obligations under finance leases	(391)	(391)
Trade and other payables	(5 801)	(5 801)
Income tax payable	(43)	(43)
Other taxes payable	(997)	(997)
Total identifiable net assets at fair value	**793**	**(3 097)**
Non-controlling interests at fair value	**(202)**	
Excess of the Group's share in the fair value of the net assets acquired over the cost of acquisition	**(591)**	
Purchase consideration transferred	**-**	
Cash flow on acquisition		
Net cash acquired with the subsidiary	17	
Cash paid	-	
Net cash inflow	**17**	

For assessment of fair value of the identifiable assets and liabilities of CwAL LE Novodzerzhynskaya Mine valuation of property, plant and equipment was completed and showed that the fair value at the date of acquisition was USD 14 917 thousand. Revaluation of property, plant and equipment to the amount of USD 14 917 thousand as compared with previous carrying value in the subsidiary entailed decreasing deferred tax assets from USD 863 thousand to deferred tax liabilities equal to USD 433 thousand.
From the date of acquisition to 31 March 2011, CwAL LE Novodzerzhynskaya Mine has contributed USD 16 016 thousand of revenue and USD 3 933 thousand of profit to the net profit before tax of the Group.

4 Information on operational segments

The group defines the following business segments that include goods and services distinguished by the level of risk and terms of acquisition of income:
(a) mineral resource and processing industry – includes income from sale of own coal products and income from coal beneficiation;
(b) trade activity - includes income from sale of merchandises;
(c) other activitiy - includes income from rendering of other works and services.
Management controls the results of operating segments separatedly for the purpose of decision making about allocation of resources and performance measurement. The results of segments are estimated on operating profit (loss).

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

4 Information on operational segments (continued)

Information about the segments of business for the nine months ended 31 March 2011

	Business segments				
	Mineral resource and processing industry	Trade activity	Other activitiy	Adjustments and elimination	Total
Revenue					
Sales to external customers	101 958	7 021	241	-	109 220
	101 958	**7 021**	**241**	**-**	**109 220**
Gross profit of the segment	**38 006**	**4 466**	**98**	**-**	**42 570**
Depreciation and amortisation	(4 221)	-	-	-	**(4 221)**
Defined benefits plan obligations expenses	(3 321)	-	-	-	**(3 321)**
Operational assets	**67 162**	**427**	**-**	**19 634**	**87 223**
Operational liabilities	**(42 670)**	**-**	**-**	**(44 403)**	**(87 073)**
Disclosure of other information					
Capital expenditure	23 437	-	-	-	**23 437**

Assets of segments do not include financial assets (USD 13 073 thousand), cash (USD 1 976 thousand), prepayments of income tax (USD 3 thousand), other taxes receivable (USD 731 thousand), as well as deferred tax assets (USD 3 851 thousand), since management of these assets is carried out at the Group's level.
Liabilities of segments do not include deferred tax liabilities (USD 859 thousand), non-current loans and borrowings (USD 8 902 thousand), current loans and borrowings (USD 27 293 thousand), other taxes payable (USD 3 327 thousand), income tax payable (USD 291 thousand), provision on tax liabilities (USD 3 731 thousand) since management of these liabilities is carried out at the Group's level.

Information about the segments of business for the nine months ended 31 March 2010

	Business segments				
	Mineral resource and processing industry	Trade activity	Other activitiy	Adjustments and elimination	Total
Revenue					
Sales to external customers	20 794	17 535	256	-	38 585
	20 794	**17 535**	**256**	**-**	**38 585**
Gross profit of the segment	**9 114**	**4 073**	**139**	**-**	**13 326**
Depreciation and amortisation	(1 287)	-	-	-	**(1 287)**
Defined benefits plan obligations expenses	(1 330)	-	-	-	**(1 330)**
Operational assets	**32 885**	**753**	**-**	**32 434**	**66 072**
Operational liabilities	**(12 115)**	**-**	**-**	**(39 938)**	**(52 053)**
Disclosure of other information					
Capital expenditure	2 059	-	-	-	**2 059**

Assets of segments do not include financial assets (USD 25 704 thousand), cash (USD 501 thousand), prepayments of income tax (USD 1 thousand), other taxes receivable (USD 4 857 thousand), as well as deferred tax assets (USD 1 371 thousand), since management of these assets is carried out at the Group's level.
Liabilities of segments do not include deferred tax liabilities (USD 628 thousand), non-current loans and borrowings (USD 18 455 thousand), current loans and borrowings (USD 16 951 thousand), other taxes payable (USD 375 thousand), as well as provisions (USD 3 515 thousand), income tax payable (USD 14 thousand) since management of these liabilities is carried out at the Group's level.

Geographic information

Revenue from external customers	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Ukraine	84 004	35 429
Countries of distant foreignness	25 216	3 156
	109 220	**38 585**

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

4 Information on operational segments (continued)

These are main clients of the Group, revenue from which is more than 10% of Group's income:

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
PJSC "Donetsksteel" – iron and steel works"	12 893	-
LLC "Coal of Ukraine"	-	12 463
LLC "Intech-Progress"	11 995	-
LLC "Metinvest Holding"	12 710	3 380
LLC "DTEC Trading"	9 472	7 683
LLC "Prom-Al'jans-Group"	7 781	-

This revenue is applicable to mineral resource and processing industry segment. It is impossible to identify customers of trade activity segment, revenue from which is equal or more than 10% of Group's income.
All non-current assets are located in Ukraine.

5 Cost of sales

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Raw materials	(17 778)	(7 309)
Change in inventories	(8 382)	3 360
Cost of merchandising inventory	(2 555)	(13 462)
Wages and salaries of operating personnel	(23 623)	(4 488)
Depreciation and amortization expenses	(4 115)	(835)
Subcontractors services	(3 426)	(922)
Energy supply	(6 120)	(1 318)
Other expenses	(651)	(285)
	(66 650)	**(25 259)**

6 General and administrative expenses

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Wages and salaries of administrative personnel	(1 871)	(718)
Depreciation and amortization expenses	(46)	(16)
Bank services	(226)	(50)
Subcontractors services	(474)	(95)
Other expenses	(187)	(56)
	(2 804)	**(935)**

7 Selling and distribution expenses

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Delivery costs	(4 395)	(1 768)
Subcontractors services	(297)	(19)
Wages and salaries of distribution personnel	(401)	(282)
Depreciation and amortization expenses	(12)	(8)
Other expenses	(110)	(132)
	(5 215)	**(2 209)**

8 Other operating income (expenses)

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Expenses for doubtful debts	(11)	-
Profit from exchange differences	73	146
Writing-off of VAT	(491)	(51)
Expenses due to idle capacity	(233)	(2 517)
Income from Emission Reduction Units sale	2 311	-
	1 649	**(2 422)**

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

9 Other non-operating expenses

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Income from sale of property, plant and equipment	235	41
Writing-off of non-current assets	(51)	(18)
Depreciation of non-operating property, plant and equipment	(12)	-
Wages and salaries of non-operating personnel	(177)	-
Other income	120	14
Other expenses	(958)	(307)
	(843)	**(270)**

10 Depreciation and amortization expenses

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Depreciation		
Cost of sales	(3 455)	(825)
General and administrative expenses	(46)	(16)
Selling and distribution expenses	(12)	(8)
Depreciation of non-operating property, plant and equipment	(12)	-
Depreciation of property, plant and equipment which are temporarily not used	(36)	(423)
	(3 561)	**(1 272)**
Amortization		
Cost of sales	(660)	(10)
Amortization of intangible assets which are temporarily not used	-	(5)
	(660)	**(15)**
	(4 221)	**(1 287)**

11 Finance income

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Interest income	8	-
Income from initial recognition of financial liabilities at amortized cost	167	-
Income from measurement of financial assets at amortised cost	1 091	1 212
	1 266	**1 212**

12 Finance costs

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Interest expenses	(3 149)	(1 988)
Loss from non-operational exchange differences	(452)	(512)
Interest on obligations under finance lease	(1 126)	-
Expenses from measurement of financial liabilities at amortized cost	(85)	(68)
Expenses from pre-mature redemption of financial liabilities at amortized cost	(29)	(2 777)
Expenses from initial recognition of financial assets at amortised cost	(589)	(81)
Loss from sale of assets held for trading	(187)	-
Unwinding of discount on environmemtal obligations	(326)	(63)
Other expenses	(46)	(19)
	(5 989)	**(5 508)**

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

13 Wages and salaries expenses

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Wages and salaries	(15 002)	(3 264)
Bonuses	(414)	(256)
Contributions to Pension Fund	(6 143)	(1 050)
Other contributions	(1 493)	(524)
Defined benefit obligation expenses	(3 321)	(1 330)
	(26 373)	**(6 424)**
The average number of employees, persons	6 504	3 064
The average number of key management personnel, persons	81	75
Wages and salaries of operating personnel	(23 623)	(4 488)
Wages and salaries of administrative personnel	(1 871)	(718)
Wages and salaries of distribution personnel	(401)	(282)
Wages and salaries of non-operating personnel	(177)	-
Wages and salaries of personnel involved in production of property, plant and equipment	(263)	(15)
Wages and salaries of personnel in the period of idle capacity	(38)	(921)
	(26 373)	**(6 424)**

14 Income tax expenses (income)

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Current income tax	(434)	(24)
Deferred tax	(556)	146
Income tax expenses (income)	**(990)**	**122**
Tax (payable) receivable at the beginning of the period	**(21)**	4
Current income tax charge	(434)	(24)
Increase on acquisition of subsidiary	(43)	-
Amount paid in the period	208	8
Effect of translation to presentation currency	2	(1)
Tax payable at the end of the period	**(288)**	**(13)**
Effect		
Profit before tax	30 634	3 194
Income tax at the rate of 25%	(7 659)	(799)
Effect from decrease of income tax rates	(1 191)	-
Tax effect of permanent differences	7 860	921
Income tax expenses (income)	**(990)**	**122**

Tax consequences of business transactions for the purpose of Ukrainian statutory taxation are often determined by the form in which those transactions are documented and reflected based on the requirements stipulated by the Ukrainian Accounting Standards. Accordingly the Group carries out a number of operations aimed at effective taxation rate optimization. In the process of consolidated financial statements preparation, such operations are presented reflecting their economic essence, and their effect on deffered tax included in permanent differences.

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

14 Income tax expenses (income) (continued)

Recognised tax assets and liabilities

Effect of temporary differences on deferred tax assets on deferred tax assets	30 June 2010	Recognised in profit (loss)	Effect of translation to presentation currency	Increase as result of acquisition of subsidiary	31 March 2011
Property, plant and equipment, intangible assets	1 668	94	(11)	-	1 751
Financial instruments	219	158	(2)	-	375
Prepayments received	322	(321)	(1)	-	-
Provisions	513	(266)	(4)	318	561
Defined benefit plan obligations	2 100	(845)	(18)	1 165	2 402
Charged vacation expenses	334	(4)	(3)	104	431
Transfer of tax allowances at future periods	527	(478)	(1)	-	48
Folded on individual Companies' level	(1 073)	-	-	-	(1 717)
Total deferred tax assets	**4 610**	**(1 662)**	**(40)**	**1 587**	**3 851**
Effect of temporary differences on deferred tax liabilities					
Property, plant and equipment, intangible assets	(1 384)	900	19	(1 941)	(2 406)
Financial instruments	(145)	53	1	(79)	(170)
Prepayments and deferred expenses	(153)	153	-	-	-
Folded on individual Companies' level	1 073	-	-	-	1 717
Total deferred tax liabilities	**(609)**	**1 106**	**20**	**(2 020)**	**(859)**
Net deferred tax asset/(liability)	**4 001**	**(556)**	**(20)**	**(433)**	**2 992**

Effect of temporary differences on deferred tax assets	30 June 2009	Recognised in profit (loss)	Effect of translation to presentation	31 March 2010
Property, plant and equipment, intangible assets	314	13	(12)	315
Financial instruments	57	24	(2)	79
Prepayments received	145	(16)	(5)	124
Provisions	123	16	(5)	134
Defined benefit plan obligations	1 169	314	(43)	1 440
Charged vacation expenses	362	(237)	(14)	111
Transfer of tax allowances at future periods	751	(542)	(28)	181
Folded on individual Companies' level	(1 775)	-	-	(1 013)
Total deferred tax assets	**1 146**	**(428)**	**(109)**	**1 371**
Effect of temporary differences on deferred tax liabilities				
Property, plant and equipment, intangible assets	(1 573)	7	58	(1 508)
Financial instruments	(592)	569	22	(1)
Prepayments and deferred expenses	(135)	(2)	5	(132)
Folded on individual Companies' level	1 775	-	-	1 013
Total deferred tax liabilities	**(525)**	**574**	**85**	**(628)**
Net deferred tax asset/(liability)	**621**	**146**	**(24)**	**743**

On 3 December 2010 a new Tax Code of Ukraine was adopted, which is effective since 1 January 2011. In accordance with the provisions of the new Tax Code, company income tax rates will be reduced from 25% to 16% in several stages during 2011-2014 since 1 April 2011. Deferred tax assets and liabilities are measured at the income tax rates, which are expected to be applied in the periods when an asset is realized or liability is calculated in accordance with the tax rates provided by the Tax Code. The effect of changes in interest rates in the consolidated statement of comprehensive income amounted to USD 1 191 thousand.

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

15 Property, plant and equipment

	Underground mining	Buildings and constructions	Machinery, equipment and vehicles	Other	Total
Cost					
as at 30 June 2009	**8 350**	**4 972**	**6 044**	**627**	**19 993**
Additions	80	21	902	71	**1 074**
Disposals	-	(7)	(44)	(8)	**(59)**
Effect of translation to presentation currency	(311)	(185)	(224)	(23)	**(743)**
as at 31 March 2010	**8 119**	**4 801**	**6 678**	**667**	**20 265**
as at 30 June 2010	**13 920**	**8 745**	**11 235**	**802**	**34 702**
Additions	1 145	1 372	5 535	451	**8 503**
Additions from acquisition of subsidiary	9 455	3 996	4 547	113	**18 111**
Disposals	-	(12)	(367)	(72)	**(451)**
Effect of translation to presentation currency	(160)	(92)	(128)	(8)	**(388)**
as at 31 March 2011	**24 360**	**14 009**	**20 822**	**1 286**	**60 477**
Accumulated depreciation					
as at 30 June 2009	**(1 777)**	**(770)**	**(1 649)**	**(188)**	**(4 384)**
Depreciation for the period	(361)	(163)	(673)	(75)	**(1 272)**
Disposals	-	3	14	5	**22**
Effect of translation to presentation currency	65	29	60	8	**162**
as at 31 March 2010	**(2 073)**	**(901)**	**(2 248)**	**(250)**	**(5 472)**
as at 30 June 2010	**(3 415)**	**(2 697)**	**(4 366)**	**(295)**	**(10 773)**
Depreciation for the period	(870)	(421)	(2 101)	(169)	**(3 561)**
Additions from acquisition of subsidiary	(249)	(821)	(2 066)	(58)	**(3 194)**
Disposals	-	2	125	29	**156**
Effect of translation to presentation currency	28	25	51	3	**107**
as at 31 March 2011	**(4 506)**	**(3 912)**	**(8 357)**	**(490)**	**(17 265)**
Net book value					
as at 30 June 2009	**6 573**	**4 202**	**4 395**	**439**	**15 609**
as at 31 March 2010	**6 046**	**3 900**	**4 430**	**417**	**14 793**
as at 30 June 2010	**10 505**	**6 048**	**6 869**	**507**	**23 929**
as at 31 March 2011	**19 854**	**10 097**	**12 465**	**796**	**43 212**

As at 31 March 2011 loans and borrowings of the Group were pledged by the property, plant and equipment with carrying amount of USD 6 453 thousand (31 March 2010 - USD 6 494 thousand) : Note 25 "Loans and borrowings".
As at 31 March 2011 contractual liabilities of the Group for the purchase of property, plant and equipment were USD 105 thousand (31 March 2010 - no contractual liabilities).

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

16 Intangible assets

	Licences, special permissions and patent rights	Other intangible assets	Other projects and permissions	Total
Cost				
as at 30 June 2009	**18**	**18**	**111**	**147**
Additions	959	9	17	**985**
Effect of translation to presentation currency	-	(1)	(4)	**(5)**
as at 31 March 2010	**977**	**26**	**124**	**1 127**
as at 30 June 2010	**9 751**	**32**	**126**	**9 909**
Additions	3	7	7	**17**
Disposal	(3)	(4)	(7)	**(14)**
Effect of translation to presentation currency	(63)	(4)	(1)	**(68)**
as at 31 March 2011	**9 688**	**31**	**125**	**9 844**
Accumulated amortization				
as at 30 June 2009	**(1)**	**(1)**	**(23)**	**(25)**
Amortization charge for the period	(2)	(1)	(12)	**(15)**
as at 31 March 2010	**(3)**	**(2)**	**(35)**	**(40)**
as at 30 June 2010	**(3)**	**(3)**	**(39)**	**(45)**
Amortization charge for the period	(643)	(2)	(15)	**(660)**
Disposal	1	-	3	**4**
Effect of translation to presentation currency	3	1	1	**5**
as at 31 March 2011	**(642)**	**(4)**	**(50)**	**(696)**
Net book value				
as at 30 June 2009	17	17	88	122
as at 31 March 2010	974	24	89	1 087
as at 30 June 2010	9 748	29	87	9 864
as at 31 March 2011	9 046	27	75	9 148

As at 31 March 2011 licences and special permissions include special permissions for subsurface use stated below:
- special permissions for subsurface use # 5098 as of 30 December 2009 issued by Ministry of ecology and natural resources of Ukraine for 20 years. Net book value of this permission equals to USD 922 thousand (Tekhinnovatsiya LLC);
- special permissions for subsurface use # 4782 as of 18 November 2008 issued by Ministry of ecology and natural resources of Ukraine for 13 years. Net book value of this permission equals to USD 4 072 thousand (CwAL LE Sh/U Chapaeva);
- special permissions for subsurface use # 4820 as of 16 December 2008 issued by Ministry of ecology and natural resources of Ukraine for 12 years. Net book value of this permission equals to USD 4 038 thousand (CwAL LE Sh/U Chapaeva).

17 Financial assets

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Non-current financial assets			
Held-to-maturity investments	3 072	919	113
	3 072	**919**	**113**
Current financial assets			
Loans issued	9 288	17 058	25 591
Held-to-maturity investments	713	-	-
	10 001	**17 058**	**25 591**

Held-to maturity investments are non-interest notes, issued generally by third parties. These notes are discounted using effective annual interest rate 17% for the nine months ended 31 March 2011 (18% for the year ended 31 March 2010 respectively) and accompanied expenses (incomes) are presented in items 'Finance costs' and 'Finance income'. Management of the Group has the intention to hold these notes to maturity. Held-to maturity investments are not overdue.
Loans issued are non-interest loans, issued to related parties.

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

18 Inventories

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Raw materials	4 995	4 321	3 434
Spare parts	710	1 308	328
Finished goods	3 700	12 558	6 069
Merchandise	418	473	688
Other inventories	121	21	55
	9 944	**18 681**	**10 574**

As at 31 March 2011, 2010 no inventories are pledged as collateral.

19 Trade and other receivables

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Trade receivables	3 649	9 822	5 755
Allowances for trade receivables	(172)	(165)	(164)
Receivables on sale of properly, plant and equipment	149	146	1
Other receivables	145	1 324	1 288
Allowances for other receivables	(15)	(16)	(15)
	3 756	**11 111**	**6 865**

As at 31 March 2011 trade receivables amounting to USD 1 159 thousand are pledged (USD 264 thousand as at 31 March 2010).
As at 31 March 2010 other receivables include credit sale amounting to USD 1 171 thousand respectively, given to Tekhinnovatsiya LLC in UAH according to the contract of property lend, concluded with Dobropolieugol GC AL "Novodonetskaya Mine". Annual interest rate equals to 3%. As at the date of signing of the financial report the credit sale was wholly repaid.

20 Advances paid and deferred expenses

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Advances paid	1 499	444	313
Deferred expenses	30	14	6
	1 529	**458**	**319**

21 Changes in allowances made

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Balance as at the beginning of the period	**(181)**	**(193)**
Accrual	(11)	-
Use of allowances	1	13
Effect of translation to presentation currency	4	1
Balance as at the end of the period	**(187)**	**(179)**

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Allowances for trade accounts receivable	(172)	(165)	(164)
Allowances for other accounts receivable	(15)	(16)	(15)
	(187)	**(181)**	**(179)**

22 Other taxes

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Taxes receivable			
VAT recoverable	520	897	4 855
Prepayments for wages and salaries related taxes	211	71	2
Prepayments for other taxes	-	9	-
	731	**977**	**4 857**
Taxes payable			
VAT payable	1 305	-	2
Payables for wages and salaries related taxes	1 464	1 156	330
Payables for other taxes	558	104	43
	3 327	**1 260**	**375**

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

23 Cash and cash equivalents

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Cash in bank	1 721	104	498
Cash in transit	255	4	3
	1 976	**108**	**501**

24 Share capital

	At 31 March 2011		At 30 June 2010		At 31 March 2010	
	%	Amount	%	Amount	%	Amount
Lycaste Holdings Limited	100	38	100	38	100	38
	100	**38**	**100**	**38**	**100**	**38**

Share capital of Coal Energy SA amountes to 38 thousand USD and comprises 31 000 shares. As at 31 March 2011 all shares issued have been paid.

25 Loans and borrowings

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Non-current loans and borrowings			
Borrowings received	13 225	15 000	15 000
Notes issued	395	255	4 380
	13 620	**15 255**	**19 380**
Deducting current portion of long-term borrowings			
Current portion of long-term borrowings	4 718	2 176	925
	4 718	**2 176**	**925**
Total non-current loans and borrowings	**8 902**	**13 079**	**18 455**
Current loans and borrowings			
Bank loans	10 017	4 298	1 893
Interest free financial liabilities	12 558	13 419	14 133
Notes issued	-	1 634	-
Current portion of long-term borrowings	4 718	2 176	925
	27 293	**21 527**	**16 951**

Non-current notes issued are represented by the interest free notes, issued to third parties. These notes are reflected at amortized cost with using effective interest rate 18% per year for the nine months ended 31 March 2011 (18% for the nine month ended 31 March 2010 respectively). The management of the Group is going to hold notes until the maturity date.

The amount of non-current loans and borrowings as at 31 March 2011 comprises the following borrowings:

— borrowing amounting to USD 5 775 thousand (USD 6 300 thousand as at 30 June 2010) received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 6 300 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the equipment of Ugledobycha LLC, book value of which amounts to USD 514 thousand; by the equipment of Donprombiznes LLC, book value of which amounts to USD 447 thousand; by the equipment of Tekhinnovatsiya LLC, book value of which amounts to USD 422 thousand. Maturity date is on 19 December 2013. Current portion of the borrowing amounts to USD 2 100 thousand.

— borrowing amounting to USD 3 050 thousand (USD 3 900 thousand as at 30 June 2010) received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 3 900 thousand. Annual interest rate equals to 15,5%. Obligations under this credit agreement are guaranteed by the property of LLC "Agro-industrial firm "Aval", pledged value of which amounts to USD 11 294 thousand. Maturity date is on 10 March 2014. Current portion of the borrowing amounts to USD 1 017 thousand.

— borrowing amounting to USD 4 400 thousand (USD 4 800 thousand as at 30 June 2010) received by Eximenergo LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 4 800 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the equipment of Eximenergo LLC, book value of which amounts to USD 4 363 thousand; by the equipment of LLC "Ugledobyvauchie Technologies", pledging value of which amounts to USD 3 015 thousand. Maturity date is on 2 December 2013. Current portion of the borrowing amounts to USD 1 601 thousand.

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

25 Loans and borrowings (continued)

The amount of non-current loans and borrowings as at 31 March 2010 comprises the following borrowings:

— borrowing amounting to USD 6 300 thousand (USD 6 300 thousand as at 30 June 2009) received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 6 300 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the equipment of Ugledobycha LLC, book value of which amounts to USD 507 thousand; by the equipment of Donprombiznes LLC, book value of which amounts to USD 529 thousand; by the equipment of Tekhinnovatsiya LLC, book value of which amounts to USD 352 thousand. Maturity date is on 19 December 2013. Current portion of the borrowing amounts to USD 525 thousand.

— borrowing amounting to USD 3 900 thousand (USD 2 500 thousand as at 30 June 2009) received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 3 900 thousand. Annual interest rate equals to 15,5%. Obligations under this credit agreement are guaranteed by the premises of LLC "Agro-industrial firm "Aval", pledged value of which amounts to USD 8 508 thousand; by the equipment of LLC "Agro-industrial firm "Aval", pledged value of which amounts to USD 2 836 thousand. Maturity date is on 10 March 2014.

— borrowing amounting to USD 4 800 thousand (USD 4 800 thousand as at 30 June 2009) received by Eximenergo LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 4 800 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the equipment of Eximenergo LLC, book value of which amounts to USD 4 654 thousand; by the equipment of LLC "Ugledobyvauchie Technologies", pledging value of which amounts to USD 3 028 thousand. Maturity date is on 2 December 2013. Current portion of the borrowing amounts to USD 400 thousand.

Essential terms:	**Currency**	**Nominal interest rate**	**Effective interest rate**	**31 March 2011**	**30 June 2010**	**31 March 2010**
Non-current borrowings	USD	15,00	18,00	10 175	11 100	11 100
Non-current borrowings	USD	15,50	18,02	3 050	3 900	3 900
				13 225	**15 000**	**15 000**

Terms of non-current loans and borrowings (undiscounted flows)

	At 31 March 2011	**At 30 June 2010**	**At 31 March 2010**
On demand	-	-	
within 1 year	4 718	2 176	925
from 1 to 5 years	9 334	13 411	14 234
more than 5 years	-	-	4 222
	14 052	**15 587**	**19 381**

The amount of current loans and borrowings as at 31 March 2011 comprises the following borrowings:

— loan amounting to USD 1 884 thousand (USD 1 897 thousand as at 30 June 2010) received by Donbasuglerazrabotka LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit equaling to USD 1 884 thousand. Annual interest rate equals to 18%. Obligations under this credit agreement are guaranteed by the property of Antratcit LLC, pledging value of which amounts to USD 344 thousand; by the guarantee of individuals Vyshnevetskyy V. and Vyshnevetska M. amounting to 1 884 thousand. Maturity date is on 23 March 2012.

— loan amounting to USD 1 759 thousand (USD 1 771 thousand as at 30 June 2010) received by Donantracit LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit equaling to USD 1 759 thousand. Annual interest rate equals to 16,5%. Obligations under this credit agreement are guaranteed by the property of LLC "Agro-industrial firm "Aval", pledging value of which amounts to USD 555 thousand; by the property rights under the contracts amounting to USD 3 141 thousand; by the guarantee of individuals Vyshnevetskyy V. and Vyshnevetska M. amounting to 1 759 thousand, by the guarantee of CwAL LE Sh/U Chapaeva amounting to USD 1 759 thousand. Maturity date is on 28 April 2011. The loan was repaid at the reporting date.

— loan amounting to USD 3 141 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit equaling to USD 3 141 thousand. Annual interest rate equals to 18%. Obligations under this credit agreement are guaranteed by the property of Donbasuglerazrabotka LLC, book value of which amounts to USD 272 thousand, by the property of Nedra Donbasa LLC, book value of which amounts to USD 90 thousand. Maturity date is on 4 November 2011.

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

25 Loans and borrowings (continued)

— loan amounting to USD 378 thousand (USD 630 thousand as at 30 June 2010) received by CwAL LE Sh/U Chapaeva in USD according to the credit agreement concluded with OJSC “Ukranian Business Bank” with credit limit equaling to USD 630 thousand. Annual interest rate equals to 18%. Obligations under this credit agreement are guaranteed by the finished goods (coal) pleged amount to USD 3 448 thousand. Maturity date is 27 May 2011. As at the date of financial statements signing the loan was repaid.

— loan amounting to USD 378 thousand received by CwAL LE Novodzerzhynskaya Mine in USD according to the credit agreement concluded with OJSC “Ukranian Business Bank” with credit limit equaling to USD 630 thousand. Annual interest rate equals to 18%. Obligations under this credit agreement are guaranteed by the finished goods (coal) pleged amount to USD 3 448 thousand. Maturity date is 27 May 2011. As at the date of financial statements signing the loan was repaid.

— loan amounting to USD 2 477 thousand received by Antratcit LLC in EUR according to the credit agreement concluded with Ukrainian Business Bank PJSC with credit limit equaling to USD 2 973 thousand. Annual interest rate equals to 16%. Obligations under this credit agreement are guaranteed by the corporate rights on share capital LLC Antratcit LLC equal 100% share capital, property rights of Donprombusiness LLC, pledging value of which amounts to USD 12 626 thousand. Maturity date is on 31 August 2011.

— interest free financial liabilities, amounting to USD 6 092 thousand are unsecured loans, received from related parties on demand terms. Loans are reflected at initial value.

— interest free financial liabilities as at 31 March 2011 are include interest-free loan, amounting to USD 6 466 thousand received from DRGNLimited pledged by the corporate right of Tekhinnovatsiya LLC equal to 99% share capital. Maturity date is on 21 May 2011. At the date of signature of Interim consolidated financial statements the loan is prolonged up to 5 August 2011.

The amount of current loans and borrowings as at 31 March 2010 comprises the following borrowings:

— loan amounting to USD 1 893 thousand received by Donbasuglerazrabotka LLC in UAH according to the credit agreement concluded with OJSC “Creditprombank” with credit limit equaling to USD 1 893 thousand. Annual interest rate equals to 25%. Obligations under this credit agreement are guaranteed by the property of Antratcit LLC, pledging value of which amounts to USD 451 thousand; by the property guarantee of LLC "Ugletechnic" amounting USD 95 thousand, by the property guarantee of Donantracit LLC amounting USD 410 thousand, by the property guarantee of LLC "Donbasskrep" amounting USD 142 thousand, by the property guarantee of LLC "Mechanic" amounting USD 3 thousand; by the guarantee of individuals Vyshnevetskyy V. and Vyshnevetska M. amounting to 1 893 thousand. Maturity date is on 25 June 2010.

— interest free financial liabilities, amounting to USD 14 133 thousand are unsecured loans, received on demand terms, reflected at initial value.

Terms of current loans and borrowings

	At 31 March 2011	At 30 June 2010	At 31 March 2010
On demand	6 092	13 419	14 133
within 3 month	4 001	-	1 893
from 3 to 12 month	12 482	5 932	-
	22 575	**19 351**	**16 026**

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

26 Obligations under finance lease

	Minimum lease payments		Present value of minimum lease payments	
	At 31 March 2011	At 30 June 2010	At 31 March 2011	At 30 June 2010
Due within 1 year	1 414	994	1 285	903
From 1 to 5 years	5 655	3 976	3 355	2 358
More than 5 years	59 761	42 405	3 214	2 259
	66 830	**47 375**	**7 854**	**5 520**
Future finance charges	(58 976)	(41 855)	-	-
Present value of lease obligations	**7 854**	**5 520**	**7 854**	**5 520**
Current portion of financial lease obligations			(1 285)	(903)
Non-current financial lease obligations			**6 569**	**4 617**

In 2009 CwAL LE Sh/U Chapaeva negotiated the contract of lease of state property - integral property complex GC Shakhtoupravlinnia named after V.I. Chapaeva.
In 2010 CwAL LE Novodzerzhynskaya Mine negotiated the contract of lease of state property - integral property complex GC Novodzerzhynskaya Mine.
According to this contracts, the lessee receives state property for the period of 49 years (CwAL LE Sh/U Chapaeva - until 11 February 2058, CwAL LE Novodzerzhynskaya Mine - until 27 April 2059) on fee basis. Such property comprises premises, facilities, mine workings, production equipment, transport, assets under construction and special permissions for subsurface use. Also, as term of agreements, the lessee becomes legal successor of rights and liabilities of GC Shakhtoupravlinnia named after V.I. Chapaev and GC Novodzerzhynskaya Mine. Additionally, the lesee untertakes current and capital maintetance of property, insurance and dismantling of mines in case of mine stock depletion.
Under the agreement of lessor, lessee has a right to give property into sublease and to transfer own rights and liabilities under this agreement to third parties.
There are fixed payments on this contract, but each consequent lease payment is determined by correction of previous month lease payment on current month inflation rate.
Amendments, addendums or cancellation of this contract are possible under agreement of both parties.

Net book value of leased assets:

	At 31 March 2011	At 30 June 2010
Property, plant and equipment	22 255	7 876
Intangible assets	8 110	8 772
	30 365	**16 648**

27 Defined benefits plan obligations

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Long-term defined benefits plan obligations	15 290	8 401	5 759
	15 290	**8 401**	**5 759**

Changes in present value of defined benefits plan obligations:

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Defined benefits plan obligations at the beginning of the period	**6 787**	**4 380**
Current services cost	1 745	844
Interest expense	1 207	462
Actuarial (gain)/loss	2 763	(82)
Paid benefits	(995)	(74)
Increase due to purchase of subsidiary	4 661	-
Effect of translation to presentation currency	(85)	(163)
Defined benefits plan obligations at the end of the period	**16 083**	**5 367**

Amount in consolidated statement of financial position:	At 31 March 2011	At 30 June 2010	At 31 March 2010
Present value of unfunded defined benefits plan obligations	16 083	6 787	5 367
Unrecognized actuarial (gain)/loss	(515)	1 943	736
Unrecognized cost of past services	(278)	(329)	(344)
Defined benefits plan obligations	**15 290**	**8 401**	**5 759**

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

27 Defined benefits plan obligations (continued)

Amount in consolidated comprehensive income statement:

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Current services cost	1 745	844
Recognized actuarial (gain)/loss	320	(25)
Interest expense	1 207	462
Recognized cost of past services	49	49
Total	**3 321**	**1 330**

Movements in the present value of defined benefit obligations were as follows:

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
At the beginning of the period	**8 401**	**4 676**
Benefits paid	(995)	(74)
Net expenses in consolidated comprehensive income statement	3 321	1 330
Increase due to purchase of subsidiary	4 661	-
Effect of translation to presentation currency	(98)	(173)
At the end of the period	**15 290**	**5 759**

Key assumptions used in estimation of defined benefit obligations were as follows:

Discount rate	15%	15%
Future salary increases	10%	10%
Employee turnover	10%	10%

28 Provisions

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Non-current provisions			
Land restoration liabilities	3 165	1 643	145
Decommissioning liabilities	460	409	392
Provision on tax liabilities	3 731	-	-
	7 356	**2 052**	**537**
Current provisions			
Provision on tax liabilities	-	3 756	3 515
	-	**3 756**	**3 515**

The Group has liabilities, connected with environmental restoration, notably decommission of property, plant and equipment and land restoration under waste dumps. Estimation of liability bases on estimated prices of decommission of property, plant and equipment and land restoration under waste dumps procedures. Discount rate used dy the Group is 18%.
Management created provision for the payment of potential tax liabilities. Though if the controlling authorities classify such transactions as subject to taxation and apply such classification to the companies of the Group, actual taxes and penalties may differ from the Management assessment.

Changes in non-current provisions	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Balance as at the beginning of the period	**2 052**	**492**
Unwinding of discount	326	63
Increase due to acqusition of subsidiary	1 271	-
Transfer from current provisions	3 747	-
Effect of translation to presentation currency	(40)	(18)
Balance as at the end of the period	**7 356**	**537**
Changes in current provisions		
Balance as at the beginning of the period	**3 756**	**2 921**
Provision charge for the period	-	702
Transfer to non-current provisions	(3 747)	-
Effect of translation to presentation currency	(9)	(108)
Balance as at the end of the period	**-**	**3 515**

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

29 Trade and other payables

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Trade payables	6 197	9 299	3 137
Advances received	1 194	761	713
Payables for wages and salaries	1 649	1 966	533
Payables for unused vacations	2 225	1 336	446
Interest payable	230	226	203
Payables for acquisition property, plant and equipment	597	931	59
Payables for financial assets	744	27	207
Other payables	3 065	756	521
	15 901	**15 302**	**5 819**

30 Related party transactions

According to existing criteria of determination of related parties, the related parties of the Group are divided into the following categories:

(1) Entities - related parties under common control with the Companies of the Group;
(2) Entities-related parties, in equity of which Companies of the Group have an interest;
(3) Entities - related parties, which have joint key management personnel with the Companies of the Group.

Ultimate controlling party is Mr.Vyshnevetskyy V.
The sales of finished goods, merchandises and rendering of the services to related parties are made at terms equivalent to those that prevail in arm's length transactions on market price basis. Provision of loans and operations with notes are made at terms different from the independent parties transactions.
Transactions between related parties attributable to the second and the third categories are occasional and not significant, thus, they are not disclosed in these interim consolidated financial statements.
Details of transactions between entities - related parties under common control with the Companies of the Group are disclosed below:

Items of consolidated income statement

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Income from sales of finished products, goods	10 265	254
Income from rendering of services	11	18
Income from sale of property, plant and equipment	-	36
Income from operating lease	3	2
Purchases of inventories	15 831	2 272
Purchases of property, plant and equipment	874	32
Purchases of services	2 306	258
Operating lease expenses	(82)	(84)

Items of consolidated statement of financial position

	At 31 March 2011	At 30 June 2010	At 31 March 2010
Held-to-maturity investments	2 578	533	313
Loans issued	6 239	15 738	-
Trade receivables	919	1 612	5
Other receivables	3	11	6
Advances paid	698	151	-
Trade payables	4 975	3 664	541
Other payables	562	676	90
Advances received	-	604	-
Interest free financial liabilities	5 961	13 419	3 756

Remuneration of key management personnel

	Nine months ended 31 March 2011	Nine months ended 31 March 2010
Wages and salaries	(436)	(307)
Bonuses	(5)	-
Contribution to the Pension Fund	(21)	(6)
Other contributions	(5)	(2)
Dismissal benefits	(3)	(1)
	(470)	**(316)**
The average number of key management personnel, persons	29	16

Notes to interim consolidated financial statements for the nine months ended 31 March 2011

31 Contingent assets and liabilities

As at the date of presentation of the financial statements the Group is involved in following legal processes:

Claims of third parties to the Group:

Company of the Group	Demandant	Amount of claim, USD	Essence of claim	Probable adjudication for the Group
Ugledobycha LLC	Utility Enterprise "Company "Donbass	29 541	Recovery of liabilities	Probability is estimated as 10-50%
Eximenergo LLC	Yurchenko S.	6 281	Recovery of moral damage	Probability is estimated as 10-50%
	GE "Odessa railway"	11 987	Recovery of liabilities	Probability is estimated as 10-50%

Claims of the Group to the third parties:

Company of the Group	Demandant	Amount of claim, USD	Essence of claim	Probable adjudication for the Group
Eximenergo LLC	Balandin A.	12 751	Theft loss recovery	Probability is estimated as 10-50%

The management of the Group consider that other claims of the Group to the third parties and other Claims of third parties to the Group are no material and have no impact on regular economical activity.

32 Off-balance sheet liabilities

Companies of the Group were engaged in indemnity contracts and guarantee contracts to secure liabilities of third parties.

Off-balance sheet liabilities as at 31 March 2011:

Contract of guarantee assuring liabilities LLC "Ugletechnic" in amount of USD 10 050 thousand. Maturity date is 23 September 2011.

Off-balance sheet liabilities as at 31 March 2010:

Contract of guarantee assuring liabilities LLC "Ugletechnic" in amount of USD 10 095 thousand. Maturity date is 23 September 2011.

33 Events after the reporting date

As at 29 April 2011 the loan amounting to USD 1 758 thousand was received by Donantratsyt LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit equaling to USD 1 758 thousand. Annual interest rate equals to 18%. Obligations under this credit agreement are guaranteed by the property of LLC "Agro-industrial firm "Aval", pledged value of which amounts to USD 1 986 thousand; by the finished goods (coal) pledged value of which amounts to USD 251 thousand, by the revenue under the contracs amounting to USD 1 524 thousand, by the guarantee of individuals Vyshnevetskyy V. and Vyshnevetska M. amounting to USD 1 758 thousand, by the guarantee of CwAL LE Sh/U Chapaeva amounting to USD 1 758 thousand. Maturity date is 27 April 2012.

As at 20 May 2011 liabilities of LLC "Nadrarazrabotka" amounting to USD 3 517 thousand was pledged by finished goods (coal) owned by the Companies of the Group pledged value of which is USD 2 157 thousand. Maturity date is 18 May 2012.

Management of the Group states, that after reporting date there were no other events, for which these interim consolidated financial statemens require adjustment.

COAL ENERGY S.A.
Luxembourg
RCS Lux B 0154144

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended 30 June 2010,
30 June 2009 and 30 June 2008
and
Independent auditor's report

Contents

Statement of Management responsibility

Management of the Group is responsible for preparation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union.

While preparing these consolidated financial statements, the Management bears responsibility for the following issues:

- selection of the appropriate accounting policies and their consistent application;
- making judgments and estimates that are reasonable and prudent;
- adherence to IFRS concepts or disclosure of all material departures from IFRS in the consolidated financial statements;
- preparation of the consolidated financial statements on the going concern basis.

Management confirms that it has complied with the above mentioned principles in preparing the consolidated financial statements of the Group.

The Management is also responsible for:

- keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;
- taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of management:

Chairman of the Board of directors
Vyshnevetskyy V.

Luxembourg
10 June 2011

interaudit

Cabinet de révision agréé

To the Board of Directors of
Coal Energy S.A.
46A, Avenue J.F.Kennedy
L-1855 Luxembourg

Independent auditor's report on the consolidated financial statements as at June 30, 2010, June 30, 2009 and June 30, 2008

We have audited accompanying consolidated financial statements of COAL ENERGY S.A. and its subsidiaries (the «Group» hereinafter), which comprise the consolidated statement of financial position as at 30 June 2010, 30 June 2009, 30 June 2008, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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L-1511 Luxembourg

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Basis for Qualified Opinion

1. We did not participate in the stock taking of inventories and property, plant and equipment as at 30 June 2010, 30 June 2009, 30 June 2008, because we were engaged as the Group's auditors after these dates. We were unable to obtain sufficient evidence regarding the number of inventories and property, plant and equipment by means of other auditing procedures. Therefore, we are unable to confirm the inventories and property, plant and equipment in the consolidated statement of financial position as at 30 June 2010, 30 June 2009, 30 June 2008 and the cost of sales in the consolidated statement of comprehensive income for the year then ended.
2. We did not obtain sufficient evidence as to the completeness of disclosures on cross financing transactions with certain counterparties. Consequently, we are not able to confirm that the accounts payable, notes issued in the consolidated statement of financial position and equity distribution in the statement of changes in equity are recorded in full as at 30 June 2010, 30 June 2009 and 30 June 2008.

Qualified Opinion

In our opinion, except for the effects on the consolidated financial statements of the matters referred to in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2010, 30 June 2009, 30 June 2008, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to the following:

As stated in Note 30 "Provisions", the Group conducts transactions, interpretation of which by tax authorities can substantially differ from their understanding by the Group, resulting in accrual of additional income tax for the Group. In this connection the Group recognizes additional provision on tax liabilities.

The consolidated financial statements prepared for the purpose of presenting the consolidated financial position, operating results and cash flows of the Group as if the acquisitions of subsidiaries from the common controlling shareholder in June 2010 had already taken place as at the date when control was initially gained by the common controlling shareholder. The basis of preparation is described in note 2.3 "Basis of consolidation".

Note 33 "Related party transactions" describes that the Group concludes a significant portion of its transactions with related parties.

Luxembourg, June 10, 2011

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

Edward KOSTKA
Managing partner

BAKER TILLY INTERNATIONAL

interaudit

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 30 JUNE 2010, 2009 AND 2008
(in thousands of USD, unless otherwise stated)

	Note	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Revenue	6	55 776	91 756	65 711
Cost of sales	7	(37 431)	(62 584)	(59 118)
GROSS PROFIT		**18 345**	**29 172**	**6 593**
General and administrative expenses	8	(1 177)	(2 457)	(2 955)
Selling and distribution expenses	9	(3 091)	(5 184)	(2 304)
Other operating expenses	10	(3 127)	(2 551)	(1 432)
OPERATING PROFIT (LOSS)		**10 950**	**18 980**	**(98)**
Other non-operating expenses	11	(5)	(1 319)	(172)
Finance income	13	2 025	3 330	19
Finance costs	14	(7 153)	(7 726)	(3 901)
Gain on acquisition of subsidiaries	5	-	-	1 717
Impairment of goodwill	5	(1 734)	-	-
PROFIT (LOSS) BEFORE TAX		**4 083**	**13 265**	**(2 435)**
Income tax income	16	698	1 078	890
PROFIT (LOSS) FOR THE YEAR		**4 781**	**14 343**	**(1 545)**
OTHER COMPREHENSIVE INCOME:				
Effect of foreign currency translation		(521)	(6 659)	630
TOTAL OTHER COMPREHENSIVE INCOME		**(521)**	**(6 659)**	**630**
TOTAL COMPREHENSIVE INCOME		**4 260**	**7 684**	**(915)**
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO:				
Equity holders of the parent		4 831	14 319	(1 457)
Non-controlling interests		(50)	24	(88)
		4 781	**14 343**	**(1 545)**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Equity holders of the parent		4 313	7 764	(839)
Non-controlling interests		(53)	(80)	(76)
		4 260	**7 684**	**(915)**
Weighted average number of ordinary shares outstanding		31 000	31 000	31 000
BASIC EARNINGS (LOSS) PER ORDINARY SHARE (expressed in USD cents)		**156**	**462**	**(47)**

Notes on pages 10 to 38 are an integral part of these consolidated financial statements

COAL ENERGY S.A.
Consolidated financial statements for the years ended
30 June 2010, 2009 and 2008

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010, 2009 AND 2008
(in thousands of USD, unless otherwise stated)

ASSETS	Note	At 30 June 2010	At 30 June 2009	At 30 June 2008
Non-current assets				
Property, plant and equipment	17	23 929	15 609	23 809
Intangible assets	18	9 864	122	154
Financial assets	19	919	9 368	3 858
Deferred tax assets	16	4 610	1 146	1 340
		39 322	**26 245**	**29 161**
Current assets				
Inventories	20	18 681	8 312	12 581
Trade and other receivables	21	11 111	17 082	5 058
Advances paid and deferred expenses	22	458	410	544
Financial assets	19	17 058	7 270	4 953
Prepayments of income tax		-	4	8
Other taxes receivable	24	977	5 153	2 319
Cash and cash equivalents	25	108	436	1 098
		48 393	**38 667**	**26 561**
TOTAL ASSETS		**87 715**	**64 912**	**55 722**
EQUITY AND LIABILITIES				
Equity				
Share capital	26	38	38	38
Retained earnings		22 750	20 973	15 078
Effect of foreign currency translation		(6 455)	(5 937)	618
Equity attributable to equity holders of the parent		**16 333**	**15 074**	**15 734**
Non-controlling interests		(145)	90	344
TOTAL EQUITY		**16 188**	**15 164**	**16 078**
Non-current liabilities				
Loans and borrowings	27	13 079	15 975	5 720
Obligations under finance lease	28	4 617	-	-
Defined benefits plan obligations	29	8 401	4 676	3 909
Provisions	30	2 052	492	657
Deferred tax liability	16	609	525	1 857
		28 758	**21 668**	**12 143**
Current liabilities				
Loans and borrowings	27	21 527	9 354	6 555
Obligations under finance lease	28	903	-	-
Trade and other payables	31	15 302	15 288	17 994
Income tax payable		21	-	6
Other taxes payable	24	1 260	517	1 475
Provisions	30	3 756	2 921	1 471
		42 769	**28 080**	**27 501**
TOTAL LIABILITIES		**71 527**	**49 748**	**39 644**
TOTAL EQUITY AND LIABILITIES		**87 715**	**64 912**	**55 722**

Notes on pages 10 to 38 are an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 30 JUNE 2010, 2009 AND 2008**
(in thousands of USD, unless otherwise stated)

	Equity attributable to equity holders of the parent					
	Share capital	Retained earnings	Effect of foreign currency translation	Total	Non-controlling interest	Total equity
As at 30 June 2007	**38**	**13 614**	**-**	**13 652**	**108**	**13 760**
Loss for the year	-	(1 457)	-	**(1 457)**	(88)	**(1 545)**
Other comprehensive income	-	-	618	**618**	12	**630**
Total comprehensive income	**-**	**(1 457)**	**618**	**(839)**	**(76)**	**(915)**
Addition of subsidiaries	-	-	-	**-**	730	**730**
Equity contribution	-	2 921	-	**2 921**	(418)	**2 503**
As at 30 June 2008	**38**	**15 078**	**618**	**15 734**	**344**	**16 078**
Profit for the year	-	14 319	-	**14 319**	24	**14 343**
Other comprehensive income	-	-	(6 555)	**(6 555)**	(104)	**(6 659)**
Total comprehensive income	**-**	**14 319**	**(6 555)**	**7 764**	**(80)**	**7 684**
Equity distribution	-	(8 424)	-	**(8 424)**	(174)	**(8 598)**
As at 30 June 2009	**38**	**20 973**	**(5 937)**	**15 074**	**90**	**15 164**
Profit for the year	-	4 831	-	**4 831**	(50)	**4 781**
Other comprehensive income	-	-	(518)	**(518)**	(3)	**(521)**
Total comprehensive income	**-**	**4 831**	**(518)**	**4 313**	**(53)**	**4 260**
Addition of subsidiary	-	-	-	**-**	(268)	**(268)**
Disposal of subsidiary	-	-	-	**-**	59	**59**
Equity distribution	-	(3 054)	-	**(3 054)**	27	**(3 027)**
As at 30 June 2010	**38**	**22 750**	**(6 455)**	**16 333**	**(145)**	**16 188**

Notes on pages 10 to 38 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 30 JUNE 2010, 2009 AND 2008
(in thousands of USD, unless otherwise stated)

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
OPERATING ACTIVITIES			
Profit (loss) before tax	**4 083**	**13 265**	**(2 435)**
Adjustment to reconcile profit (loss) before tax to net cash flows			
Depreciation and amortization expenses	1 762	1 827	1 270
Impairment of non-current assets	-	1 132	-
Finance income	(2 025)	(3 330)	(19)
Finance costs	7 153	7 726	3 901
Expenses for doubtful debts	9	53	24
Income from sale of property, plant and equipment	(267)	(147)	(22)
Writing-off of non-current assets	105	310	27
Profit (loss) from exchange differences	(128)	(643)	19
Income from writing-off of accounts payable	(16)	(9)	(2)
Income from current assets received free of charge	-	(39)	(4)
Movements in defined benefits plan obligations	1 726	2 552	1 874
Income from disposal of subsidiary	(136)	-	-
Gain on acquisition of subsidiaries	-	-	(1 717)
Shortages and losses from impairment of inventory	181	33	4
Impairment of non-financial assets	-	14	6
Impairment of goodwill	1 734	-	-
	14 181	**22 744**	**2 926**
Working capital adjustments:			
Change in trade and other receivables	5 532	(15 437)	2 412
Change in advances paid and deferred expenses	(774)	(90)	(243)
Change in inventories	(2 362)	(363)	(2 358)
Change in trade and other payables	1 323	8 890	5 726
Change in taxes payable	484	(4 775)	1 498
Change in provisions	934	2 314	1 418
	19 318	**13 283**	**11 379**
Income tax paid	(25)	(31)	(62)
Net cash flows from operating activities	**19 293**	**13 252**	**11 317**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	(2 741)	(5 559)	(5 196)
Proceeds from sale of property, plant and equipment and intangible assets	251	916	20
Purchase of financial assets	(28 805)	(22 886)	(18 424)
Proceeds from sale of financial assets	13 830	8 051	9 718
Interest received	10	20	5
Acquisition of a subsidiary, net of cash acquired	18	-	(5)
Proceeds from disposal of subsidiary, net of cash realized	(715)	-	-
Net cash flows from investing activities	**(18 152)**	**(19 458)**	**(13 882)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	8 717	24 551	8 530
Repayment of loans and borrowings	(4 011)	(11 120)	(5 090)
Proceeds from interest free financial liabilities	26 068	22 456	8 536
Repayment of interest free financial liabilities and notes issued	(26 397)	(19 481)	(10 223)
Equity distribution (contribution)	(3 027)	(8 598)	2 503
Interest paid	(2 807)	(1 922)	(606)
Net cash flows from financing activities	**(1 457)**	**5 886**	**3 650**
NET CASH FLOWS	**(316)**	**(320)**	**1 085**
Cash and cash equivalents at the beginning of year	**436**	**1 098**	**(24)**
Effect of translation to presentation currency	(12)	(342)	37
Cash and cash equivalents at the end of year	**108**	**436**	**1 098**

Notes on pages 10 to 38 are an integral part of these consolidated financial statements

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

1 General information

For the purposes of these consolidated financial statements, Coal Energy S.A. ("Parent company") and its subsidiaries ("Subsidiaries") have been presented as the Group as follows:

Parent company and its subsidiaries	Country of incorporation	Group shareholding, % as at		
		30 June 2010	30 June 2009	30 June 2008
Coal Energy SA	Luxembourg	100,00	100,00	100,00
Nertera Investments Limited	Cyprus	100,00	100,00	100,00
Donbasuglerazrabotka LLC	Ukraine	99,00	99,00	99,00
Donugletekhinvest LLC	Ukraine	99,00	99,00	99,00
Nedra Donbasa LLC	Ukraine	99,00	99,00	99,00
Donprombiznes LLC	Ukraine	99,00	99,00	99,00
Ugledobycha LLC	Ukraine	99,99	99,99	99,99
Donantracit LLC	Ukraine	99,99	99,99	99,99
Tekhinnovatsiya LLC	Ukraine	99,99	99,99	99,99
Eximenergo LLC	Ukraine	99,00	99,00	99,00
Antratcit LLC	Ukraine	99,00	99,00	99,00
Techinvest LLC	Ukraine	-	69,30	69,30
CwAL LE Sh/U Chapaeva	Ukraine	86,62	-	-

The parent company, Coal Energy S.A., was incorporated in Luxembourg as a joint stock company on 17 June 2010. The registered office is located at 46A, avenue J.F.Kennedy, L-1855 Luxembourg.

Principal activities of the Group are coal mining, coal beneficiation, waste dumps processing and sales of marketable coal. Major production facilities of the Group are located in the Donetsk region of Ukraine.

These consolidated financial statements were authorized for issue by the Directors on 10 June 2011.

2 Basis of preparation of the consolidated financial statements

2.1 Basis of preparation

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

These consolidated financial statements are presented in thousands of USD, unless otherwise stated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adobted by the European Union. These are the first consolidated financial statements of the Group in accordance with IFRS. IFRS 1 First-time Adoption of International Financial Reporting Standards sets the rules for adopting IFRS in the process of the Group's financial statements preparation for the first time under IFRS. These rules were applied retrospectively to the consolidated financial statements of the Group at 30 June 2007 - at the date of IFRS adoption.

2.3 Basis of consolidation

(a) Group restructuring

These consolidated financial statements have been prepared on basis to reflect the Group as if the group structure that came into place on 29 June, 2010 had taken place and had been completed before June 30, 2007 and are intended to present only the results of the new Group structure.

Before June 29, 2010 the Parent company did not have direct or indirect ownership interests in certain consolidated entities included in the consolidated financial statements. These ownership interests were held by a number of companies and individuals controlled by the ultimate shareholders of the Parent company. During a restructuring process all control rights over the consolidated entities were transferred to the Parent company.

Described acquisition of subsidiaries is performed between the companies under the common control. According to management opinion, based on economic sense of the Group reorganization, the pooling of interests method is the most appropriate for reflection of transactions of company under common control acquisition.

The pooling of interests method (merger method) provides the following:
- the assets and liabilities of the combined entities are recognized at the book values;
- the difference between the consideration paid and value of the share in net assets "acquired" owned is recognized as part of capital;
- the profit and loss statement includes the combined results from operations of the consolidated companies for the whole year notwithstanding the timing of the formal acquisition;
- the profit and loss statement includes the combined results from operations of the consolidated companies for the whole year notwithstanding the timing of the formal acquisition;
- the comparative figures are presented the way as if the combination has always existed.

The following key assumptions were made in preparing the consolidated financial statements:
- the restructuring of the Group was finalized prior to 30 June 2007;
- the Parent company had direct ownership interests in the consolidated entities;
- control rights over the consolidated entities were determined based on cumulative ownership interests actually held by companies and individuals ultimately controlled by the shareholders of the Parent company.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

2 Basis of preparation of the consolidated financial statements (continued)

(b) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income. Costs, appeared in connection with the purchase of subsidiaries are recognized as expenses.

Inter-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Subsequent to the loss of control of a subsidiary the value of remained share is revalued at fair value, that influences the amount of income/loss from the disposal.

Financial statements of Parent company and its Subsidiaries, which are used while preparing the consolidated financial statements, should be prepared as at the same date on the basis of consistent application of accounting policy for all companies of the Group.

(c) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. The result of disposals to non-controlling interests being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary are reflected in statement of changes in equity.

Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Non-controlling interests are derecognized when purchased, a subsidiary sold or liquidated and profit or loss on de-recognition is recorded in the consolidated statement of changes in equity.

2.4 Changes in accounting policy and disclosures

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 7 Financial Instruments: Disclosures – Financial instrument disclosure exemptions (effective from 1 July 2010);

IFRS 9 Financial Instruments: Classification and Measurement - phase 1 of the accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement (effective from 1 January 2013);

IAS 24 Related Party Disclosure - a revised version of the standard that clarifies and simplifies the definition of a related party (effective from 1 January 2011);

IFRIC 14 IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction - this amendment will allow entities that were subject to minimum funding requirements and could not treat any surplus in a defined benefit pension plan as an economic benefit, to recognize a prepayment of pension contributions as an asset rather than an expense (effective from 1 January 2011);

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - clarifications to the treatment of financial liabilities that are extinguished with equity instruments (effective from 1 July 2010);

IFRS 1 First-time Adoption of International Financial reporting Standards - Accounting policy changes in the year of Adoption; Revalution basis as deemed cost; Use of deemed cost for operations subject to rate regulation (effective from 1 January 2011);

IFRS 3 Business Combinations - Transition requirements for contigent consideration from a business combination that occured before the effective date of the revised IFRS; Measurement of non-controlling interests; Un-replaced and voluntarily replaced share-based payment awards (effective from 1 July 2010);

IFRS 7 Financial Instruments: Disclosures - Clarifications of disclosures (effective from 1 January 2011);

IAS 1 Presentation of Financial Statements - Clarification of statement of changes in equity (effective from 1 January 2011);

IAS 27 Consolidated and Separate Financial Statements - Transition requirements for amendments made as result of IAS 27 (effective from 1 July 2010);

IAS 34 Interim Financial Reporting - Significant events and transactions (effective from 1 January 2011).

The Group anticipates that the adoption of these standards and amendments in future periods will have no material impact on its financial statements. The Group currently does not plan early application of the above standards and interpretations.

3 Summary of significant accounting policies

3.1 Foreign currency translation

(a) Functional and presentation currency

All items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"). The national currency of Ukraine, Ukrainian Hryvnia ("UAH") is the functional currency for the Group's entities that operate in Ukraine. For the entities that operate in Cyprus and Luxembourg the functional currency is Euro ("EUR"). These consolidated financial statements are presented in thousands of US dollars, unless otherwise stated.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

3 Summary of significant accounting policies (continued)

(b) Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing at the date of transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at each reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing at the date of transaction. Non-monetary items carried at fair value and translated at the exchange rate prevailing at the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of comprehensive income.

Exchange rates used in the preparation of these consolidated financial statements were as follows:

Currency	30 June 2010	Average for the year ended 30 June 2010	30 June 2009	Average for the year ended 30 June 2009	30 June 2008	Average for the year ended 30 June 2008
UAH/USD	7,9070	7,9279	7,6303	6,5517	4,8489	5,0293
EUR/USD	0,8149	0,7206	0,7075	0,7319	0,6344	0,6818

Foreign currency can be readily converted within Ukraine at a rate close to the rate of National Bank of Ukraine. At present, the UAH is not a freely convertible currency outside of Ukraine.

(c) Translation into presentation currency

(1) all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each statement of financial position presented;

(2) income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case exchange rates at the date of transactions are used;

(3) all equity items are translated at the historical exchange rates;

(4) all resulting exchange differences are recognised as a separate component in other comprehensive income;

(5) in the consolidated statement of cash flows, cash balances and beginning and end of each period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the periods presented. Resulting exchange differences are presented as effect of translation to presentation currency.

3.2 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group, the revenue can be reliably measured and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

(a) Sales of goods

The Group manufactures and sells a range of products stated in Note 1. Revenue from sales of goods are recognized when a Group entity has delivered products to the purchaser and there is no unfulfilled obligation that could affect the purchaser's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the purchaser, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

(b) Rendering of services

Revenue from rendering services is recognized on the basis of the stage of work completion under each contract. When financial result can be measured reliably, revenue is recognized only to the extent of the amount of incurred charges, which can be recovered.

(c) Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, 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 statement of comprehensive income.

3.3 Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income tax is recognized as an expense or income in profit and loss in the consolidated statement of comprehensive income, except when it relates to items recognized directly in other comprehensive income, or where they arise from the initial accounting for a business combination.

(a) Current 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. The tax rates and tax laws used to estimate the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income. 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.

(b) 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;

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

3 Summary of significant accounting policies (continued)

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

3.4 Property, plant and equipment

Plant, property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in item 'Other non-operating income (expenses)' in the statement of comprehensive income.

Depreciation is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives, as follows:

– Undeground mining	40 - 80 years
– Buildings and constructions	35 - 50 years
– Machinery, equipment and vehicles	5 - 10 years
– Other	3 - 5 years

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

Mine development costs are capitalised and classified as capital construction-in-progress. Mine development costs are transferred to mining assets when a new mine reaches commercial production quantities.

In addition capital construction-in-progress comprises costs directly related to construction of buildings, infrastructure, machinery and equipment. Cost also includes finance charges capitalised during construction period where such costs are financed by borrowings. Depreciation of these assets commences when the assets are put into production.

3.5 Leases

(a) Group as a lessee

Leases of property, plant and equipment in which substantially all the risks and rewards incidental to ownership are transferred to the Group, are classified as finance leases. The assets leased are capitalized in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in profit and loss in the consolidated statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

(b) 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. Contingent rents are recognised as revenue in the period in which they are earned.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

3 Summary of significant accounting policies (continued)

3.6 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. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.
Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

3.7 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 profit or loss in the period in which the expenditure is incurred.
Research costs are recognized as an expense as incurred. Costs incurred on development (relating to the design, construction and testing of new or improved devices, products, processes or systems) are recognized as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of adequate resources to complete the development, and the ability to measure reliably the expenditure during the development. Other development expenditures are recognized as an expense as 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. Amortisation is charged on a straight-line basis over the following economic userful lives of these assets:

– Licences, special permissions and patent rights	5 - 20 years
– Other intagible assets	5 - 10 years

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level.

3.8 Impairment of non-current assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
Recoverable amount is the higher of fair value less cost to sell and value-in-use.
An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income.
Where an impairment loss subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated statement of the comprehensive income.

3.9 Financial assets

(1) Initial recognition and measurement
The Group classifies its financial assets as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; available for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.
The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables.
All 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. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.
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.

(2) Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:
(a) Financial assets at fair value through profit or loss
This category includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

3 Summary of significant accounting policies (continued)

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables include trade and other receivables. Loans are financial assets arising as a result of provision of funds to borrower.
(c) Held-to-maturity investments
Investments with fixed or determinable payments and fixed maturity that management has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Such investments are included in non-current assets, except for maturities within twelve months from the reporting date, which are classified as current assets.
(d) Available-for-sale financial assets
Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Available-for-sale financial assets are accounted at fair value through equity.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.
Loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.
Receivables are accounted at net realizable value, less the allowance for doubtful debts. The amount of allowance for doubtful debts is accounted by using the method of total amount of doubtful debts.
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.

(3) 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.
For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for impairment. When a trade receivable is considered uncollectible, it is written off against the allowance. On basis of the facts confirming that receivables, previously recognized as doubtful, at the reporting date are not doubtful, the amount of previously charged reserve is reflected in income of the reporting period.
Except for available-for-sale assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss reverses directly through profit and loss account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.
When a decline in fair value of an available-for-sale investment has been recognised directly in other comprehensive income and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in other comprehensive income is removed from other comprehensive income and recognised in profit or loss in the consolidated statement of comprehensive income even though the investment has not been derecognised. Impairment losses previously recognised through profit or loss in the consolidated statement of comprehensive income are not reversed. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

(4) Derecognition of financial assets
The Group derecognises financial assets when:
- the assets are redeemed or the rights to cash flows from the assets have otherwise expired;
- or the Group has transferred substantially all the risks and rewards of ownership of the assets;
- or the Group has neither transferred not retained substantially all risks and rewards of ownership but has not retained control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

3 Summary of significant accounting policies (continued)

3.10 Inventories

Inventories are recorded at the lower of cost and net realisable value. 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 cost of inventories is assigned by using the FIFO cost formula.
The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods includes costs of raw materials, direct labor and other direct productions costs and related production overheads (based on normal operating capacity).
The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realizable value has declined, and makes an allowance for such inventories. If such situation occurred, the sum remissive the cost of inventories should be reflected in statement of comprehensive income.
At the date of financial statements preparation the Group estimates the balances of finished products to determine whether there is any evidence of impairment. Amount of impairment is measured on the basis of the analysis of prices in the market of such inventories, existed at the reporting date and issued in official sources.

3.11 Value added tax (VAT)

VAT output equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. Rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received. Revenue, expenses and assets are recognized less VAT amount, except cases, when VAT arising on purchases of assets or services, is not recoverable by tax authority; in this case VAT is recognized as part of purchase costs or part of item of expenses respectively. Net amount of VAT, recoverable by tax authority or paid, is included into accounts receivable and payable, reflected in consolidated statement of financial position.

3.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and short term deposits as defined above, net of outstanding bank overdrafts.

3.13 Share capital

Ordinary shares are classified as equity. Nominal value of share capital of Parent company is specified in Note 26.

3.14 Financial liabilities

(1) Initial recognition and measurement
The Group classifies its contractual obligations as financial liabilities at fair value through profit or loss, loans and borrowings. The Group classifies its financial liabilities at initial recognition. Financial liabilities, uncluding borrowings, are initially measured at fair value, net of transaction cost.
The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

(2) Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification as follows:
(a) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated at initial recognition as liabilities at fair value through profit or loss.
(b) Loans and borrowings
Loans and borrowings are financial liabilities which the Group has after borrowings attraction. Loans and borrowings are classified as current liabilities except when the Group has unconditional right to delay extinction of obligation at least for 12 months from reporting date.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

3 Summary of significant accounting policies (continued)

(3) 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 thtough profit or loss.

3.15 Defined benefits plan obligations

The Group contributes to the Ukrainian state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions are expensed as incurred. The contributions are included in expenses for wages and salaries.
Companies comprising the Group provide additional post-employment benefits to those employees who are engaged in the industry with particularly detrimental and oppressive conditions of work. Under the Ukrainian legislation employees engaged in hazardous industry may retire earlier than usual terms stipulated by Employee Retirement Income Security Law. The Group reimburses to the State Pension Fund all pension payments which are to be paid to the employees until usual statutory date of retirement. In addition, according to the legislation, the Group makes payments related to providing the employees with domestic fuel (coal). The Group recognizes the liabilities in amount of this payment.
The liability recognized in the statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognized actuarial gains or losses. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method.
The Group of Companies accept only part of actuarial income and expenses that transcend the 10% "corridor", equal the defined pension liability. Actuarial gains and losses are recognized in the comprehensive income statement in the period in which they occur.
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.

3.16 Provisions

Provisions are recognised when the Group has a legal or constructive obligations as the result of past event for which it is probable that an outflow of economic benefits can be required to settle the obligations, and the amount of the obligations can be reliably estimated.
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding obligation. Where a provision is measured using the cash flows estimsted to settle the present obligation, its carrying amount is the present value of those cash flows. Use of discounting results in recognition of financial expenses and increase in provision.

3.17 Environmental obligations

Environmental obligations include decommissioning and land restoration costs. The Group evaluates the provisions associated with ecological problems separately on every occasion taking into account the requirements of the relevant legislative acts.
Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning obligations are raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the comprehensive income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.
Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Change in provision and unwinding of discount on land restoration are recognised in the consolidated statement of comprehensive income.
Ongoing rehabilitation costs are expensed when incurred.

4 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.
In the process of applying the Group's accounting policies, management has made the following judgments, estimates and assumptions, which have the most significant effect on the amounts recognised in these consolidated financial statements:

(a) Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recognised 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 recognised fair value of financial instruments.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

4 Significant accounting judgments, estimates and assumptions (continued)

(b) Remaining useful life of property, plant and equipment
Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets bring economic benefit to the Group.

(c) Impairment of non-current assets
An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in Note 17.

(d) Defined benefits plan obligations
For the purpose of estimation of defined benefit obligation, the projected unit credit method was used, which includes 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.
In determining the appropriate discount rate, management considers the interest rates of high-quality government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.
Future salary increases and pension increases are based on expected future inflation rates.
Further details about the assumptions used are given in Note 28.

(e) Environmental obligations
The Group's mining and processing activities are susceptible to various environmental laws and regulations changes. The Group estimates environmental obligations based on management's understanding of the current legal requirements, terms of the licence agreements and internally generated estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

(f) Income taxes
The Group is subject to income taxes in numerous jurisdictions. Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.
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. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position and results of operations may be negatively affected.

5 Acquisition of subsidiaries

In 2008 and 2010 years the Group has gained the control over Techinvest LLC, Antratcit LLC and CwAL LE Sh/U Chapaeva by obtaining 69,30%, 99,00% and 86,62% corporate rights. Information about such operations is presented below:

Company name	Country of incorporation	Type of activity	Date of acquisition	Group interest rate, %
Techinvest LLC	Ukraine	trade	12 March 2008	69,30
Antratcit LLC	Ukraine	waste dumps' processing	27 March 2008	99,00
CwAL LE Sh/U Chapaeva	Ukraine	coal-mining industry	1 June 2010	86,62

The Group decides to measure non-controlling interest in the acquired companies at the non-controlling interest's proportionate share of the acquired companies identifiable net assets.
Information about the fair value of identifiable assets and liabilities of Techinvest LLC, Antratcit LLC and CwAL LE Sh/U Chapaeva at the acquisition date is presented below:

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

5 Acquisition of subsidiaries (continued)

	Techinvest LLC		Antratcit LLC		CwAL LE Sh/U Chapaeva	
Non-current assets	Fair value recognised on acquisition	Previous carrying value in the subsidiary	Fair value recognised on acquisition	Previous carrying value in the subsidiary	Fair value recognised on acquisition	Previous carrying value in the subsidiary
Property, plant and equipment	-	-	984	1 084	9 160	17 965
Intangible assets	-	-	14	14	8 772	-
Deferred tax assets	12	12	7	-	2 735	533
Current assets						
Inventories	5	5	295	295	8 679	8 679
Trade and other receivables	1 146	1 146	1 772	1 772	1 394	1 394
Advances paid and deferred expenses	57	57	15	15	70	70
Financial assets	349	349	319	319	-	-
Other taxes receivable	874	874	139	139	152	152
Cash and cash equivalents	-	-	-	-	18	18
Non-current liabilities						
Obligations under finance lease	-	-	-	-	(4 617)	(4 617)
Defined benefits plan obligations	-	-	(1)	(1)	(2 158)	(2 158)
Environmental obligations	-	-	-	-	(1 491)	(1 491)
Deferred tax liabilities	-	-	-	(18)	-	-
Current liabilities						
Loans and borrowings	-	-	(284)	(284)	(15 032)	(15 032)
Obligations under finance leases	-	-	-	-	(903)	(903)
Trade and other payables	(68)	(68)	(3 176)	(3 176)	(8 029)	(8 029)
Income tax payable	(1)	(1)	(1)	(1)	(6)	(6)
Other taxes payable	-	-	(5)	(5)	(746)	(746)
Total identifiable net assets at fair value	**2 374**	**2 374**	**78**	**153**	**(2 002)**	**(4 171)**
Non-controlling interests at fair value	**(729)**		**(1)**		**268**	
Goodwill arising on acquisition	**-**		**-**		**1 734**	
Excess of the Group's share in fair value of the net assets acquired over the cost of acquisition	**(1 642)**		**(75)**		-	
Purchase consideration transferred	**3**		**2**		**-**	
Cash flow on acquisition						
Net cash acquired with the subsidiary	-		-		18	
Cash paid	(3)		(2)		-	
Net cash outflow (inflow)	**(3)**		**(2)**		**18**	

Techinvest LLC
From the date of acquisition to 30 June 2008, Techinvest LLC has contributed USD 602 thousand of revenue and USD 166 thousand of loss to the net profit before tax of the Group.

Antratcit LLC
For assessment of fair value of the identifiable assets and liabilities of Antratcit LLC valuation of property, plant and equipment and intangible assets was completed and showed that the fair value at the date of acquisition was USD 984 thousand and USD 14 thousand respectively. Devaluation of property, plant and equipment to the amount of USD 100 thousand as compared with previous carrying value in the subsidiary entailed decreasing deferred tax liabilities from USD 18 thousand to deferred tax assets to USD 7 thousand.

CwAL LE Sh/U Chapaeva
For assessment of fair value of the identifiable assets and liabilities of CwAL LE Sh/U Chapaeva valuation of property, plant and equipment and intangible assets was completed and showed that the fair value at the date of acquisition was USD 9 160 thousand and USD 8 772 thousand respectively. Devaluation of property, plant and equipment to the amount of USD 8 805 thousand as compared with previous carrying value in the subsidiary entailed decreasing deferred tax liabilities from USD 533 thousand to USD 2 735 thousand. Revaluation of the intangible assets has not entailed increasing of deferred tax liabilities, because the Management of the Group considers that these assets can not be sold.

As at date of acquisition of CwAL LE Sh/U Chapaeva the recoverable amount of the subsidiary has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management of the Group. The discount rate applied to cash flow projections is varying 18,6-23,9%. As a result of this analysis, management of the Group has recognised an impairment charge completely in the amount of USD 1 734 thousand.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

6 Information on operational segments

The group defines the following business segments that include goods and services distinguished by the level of risk and terms of acquisition of income:
(a) mineral resource and processing industry – includes income from sale of own coal products and income from coal beneficiation;
(b) trade activity - includes income from sale of merchandises;
(c) other activitiy - includes income from rendering of other works and services.
Management controls the results of operating segments separatedly for the purpose of decision making about allocation of resources and performance measurement. The results of segments are estimated on operating profit (loss).

Information about the segments of business for the year ended 30 June 2010

	Business segments				
	Mineral resource and processing industry	Trade activity	Other activitiy	Adjustments and elimination	Total
Revenue					
Sales to external customers	28 089	27 318	369	-	55 776
	28 089	**27 318**	**369**	**-**	**55 776**
Gross profit of the segment	**8 933**	**9 188**	**224**	**-**	**18 345**
Depreciation and amortization expenses	(1 762)	-	-	-	**(1 762)**
Defined benefits plan obligations expenses	(1 824)	-	-	-	**(1 824)**
Impairment of goodwill	(1 734)	-	-	-	**(1 734)**
Operational assets	**57 926**	**5 199**	**918**	**23 672**	**87 715**
Operational liabilities	**(29 995)**	**(1 259)**	**(21)**	**(40 252)**	**(71 527)**
Disclosure of other information					
Capital expenditure	20 803	-	-	-	**20 803**

Assets of segments do not include financial assets (USD 17 977 thousand), cash (USD 108 thousand), other taxes receivable (USD 977 thousand), as well as deferred tax assets (USD 4 610 thousand), since management of these assets is carried out at the Group's level.

Liabilities of segments do not include deferred tax liabilities (USD 609 thousand), current tax payable (USD 21 thousand), non-current loans and borrowings (USD 13 079 thousand), current loans and borrowings (USD 21 527 thousand), other taxes payable (USD 1 260 thousand), as well as current provisions (3 756 thousand), since management of these liabilities is carried out at the Group's level.

Information about the segments of business for the year ended 30 June 2009

	Business segments				
	Mineral resource and processing industry	Trade activity	Other activitiy	Adjustments and elimination	Total
Revenue					
Sales to external customers	51 809	39 252	695	-	91 756
	51 809	**39 252**	**695**	**-**	**91 756**
Gross profit of the segment	**19 340**	**10 000**	**(168)**	**-**	**29 172**
Depreciation and amortisation	(1 827)	-	-	-	**(1 827)**
Defined benefits plan obligations expenses	(2 632)	-	-	-	**(2 632)**
Impairment of non-current assets	(1 132)	-	-	-	**(1 132)**
Operational assets	**26 339**	**14 989**	**207**	**23 377**	**64 912**
Operational liabilities	**(19 154)**	**(1 300)**	**(2)**	**(29 292)**	**(49 748)**
Disclosure of other information					
Capital expenditure	4 624	-	-	-	**4 624**

Notes to consolidated financial statements for the year ended 30 June 2010, 2009 and 2008

6 Information on operational segments (continued)

Assets of segments do not include financial assets (USD 16 638 thousand), cash (USD 436 thousand), prepayments of income tax (USD 4 thousand), other taxes receivable (USD 5 153 thousand), as well as deferred tax assets (USD 1 146 thousand), since management of these assets is carried out at the Group's level.

Liabilities of segments do not include deferred tax liabilities (USD 525 thousand), non-current loans and borrowings (USD 15 975 thousand), current loans and borrowings (USD 9 354 thousand), other taxes payable (USD 517 thousand), as well as current provisions (2 921 thousand), since management of these liabilities is carried out at the Group's level.

Information about the segments of business for the year ended 30 June 2008

	Business segments				
	Mineral resource and processing industry	Trade activity	Other activitiy	Adjustments and elimination	Total
Revenue					
Sales to external customers	45 213	20 016	482	-	65 711
	45 213	**20 016**	**482**	**-**	**65 711**
Gross profit of the segment	**7 090**	**2 232**	**(2 729)**	**-**	**6 593**
Depreciation and amortization expenses	(1 270)	-	-	-	**(1 270)**
Defined benefits plan obligations expenses	(1 906)	-	-	-	**(1 906)**
Operational assets	**38 716**	**3 168**	**262**	**13 576**	**55 722**
Operational liabilities	**(13 329)**	**(9 231)**	**-**	**(17 084)**	**(39 644)**
Disclosure of other information					
Capital expenditure	7 797	-	-	-	**7 797**

Assets of segments do not include financial assets (USD 8 811 thousand), cash (USD 1 098 thousand), prepayments of income tax (USD 8 thousand), other taxes receivable (USD 2 319 thousand), as well as deferred tax assets (USD 1 340 thousand), since management of these assets is carried out at the Group's level.

Liabilities of segments do not include deferred tax liabilities (USD 1 857 thousand), non-current loans and borrowings (USD 5 720 thousand), current loans and borrowings (USD 6 555 thousand), current tax payable (USD 6 thousand), other taxes payable (USD 1 475 thousand), as well as current provisions (1 471 thousand), since management of these liabilities is carried out at the Group's level.

Geographic information

Revenue from external customers	**Year ended 30 June 2010**	**Year ended 30 June 2009**	**Year ended 30 June 2008**
Ukraine	47 887	71 635	64 629
Countries of the CIS	39	60	567
Countries of distant foreignness	7 850	20 061	515
	55 776	**91 756**	**65 711**

These are main clients of the Group, revenue from which is more than 10% of Group's income:

	Year ended 30 June 2010	**Year ended 30 June 2009**	**Year ended 30 June 2008**
LLC "East-Donbass TC"	-	23 689	48 396
LLC "Coal of Ukraine"	14 439	19 875	-
LLC "Donetsk Coal Traditing"	-	13 650	-
LLC "Metinvest Holding"	8 566	-	-
LLC "DTEC Trading"	7 722	-	-

This revenue is applicable to mineral resource and processing industry segment. It is impossible to identify customers of trade activity segment, revenue from which is equal or more than 10% of Group's income.
All non-current assets are located in Ukraine.

7 Cost of sales

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Raw materials	(9 318)	(6 883)	(8 826)
Change in inventories	2 859	1 165	2 591
Cost of merchandising inventory	(18 130)	(29 252)	(17 784)
Wages and salaries of operating personnel	(6 914)	(19 121)	(28 681)
Depreciation and amortization expenses	(1 333)	(1 558)	(1 082)
Subcontractors services	(1 903)	(3 055)	(1 761)
Energy supply	(2 312)	(3 463)	(3 085)
Other expenses	(380)	(417)	(490)
	(37 431)	**(62 584)**	**(59 118)**

8 General and administrative expenses

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Wages and salaries of administrative personnel	(919)	(2 103)	(2 573)
Depreciation and amortization expenses	(23)	(24)	(19)
Bank services	(59)	(120)	(162)
Subcontractors services	(117)	(142)	(143)
Other expenses	(59)	(68)	(58)
	(1 177)	**(2 457)**	**(2 955)**

9 Selling and distribution expenses

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Delivery costs	(2 476)	(4 289)	(1 157)
Subcontractors services	(25)	(28)	(139)
Wages and salaries of distribution personnel	(397)	(662)	(866)
Depreciation and amortization expenses	(12)	(14)	(4)
Other expenses	(181)	(191)	(138)
	(3 091)	**(5 184)**	**(2 304)**

10 Other operating expenses

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Expenses for doubtful debts	(9)	(53)	(24)
Profit (loss) from exchange differences	128	643	(19)
Writing-off of VAT	(126)	(213)	(126)
Expenses due to idle capacity	(3 120)	(2 914)	(1 257)
Impairment of non-financial assets	-	(14)	(6)
	(3 127)	**(2 551)**	**(1 432)**

11 Other non-operating expenses

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Income from sale of property, plant and equipment	267	147	22
Writing-off of non-current assets	(105)	(310)	(27)
Impairment of non-current assets	-	(1 132)	-
Income from disposal of subsidiary	136	-	-
Other income	31	136	46
Other expenses	(334)	(160)	(213)
	(5)	**(1 319)**	**(172)**

12 Depreciation and amortization expenses

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Depreciation			
Cost of sales	(1 320)	(1 545)	(1 076)
General and administrative expenses	(23)	(23)	(18)
Selling and distribution expenses	(12)	(14)	(4)
Depreciation of property, plant and equipment which are temporarily not used	(387)	(231)	(165)
	(1 742)	**(1 813)**	**(1 263)**
Amortization			
Cost of sales	(13)	(13)	(6)
General and administrative expenses	-	(1)	(1)
Amortization of intangible assets which are temporarily not used	(7)	-	-
	(20)	**(14)**	**(7)**
	(1 762)	**(1 827)**	**(1 270)**

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

13 Finance income

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Interest income	10	20	5
Income from non-operational exchange differences	-	561	-
Income from initial recognition of financial liabilities at amortized cost	333	2 193	14
Income from measurement of financial assets at amortised cost	1 682	556	-
	2 025	**3 330**	**19**

14 Finance costs

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Interest expenses	(2 858)	(2 103)	(625)
Loss from non-operational exchange differences	(470)	-	-
Expenses from measurement of financial liabilities at amortized cost	(72)	(518)	(866)
Expenses from pre-mature redemption of financial liabilities at amortized cost	(2 777)	(2 700)	(289)
Expenses from initial recognition of financial assets at amortised cost	(502)	(2 127)	(1 848)
Loss from sale of assets held for trading	(345)	(150)	(190)
Unwinding of discount on environmemtal obligations	(85)	(87)	(80)
Other expenses	(44)	(41)	(3)
	(7 153)	**(7 726)**	**(3 901)**

15 Wages and salaries expenses

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Wages and salaries	(5 307)	(11 063)	(12 387)
Bonuses	(263)	(3 571)	(9 661)
Contributions to Pension Fund	(1 568)	(4 587)	(6 968)
Other contributions	(646)	(2 053)	(3 206)
Defined benefit obligation expenses	(1 824)	(2 632)	(1 906)
	(9 608)	**(23 906)**	**(34 128)**
The average number of employees, persons	3 929	5 361	4 151
Wages and salaries of operating personnel	(6 914)	(19 121)	(28 681)
Wages and salaries of administrative personnel	(919)	(2 103)	(2 573)
Wages and salaries of distribution personnel	(397)	(662)	(866)
Wages and salaries of personnel involved in production of property, plant and equipment	(120)	(453)	(1 644)
Wages and salaries of personnel in the period of idle capacity	(1 258)	(1 567)	(364)
	(9 608)	**(23 906)**	**(34 128)**

16 Income tax income

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Current income tax	(46)	(28)	(53)
Deferred tax	744	1 106	943
Income tax income	**698**	**1 078**	**890**
At the beginning of the period	**4**	**2**	**(6)**
Current income tax charge	(46)	(28)	(53)
Increase on acquisition of subsidiary	(6)	-	(2)
Decrease on disposal of subsidiary	3	-	-
Amount paid in the period	25	31	62
Effect of translation to presentation currency	(1)	(1)	1
At the end of the period	**(21)**	**4**	**2**
Effect			
Profit before tax	4 083	13 265	(2 435)
Income tax at the rate of 25%	(1 021)	(3 316)	609
Tax effect of permanent differences	1 719	4 394	281
Income tax income	**698**	**1 078**	**890**

Tax consequences of business transactions for the purpose of Ukrainian statutory taxation are often determined by the form in which those transactions are documented and reflected based on the requirements stipulated by the Ukrainian Accounting Standards. Accordingly the Group carries out a number of operations aimed at effective taxation rate optimization. In the process of consolidated financial statements preparation, such operations are presented reflecting their economic essence, and their effect on deffered tax included in permanent differences.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

16 Income tax income (continued)

Recognised tax assets and liabilities

Effect of temporary differences on deferred tax assets	30 June 2007	Recognised in profit (loss)	Effect of translation to presentation currency	Increase as result of acquisition of subsidiaries	30 June 2008
Property, plant and equipment, intangible assets	20	340	13	5	378
Financial instruments	965	(897)	7	-	75
Prepayments received	92	(89)	-	12	15
Provisions	110	35	6	-	151
Defined benefit plan obligations	472	468	37	-	977
Charged vacation expenses	435	276	29	2	742
Transfer of tax allowances at future periods	1 567	(64)	63	-	1 566
Folded on individual Companies' level	(2 980)	-	-	-	(2 564)
Total deferred tax assets	**681**	**69**	**155**	**19**	**1 340**
Effect of temporary differences on deferred tax liabilities					
Property, plant and equipment, intangible assets	(2 991)	186	(117)	-	(2 922)
Financial instruments	(2 124)	691	(62)	-	(1 495)
Prepayments and deferred expenses	(1)	(3)	-	-	(4)
Folded on individual Companies' level	2 980	-	-	-	2 564
Total deferred tax liabilities	**(2 136)**	**874**	**(179)**	**-**	**(1 857)**
Net deferred tax asset/(liability)	**(1 455)**	**943**	**(24)**	**19**	**(517)**

Effect of temporary differences on deferred tax assets	30 June 2008	Recognised in profit (loss)	Effect of translation to presentation	30 June 2009
Property, plant and equipment, intangible assets	378	86	(150)	314
Financial instruments	75	11	(29)	57
Prepayments received	15	158	(28)	145
Provisions	151	31	(59)	123
Defined benefit plan obligations	977	638	(446)	1 169
Charged vacation expenses	742	(128)	(252)	362
Transfer of tax allowances at future periods	1 566	(284)	(531)	751
Folded on individual Companies' level	(2 564)	-	-	(1 775)
Total deferred tax assets	**1 340**	**512**	**(1 495)**	**1 146**
Effect of temporary differences on deferred tax liabilities				
Property, plant and equipment, intangible assets	(2 922)	331	1 018	(1 573)
Financial instruments	(1 495)	417	486	(592)
Prepayments and deferred expenses	(4)	(154)	23	(135)
Folded on individual Companies' level	2 564	-	-	1 775
Total deferred tax liabilities	**(1 857)**	**594**	**1 527**	**(525)**
Net deferred tax asset/(liability)	**(517)**	**1 106**	**32**	**621**

	30 June 2009	Recognised in profit (loss)	Effect of translation to presentation currency	Increase as result of acquisition of subsidiary	Decrease as a result of disposal of subsidiary	30 June 2010
Effect of temporary differences on deferred tax assets						
Property, plant and equipment, intangible assets	314	22	(11)	1 343	-	1 668
Financial instruments	57	163	(2)	1	-	219
Prepayments received	145	404	(4)	18	(241)	322
Provisions	123	21	(4)	373	-	513
Defined benefit plan obligations	1 169	431	(40)	540	-	2 100
Charged vacation expenses	362	(207)	(13)	192	-	334
Transfer of tax allowances at future periods	751	(464)	(28)	268	-	527
Folded on individual Companies' level	(1 775)	-	-	-	-	(1 073)
Total deferred tax assets	**1 146**	**370**	**(102)**	**2 735**	**(241)**	**4 610**
Effect of temporary differences on deferred tax liabilities						
Property, plant and equipment, intangible assets	(1 573)	134	55	-	-	(1 384)
Financial instruments	(592)	425	22	-	-	(145)
Prepayments and deferred expenses	(135)	(185)	4	-	163	(153)
Folded on individual Companies' level	1 775	-	-	-	-	1 073
Total deferred tax liabilities	**(525)**	**374**	**81**	**-**	**163**	**(609)**
Net deferred tax asset/(liability)	**621**	**744**	**(21)**	**2 735**	**(78)**	**4 001**

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

17 Property, plant and equipment

Cost	**Underground mining**	**Buildings and constructions**	**Machinery, equipment and vehicles**	**Other**	**Total**
as at 30 June 2007	**8 633**	**6 140**	**2 911**	**329**	**18 013**
Additions	2 622	357	3 306	437	**6 722**
Additions from acquisition of subsidiaries	-	564	741	54	**1 359**
Disposals	(8)	(10)	(15)	(17)	**(50)**
Effect of translation to presentation currency	456	268	242	29	**995**
as at 30 June 2008	**11 703**	**7 319**	**7 185**	**832**	**27 039**
Additions	1 366	386	2 450	380	**4 582**
Disposals	(302)	(12)	(741)	(265)	**(1 320)**
Effect of translation to presentation currency	(4 417)	(2 721)	(2 850)	(320)	**(10 308)**
as at 30 June 2009	**8 350**	**4 972**	**6 044**	**627**	**19 993**
Additions	141	214	1 414	109	**1 878**
Additions from acquisition of subsidiaries	5 824	3 960	4 197	106	**14 087**
Disposals	(102)	(45)	(231)	(17)	**(395)**
Effect of translation to presentation currency	(293)	(356)	(189)	(23)	**(861)**
as at 30 June 2010	**13 920**	**8 745**	**11 235**	**802**	**34 702**
Accumulated depreciation					
as at 30 June 2007	**(437)**	**(281)**	**(721)**	**(54)**	**(1 493)**
Depreciation for the period	(519)	(211)	(459)	(74)	**(1 263)**
Additions from acquisition of subsidiaries	-	(101)	(250)	(24)	**(375)**
Disposals	1	-	3	5	**9**
Effect of translation to presentation currency	(38)	(19)	(47)	(4)	**(108)**
as at 30 June 2008	**(993)**	**(612)**	**(1 474)**	**(151)**	**(3 230)**
Depreciation for the period	(536)	(252)	(843)	(182)	**(1 813)**
Disposals	-	8	143	80	**231**
Increase from impairment of assets	(798)	(199)	(131)	(4)	**(1 132)**
Effect of translation into reporting currency	550	285	656	69	**1 560**
as at 30 June 2009	**(1 777)**	**(770)**	**(1 649)**	**(188)**	**(4 384)**
Depreciation for the period	(479)	(217)	(936)	(110)	**(1 742)**
Disposals	43	23	51	13	**130**
Additions from acquisition of subsidiaries	(1 261)	(1 760)	(1 887)	(19)	**(4 927)**
Effect of translation to presentation currency	59	27	55	9	**150**
as at 30 June 2010	**(3 415)**	**(2 697)**	**(4 366)**	**(295)**	**(10 773)**
Net book value					
as at 30 June 2007	**8 196**	**5 859**	**2 190**	**275**	**16 520**
as at 30 June 2008	**10 710**	**6 707**	**5 711**	**681**	**23 809**
as at 30 June 2009	**6 573**	**4 202**	**4 395**	**439**	**15 609**
as at 30 June 2010	**10 505**	**6 048**	**6 869**	**507**	**23 929**

The Group elects to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost as at 30 June 2007. Revaluation of property, plant and equipment was made by the independent expert named Veritas Appraiser LLC (Certificate of practitioners of valuation activities # 9377/10 dated 26 February 2010).
As stated in Note 3.8 of accounting policy of the Group at each reporting date the Group assesses whether there is any indication that a carrying amount of an asset may be impaired. As at 30 June 2009 the Group have estimated the recoverable amount of the asset for the purpose of recognition of impairment loss, attracting independent valuer. Loss from impairment of property, plant and equipment is recognized in the amount of USD 1 132 thousand and there is a reduction in value of property, plant and equipment in mineral resource and processing industry segment of the Group down to recoverable amount. Impairment loss is recognised in consolidated statement of comprehensive income in item 'Other non-operating expenses'. While measuring value in use of assets cash flows were discounted at rate varying 21-23,83%.
There is no any indication of impairment as at 30 June 2010.

As at 30 June 2010 loans and borrowings of the Group were pledged by the property, plant and equipment with carrying amount of USD 6 405 thousand (30 June 2009 - USD 7 042 thousand, 30 June 2008 – USD 984 thousand): Note 27 'Loans and borrowings'.

As at 30 June 2010 there were no contractual liabilities of the Group for the purchase of property, plant and equipment (30 June 2009 - USD 6 thousand, 30 June 2008 – USD 18 thousand).

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

18 Intangible assets

Cost	Licences, special permissions and patent rights	Other intangible assets	Other projects and permissions	Total
as at 30 June 2007	**22**	**6**	**41**	**69**
Additions	1	7	69	**77**
Additions from acquisition of subsidiaries	-	-	24	**24**
Effect of translation to presentation currency	1	-	28	**29**
as at 30 June 2008	**24**	**13**	**138**	**175**
Additions	4	11	27	**42**
Effect of translation to presentation currency	(10)	(6)	(54)	**(70)**
as at 30 June 2009	**18**	**18**	**111**	**147**
Additions	961	14	18	**993**
Additions from acquisition of subsidiaries	8 772	-	-	**8 772**
Effect of translation to presentation currency	-	-	(3)	**(3)**
as at 30 June 2010	**9 751**	**32**	**126**	**9 909**
Accumulated amortization				
as at 30 June 2007	**(1)**	**-**	**(3)**	**(4)**
Amortization charge for the period	-	(1)	(6)	**(7)**
Additions from acquisition of subsidiaries	-	-	(10)	**(10)**
as at 30 June 2008	**(1)**	**(1)**	**(19)**	**(21)**
Amortization charge for the period	(1)	(1)	(12)	**(14)**
Effect of translation to presentation currency	1	1	8	**10**
as at 30 June 2009	**(1)**	**(1)**	**(23)**	**(25)**
Amortization charge for the period	(2)	(2)	(16)	**(20)**
as at 30 June 2010	**(3)**	**(3)**	**(39)**	**(45)**
Net book value				
as at 30 June 2007	**21**	**6**	**38**	**65**
as at 30 June 2008	**23**	**12**	**119**	**154**
as at 30 June 2009	**17**	**17**	**88**	**122**
as at 30 June 2010	**9 748**	**29**	**87**	**9 864**

As at 30 June 2010 licences and special permissions include special permissions for subsurface use stated below:
- special permissions for subsurface use # 5098 as of 30 December 2009 issued by Ministry of ecology and natural resources of Ukraine for 20 years. Net book value of this permission equals to USD 962 thousand (Tekhinnovatsiya LLC);
- special permissions for subsurface use # 4782 as of 18 November 2008 issued by Ministry of ecology and natural resources of Ukraine for 13 years. Net book value of this permission equals to USD 4 386 thousand (CwAL LE Sh/U Chapaeva);
- special permissions for subsurface use # 4820 as of 16 December 2008 issued by Ministry of ecology and natural resources of Ukraine for 12 years. Net book value of this permission equals to USD 4 386 thousand (CwAL LE Sh/U Chapaeva).

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

19 Financial assets

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Non-current financial assets			
Held-to-maturity investments	919	50	-
Loans issued	-	9 318	3 858
	919	**9 368**	**3 858**
Current financial assets			
Loans issued	17 058	7 270	4 875
Available-for-sale financial assets	-	-	78
	17 058	**7 270**	**4 953**

Held-to maturity investments are non-interest notes, issued by third parties. These notes are discounted using effective annual interest rate 18% for the year ended 30 June 2010 (18,5% for the year ended 30 June 2009 respectively) and accompanied expenses (incomes) are presented in items 'Finance costs' and 'Finance income'. Management of the Group has the intention to hold these notes to maturity.
Loans issued are non-interest loans, issued generally to related parties. These loans are discounted using effective annual interest rate 18,5% for the year ended 30 June 2009 (18% for the year ended 30 June 2008) and accompanying expenses (incomes) are presented in items 'Finance costs' and 'Finance income'. As at 30 June 2010 these loans were transferred into current financial assets to the amount of USD 10 642 thousand.
Held-to maturity investments and loans issued are not overdue.

20 Inventories

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Raw materials	4 321	3 381	6 615
Spare parts	1 308	376	973
Finished goods	12 558	3 707	4 165
Merchandise	473	839	819
Other inventories	21	9	9
	18 681	**8 312**	**12 581**

As at 30 June 2010 bank loans were secured by finished goods, carrying amount of which is USD 5 966 thousand (as at 30 June 2009 and 2008 - no inventories are pledged as collateral).

21 Trade and other receivables

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Trade receivables	9 822	15 769	4 639
Allowances for trade receivables	(165)	(177)	(209)
Receivables on sale of properly, plant and equipment	146	2	17
Receivables on sale of financial assets	2	158	345
Other receivables	1 322	1 346	291
Allowances for other receivables	(16)	(16)	(25)
	11 111	**17 082**	**5 058**

As at 30 June 2010 trade receivables amounting to USD 3 573 thousand are pledged (as at 30 June 2009 and 2008 - no receivables are pledged as collateral).
As at 30 June 2010 other receivables include credit sale amounting to USD 1 174 thousand respectively, given to Tekhinnovatsiya LLC in UAH according to the contract of property lend, concluded with Dobropolieugol GC AL "Novodonetskaya Mine". Annual interest rate equals to 3%. As at the date of signing of the financial report the credit sale was wholly repaid.

22 Advances paid and deferred expenses

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Advances paid	444	403	541
Deferred expenses	14	7	3
	458	**410**	**544**

As at 30 June 2009 advances are presented net of impairment amounting to USD 14 thousand (as at 30 June 2008 USD - 6 thousand), included in item 'Other operating expenses'.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

23 Changes in allowances made

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Balance as at the beginning of the period	**(193)**	**(234)**	**(3 825)**
Accrual	(9)	(53)	(24)
Use of allowances	15	1	3 640
Effect of translation to presentation currency	6	93	(25)
Balance as at the end of the period	**(181)**	**(193)**	**(234)**

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Allowances for trade accounts receivable	(165)	(177)	(209)
Allowances for other accounts receivable	(16)	(16)	(25)
	(181)	**(193)**	**(234)**

24 Other taxes

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Taxes receivable			
VAT recoverable	897	5 147	2 316
Prepayments for wages and salaries related taxes	71	6	3
Prepayments for other taxes	9	-	-
	977	**5 153**	**2 319**
Taxes payable			
Payables for wages and salaries related taxes	1 156	458	1 408
Payables for other taxes	104	59	67
	1 260	**517**	**1 475**

25 Cash and cash equivalents

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Cash in bank	104	433	1 095
Cash in transit	4	1	1
Cash equivalents	-	2	2
	108	**436**	**1 098**

26 Share capital

	At 30 June 2010		At 30 June 2009		At 30 June 2008	
	%	Amount	%	Amount	%	Amount
Lycaste Holdings Limited	100	38	100	38	100	38
	100	**38**	**100**	**38**	**100**	**38**

Share capital of Coal Energy SA amountes to 38 thousand USD and comprises 31 000 shares. As at 30 June 2010 all shares issued have been paid.

27 Loans and borrowings

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Non-current loans and borrowings			
Borrowings received	15 000	13 600	-
Notes issued	255	2 375	5 720
	15 255	**15 975**	**5 720**
Deducting current portion of long-term borrowings			
Current portion of long-term borrowings	2 176	-	-
Total non-current loans and borrowings	**13 079**	**15 975**	**5 720**
Current loans and borrowings			
Bank loans	4 298	367	4 599
Interest free financial liabilities	13 419	8 987	1 956
Notes issued	1 634	-	-
Current portion of long-term borrowings	2 176	-	-
	21 527	**9 354**	**6 555**

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

27 Loans and borrowings (continued)

Non-current notes issued are represented by the interest free notes, issued to third parties. These notes are reflected at amortized cost with using effective interest rate 18% per year for the year ended 30 June 2010 (18,5% and 18% for the years ended 30 June 2009 and 2008 respectively). The management of the Group is going to hold notes until the maturity date.

Interest free financial liabilities are loans, received primary from related parties, reflected at initial value.

The amount of non-current loans and borrowings as at 30 June 2010 comprises the following borrowings:

— borrowing amounting to USD 6 300 thousand received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 6 300 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the property of Ugledobycha LLC, book value of which amounts to USD 515 thousand; by the property of Donprombiznes LLC, book value of which amounts to USD 530 thousand; by the property of Tekhinnovatsiya LLC, book value of which amounts to USD 410 thousand. Maturity date is 19 December 2013. Current portion of the borrowing amounts to USD 1 050 thousand.

— borrowing amounting to USD 3 900 thousand received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 3 900 thousand. Annual interest rate equals to 15,5%. Obligations under this credit agreement are guaranteed by the property of LLC "Agro-industrial firm "Aval", pledged value of which amounts to USD 11 369 thousand. Maturity date is 10 March 2014. Current portion of the borrowing amounts to USD 325 thousand.

— borrowing amounting to USD 4 800 thousand received by Eximenergo LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 4 800 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the property of Eximenergo LLC, book value of which amounts to USD 4 529 thousand; by the property of LLC "Ugledobyvauchie Technologies", pledging value of which amounts to USD 3 035 thousand. Maturity date is 2 December 2013. Current portion of the borrowing amounts to USD 801 thousand.

The amount of non-current loans and borrowings as at 30 June 2009 comprises the following borrowings:

— borrowing amounting to USD 6 300 thousand received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 6 300 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the property of Ugledobycha LLC, book value of which amounts to USD 543 thousand; by the property of Donprombiznes LLC, book value of which amounts to USD 585 thousand; by the property of Tekhinnovatsiya LLC, book value of which amounts to USD 275 thousand. Maturity date is 19 December 2013.

— borrowing amounting to USD 2 500 thousand received by Ugledobycha LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 3 900 thousand. Annual interest rate equals to 15,5%. Obligations under this credit agreement are guaranteed by the property of LLC "Agro-industrial firm "Aval", pledged value of which amounts to USD 11 782 thousand. Maturity date is 10 March 2014.

— borrowing amounting to USD 4 800 thousand received by Eximenergo LLC in USD according to the credit agreement concluded with Katiema Enterpsises LTD with credit limit equaling to USD 4 800 thousand. Annual interest rate equals to 15%. Obligations under this credit agreement are guaranteed by the property of Eximenergo LLC, book value of which amounts to USD 5 177 thousand; by the property of LLC "Ugledobyvauchie Technologies", pledging value of which amounts to USD 3 145 thousand. Maturity date is 2 December 2013.

The amount of current loans and borrowings as at 30 June 2010 comprises the following loans:

— interest free financial liabilities, amounting to USD 13 419 thousand are unsecured loans, received from related parties on demand terms. Loans are reflected at initial value.

— loan amounting to USD 1 897 thousand received by Donbasuglerazrabotka LLC in UAH according to the credit agreement concluded with OJSC “Creditprombank” with credit limit equaling to USD 1 897 thousand. Annual interest rate equals to 25%. Obligations under this credit agreement are guaranteed by the property of Antratcit LLC, pledging value of which amounts to USD 421 thousand; by the revenue under the contracs of LLC "Ugletechnic" amounting to USD 99 thousand, by the revenue under the contracs of Donantracit LLC amounting to USD 411 thousand, by the revenue under the contracs of LLC "Donbasskrep" amounting to USD 142 thousand, by the revenue under the contracs of LLC "Mechanic" amounting to USD 3 thousand; by the guarantee of individuals Vyshnevetskyy V. and Vyshnevetska M. amounting to USD 1 897 thousand. Maturity date is 1 December 2010. As at the date of financial statements signing the loan was repaid.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

27 Loans and borrowings (continued)

— loan amounting to USD 1 771 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit equaling to USD 1 771 thousand. Annual interest rate equals to 25%. Obligations under this credit agreement are guaranteed by the property of LLC "Agro-industrial firm "Aval", pledging value of which amounts to USD 559 thousand; by the property rights under the contracts amounting to USD 3 162 thousand; by the guarantee of individuals Vyshnevetskyy V. and Vyshnevetska M. amounting to 1 771 thousand, by the guarantee of CwAL LE Sh/U Chapaeva amounting to USD 1 771 thousand. Maturity date is 1 December 2010. As at the date of financial statements signing the loan was repaid.

— loan amounting to USD 630 thousand received by CwAL LE Sh/U Chapaeva in USD according to the credit agreement concluded with OJSC "Ukranian Business Bank" with credit limit equaling to USD 630 thousand. Annual interest rate equals to 18%. Obligations under this credit agreement are guaranteed by the finished goods (coal) amounting to 2 983. Maturity date is 27 May 2011. As at the date of financial statements signing the loan was repaid.

The amount of current loans and borrowings as at 30 June 2009 comprises the following loans:

— interest free financial liabilities, amounting to USD 8 987 thousand are unsecured loans, received primary from related parties on demand terms. Loans are reflected at initial value.

— loan amounting to USD 367 thousand received by Donprombiznes LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit equaling to USD 655 thousand. Annual interest rate equals to 23%. Obligations under this credit agreement are guaranteed by the property of Donbasuglerazrabotka LLC, book value of which amounts to USD 461 thousand; by the corporate rights on share capital Donbasuglerazrabotka LLC equal 100% share capital. Maturity date is 21 August 2009.

The amount of current loans and borrowings as at 30 June 2008 comprises the following loans:

— interest free financial liabilities, amounting to USD 1 956 thousand are unsecured loans, received from related parties on demand terms. Loans are reflected at initial value.

— loan amounting to USD 4 599 thousand received by Nedra Donbasa LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit equaling to USD 6 661 thousand. Annual interest rate equals to 18%. Obligations under this credit agreement are guaranteed by the property of Antratcit LLC, pledging value of which amounts to USD 984 thousand; by the property of LLC "Reljef", pledging value of which amounts to USD 2 117 thousand. Maturity date is 17 February 2009.

Essential terms:	**Currency**	**Nominal interest rate**	**Effective interest rate**	**30 June 2010**	**30 June 2009**	**30 June 2008**
Non-current borrowings	USD	15,00	18,00	11 100	11 100	-
Non-current borrowings	USD	15,50	18,02	3 900	2 500	-
				15 000	13 600	-

Terms of non-current loans and borrowings (undiscounted flows)

	At 30 June 2010	**At 30 June 2009**	**At 30 June 2008**
On demand	-	-	-
within 1 year	2 176	-	-
from 1 to 5 years	13 411	15 902	11 998
more than 5 years	-	1 484	476
	15 587	**17 386**	**12 474**

Terms of current loans and borrowings

	At 30 June 2010	**At 30 June 2009**	**At 30 June 2008**
On demand	13 419	8 987	1 956
within 3 month	-	367	-
from 3 to 12 month	5 932	-	4 599
	19 351	**9 354**	**6 555**

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

28 Obligations under finance lease

	At 30 June 2010	
	Minimum lease payments	Present value of minimum lease payments
Due within 1 year	994	903
From 1 to 5 years	3 976	2 358
More than 5 years	42 405	2 259
	47 375	**5 520**
Future finance charges	(41 855)	-
Present value of lease obligations	**5 520**	**5 520**
Current portion of financial lease obligations		(903)
Non-current financial lease obligations		**4 617**

In 2009 CwAL LE Sh/U Chapaeva negotiated the contract of lease of state property - integral property complex GC Shakhtoupravlinnia named after V.I. Chapaev.
According to this contract, the lessee receives state property for the period of 49 years (until 11 February 2058) on fee basis. Such property comprises premises, facilities, mine workings, production equipment, transport, assets under construction and special permissions for subsurface use. Also, as term of agreement, the lessee becomes legal successor of rights and liabilities of GC "Shakhtoupravlinnia named after V.I. Chapaev". Additionally, the lesee untertakes current and capital maintetance of property, insurance and dismantling of mines in case of mine stock depletion.
Under the agreement of lessor, lessee has a right to give property into sublease and to transfer own rights and liabilities under this agreement to third parties. There are fixed payments on this contract, but each consequent lease payment is determined by correction of previous month lease payment on current month inflation rate.
Amendments, addendums or cancellation of this contract are possible under agreement of both parties.

Net book value of leased assets as at 30 June 2010:

	At 30 June 2010
Property, plant and equipment	7 876
Intangible assets	8 772
	16 648

29 Defined benefits plan obligations

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Long-term defined benefits plan obligations	8 401	4 676	3 909
	8 401	**4 676**	**3 909**

Changes in present value of defined benefits plan obligations:

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Defined benefits plan obligations at the beginning of the period	**4 380**	**3 687**	**1 887**
Current service cost	1 165	1 479	1 314
Interest expense	625	403	282
Actuarial (gain)/loss	(1 295)	(398)	(479)
Paid benefits	(98)	(80)	(31)
Past service cost	-	886	578
Increase due to purchase of subsidiary	2 158	-	1
Effect of translation to presentation currency	(148)	(1 597)	135
Defined benefits plan obligations at the end of the period	**6 787**	**4 380**	**3 687**

Amount in consolidated statement of financial position:	As at 30 June 2010	As at 30 June 2009	As at 30 June 2008
Present value of unfunded defined benefits plan obligations	6 787	4 380	3 687
Unrecognized actuarial (gain)/loss	1 943	705	479
Unrecognized past service cost	(329)	(409)	(257)
Defined benefits plan obligations	**8 401**	**4 676**	**3 909**

Amount in consolidated statement of comprehensive income:

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Current services cost	1 165	1 479	1 314
Recognized actuarial (gain)/loss	(32)	4	-
Interest expense	625	403	282
Recognized past service cost	66	746	310
Total	**1 824**	**2 632**	**1 906**

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

29 Defined benefits plan obligations (continued)

Movements in the present value of defined benefit obligations were as follows:

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
At the beginning of the period	**4 676**	**3 909**	**1 887**
Benefits paid	(98)	(80)	(31)
Net expenses in consolidated statement of comprehensive income	1 824	2 632	1 906
Increase due to purchase of subsidiary	2 158	-	1
Effect of translation to presentation currency	(159)	(1 785)	146
At the end of the period	**8 401**	**4 676**	**3 909**

Key assumptions used in estimation of defined benefit obligations were as follows:

Discount rate	15%	15%	15%
Future salary increases	10%	-46%	54%
Employee turnover	10%	10%	10%

30 Provisions

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Non-current provisions			
Land restoration liabilities	1 643	133	178
Decommissioning liabilities	409	359	479
	2 052	**492**	**657**
Current provisions			
Provision on tax liabilities	3 756	2 921	1 471
	3 756	**2 921**	**1 471**

The Group has liabilities, connected with environmental restoration, notably decommission of property, plant and equipment and land restoration under waste dumps. Estimation of liability bases on estimated prices of decommission of property, plant and equipment and land restoration under waste dumps procedures. Discount rate used by the Group is 18%.

Tax consequences of business transactions for the purpose of Ukrainian statutory taxation are often determined by the form in which those transactions are documented and reflected based on the requirements stipulated by the Ukrainian Accounting Standards. Accordingly the Group carries out a number of operations aimed at effective taxation rate optimization.
In the process of consolidated financial statements' preparation in order to render the economic substance of those operations, the Group's financial position and performance, the Group's management reflected actual costs of sales and payables.
In connection with the above at 30 June 2010, 2009 and 2008 the Management created provision for the payment of potential tax liabilities. Though if the controlling authorities classify such transactions as subject to taxation and apply such classification to the companies of the Group, actual taxes and penalties may differ from the Management assessment.

Changes in non-current provisions

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Balance as at the beginning of the period	**492**	**657**	**441**
Unwinding of discount	85	87	80
Increase due to acquisition of subsidiary	1 491	-	-
Increase due to putting into operation new facilities	-	-	111
Effect of translation to presentation currency	(16)	(252)	25
Balance as at the end of the period	**2 052**	**492**	**657**

Changes in current provisions

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
At the beginning of the period	**2 921**	**1 471**	**-**
Provision charge for the period	934	2 314	1 418
Effect of translation to presentation currency	(99)	(864)	53
At the end of the period	**3 756**	**2 921**	**1 471**

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

31 Trade and other payables

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Trade payables	9 299	10 611	9 039
Advances received	761	54	59
Payables for wages and salaries	1 966	1 328	2 188
Payables for unused vacations	1 336	1 447	2 969
Interest due	226	172	25
Payables for acquisition property, plant and equipment	931	206	1 582
Payables for financial assets	27	845	727
Other payables	756	625	1 405
	15 302	**15 288**	**17 994**

32 Disposal of subsidiary

On 4 June 2010, the Group sold its share in Techinvest LLC, a 69,30% subsidiary of the Group, for a cash consideration of USD 2 thousand. The carrying value of Techinvest LLC net assets at the date of disposal amounted to USD 193 thousand.
At the date of disposal aggregated net assets of Techinvest LLC were as follows:

	At date of disposal
Non-current assets	
Deferred tax assets	78
Current assets	
Inventories	206
Trade and other receivables	4
Prepayments and prepaid expenses	784
Financial assets	214
Other taxes receivable	3 764
Cash and cash equivalents	717
Non-current liabilities	-
Current liabilities	
Trade and other payables	(5 872)
Income tax payable	(3)
Other taxes payable	(85)
Total identified net assets at fair value	**(193)**
Non-controlling interests at fair value	**59**
Group's share of assets disposed of	**(134)**
Income from disposal of subsidiary	136
Proceeds from disposal of subsidiary	**2**
Less cash and cash equivalents disposed of	(717)
Net cash outflow from disposal of subsidiary	**(715)**

33 Related party transactions

According to existing criteria of determination of related parties, the related parties of the Group are divided into the following categories:

(1) Entities - related parties under common control with the Companies of the Group;
(2) Entities - related parties, in equity of which Companies of the Group have an interest;
(3) Entities - related parties, which have joint key management personnel with the Companies of the Group.

Ultimate controlling party is Mr.Vyshnevetskyy V.
The sales of finished goods, merchandises and rendering of the services to related parties are made at terms equivalent to those that prevail in arm's length transactions on market price basis. Provision of loans and operations with notes are made at terms different from the independent parties transactions.
Transactions between related parties attributable to the second and the third categories are occasional and not significant, thus, they are not disclosed in these consolidated financial statements.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

33 Related party transactions (continued)

Details of transactions between entities - related parties under common control with the Companies of the Group are disclosed below:

Items of consolidated statement of comprehensive income

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Income from sales of finished products, goods	1 131	7 762	4 435
Income from rendering of services	19	648	2 643
Income from sale of property, plant and equipment	74	898	20
Income from operating lease	2	18	25
Purchases of inventories	5 378	14 442	5 502
Purchases of property, plant and equipment	537	1 275	2 203
Purchases of services	516	2 011	2 806
Operating lease expenses	(112)	(130)	(341)

Items of consolidated statement of financial position

	As at 30 June 2010	As at 30 June 2009	As at 30 June 2008
Held-to-maturity investments	533	50	-
Loans issued	15 738	9 533	8 248
Trade receivables	1 612	1 963	2 047
Other receivables	11	165	93
Advances paid	151	128	21
Trade payables	3 664	717	2 674
Other payables	676	130	2 005
Advances received	604	-	-
Interest-free financial liabilities	13 419	8 773	1 956

Remuneration of key management personnel

	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008
Wages and salaries	(426)	(498)	(389)
Bonuses	(1)	(19)	(3)
Contribution to the Pension Fund	(11)	(23)	(16)
Other contributions	(4)	(8)	(7)
Dismissal benefits	(4)	(3)	(2)
	(446)	**(551)**	**(417)**
The average number of key management personnel, persons	16	18	14

34 Management of financial risks

Operating environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

Ukrainian tax legislation is characterized by frequent changes is subject to controversial interpretations. Tax authorities may be taking a more assertive position in their interpretation of the legislation and tax assessments. Such cases create a taxation risk exposure which considerably exceeds that of the countries with more advanced tax systems. Management believes that its interpretation of the relevant legislation as of 30 June 2010 is appropriate and all of the Croup's tax will be sustainable. Though, amount of VAT recoverable, as well as terms of such refunds substantially depends on the position of tax authorities.

The Group is continuing to be subject to reform initiatives in the Ukraine. The future direction and effects of any reforms are the subject of political considerations, which could have a significant, but undeterminable, effect on enterprises operating in the Group.

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group. Risks are managed centrally.

This note presents information about Group's exposure of each type of risks, objectives of risk management, policy and procedures of assessment and management, as well as approaches to capital management. Additional qualitative and quantitative information are disclosed through overall consolidated financial statements.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

34 Management of financial risks (continued)

Credit risk

Credit risk is a risk of financial loss to the Group, which results from failure of a buyer or a contractor under the financial instrument to fulfill its contractual obligations. Credit risk arises from cash and cash equivalents, deposits in banks as well as credit exposures to customers, including outstanding receivables. Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable including promissory notes. Management systematically reviews credit risk of receivables, taking into account financial position of customers, their credit history and other factors. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the allowances already recorded.

Specific of the Group's activity implies that trade receivables are composed of receivables due from wholesale customers.
As at 30 June 2010 trade receivables amounting to USD 7 344 thousand have been formed from the following customers:

LLC "Metinvest Holding"
LLC "Melon Ltd"
LLC "Ukrgeoservice"
LLC "Brauz"
SC "Coal of Ukraine"

As at 30 June 2009 trade receivables amounting to USD 13 067 thousand have been formed from the following customers:

LLC "Veskor"
CJSC "Donetsksteel" - iron and steel works"
SC "Coal of Ukraine"
LLC "Solo"

As at 30 June 2008 trade receivables amounting to USD 3 951 thousand have been formed from the following customers:

LLC "East-Donbass TC"
LLC "Solo"
LLC "Nadrarozrobka"
Shahterskantratsyt SC "LE "Shakhtoupravlinnia named after V.I. Chapaev"

The Group forms estimated allowance for trade and other receivables. Amount of allowance depends on individual assessment of particular contractor.
Carrying amount of financial assets reflects maximum exposure of the Group's credit risk. The Group's maximum exposure to credit risk is presented below:

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Trade receivables	9 657	15 592	4 430
Other receivables	1 454	1 490	628
Held-to-maturity investments	919	50	-
Loans issued	17 058	16 588	8 733
Available-for-sale financial assets	-	-	78
Cash and cash equivalents	108	436	1 098
	29 196	**34 156**	**14 967**

Distribution of trade receivables by maturities is as follows:

	At 30 June 2010	At 30 June 2009	At 30 June 2008
Undue	8 051	13 359	1 962
Past due	1 606	2 233	2 468
	9 657	**15 592**	**4 430**

On the basis of analysis of payments for the current period management of the Group consider that there is no need to form allowance for overdue , but not impaired trade receivables.

Distribution of past due trade receivables by maturities is as follows:

as at 30 June 2010	within 30 days	from 30 to 90	from 90 to 180	from 180 to 360	more than 360	Total
Past due but not impaired trade receivables	1 176	147	109	100	74	**1 606**

as at 30 June 2009	within 30 days	from 30 to 90	from 90 to 180	from 180 to 360	more than 360	Total
Past due but not impaired trade receivables	116	634	930	186	367	**2 233**

as at 30 June 2008	within 30 days	from 30 to 90	from 90 to 180	from 180 to 360	more than 360	Total
Past due but not impaired trade receivables	303	918	543	700	4	**2 468**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Approach of the Group to the liquidity management lies in providing, as much as possible, permanent availability of the liquid funds, sufficient for the repayment of liabilities in time, not allowing losses and not exposing to risk the reputation of the Group.

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34 Management of financial risks (continued)

Liquidity risk management implies maintaining the availability of funding through an adequate amount of committed credit facilities. Management analyses regularly terms of settlement of obligations and receipts from financial assets, monitors the expected cash flows from operating activities.

Distribution of financial liabilities by maturities is as follows:

as at 30 June 2010	on demand	within 30 days	from 30 to 90 days	from 90 to 180 days	from 180 to 360	from 1 to 5 years	more than 5 years	Total
Trade payables	477	3 642	1 893	3 086	201	-	-	**9 299**
Other payables	1 263	2 483	304	1 151	41	-	-	**5 242**
Non-current loans and borrowings	-	-	-	-	2 176	12 110	1 301	**15 587**
Current loans and borrowings	13 419	-	-	3 668	2 264	-	-	**19 351**
Obligation under finance lease	-	83	166	249	497	3 976	42 405	**47 375**
	15 159	**6 208**	**2 363**	**8 154**	**5 179**	**16 086**	**43 706**	**96 854**

as at 30 June 2009	on demand	within 30 days	from 30 to 90 days	from 90 to 180 days	from 180 to 360	from 1 to 5 years	more than 5 years	Total
Trade payables	629	5 142	4 052	38	750	-	-	**10 611**
Other payables	1 654	1 910	519	198	342	-	-	**4 623**
Non-current loans and borrowings	-	-	-	-	-	15 902	1 484	**17 386**
Current loans and borrowings	8 987	-	367	-	-	-	-	**9 354**
	11 270	**7 052**	**4 938**	**236**	**1 092**	**15 902**	**1 484**	**41 974**

as at 30 June 2008	on demand	within 30 days	from 30 to 90 days	from 90 to 180 days	from 180 to 360	from 1 to 5 years	more than 5 years	Total
Trade payables	1 040	3 415	2 577	958	1 049	-	-	**9 039**
Other payables	3 748	3 676	365	437	670	-	-	**8 896**
Non-current loans and borrowings	-	-	-	-	-	11 998	476	**12 474**
Current loans and borrowings	1 956	-	-	-	4 599	-	-	**6 555**
	6 744	**7 091**	**2 942**	**1 395**	**6 318**	**11 998**	**476**	**36 964**

Market risk
Market risk is a risk that fair value of future cash flows from financial instrument will fluctuate as a result of changes in market prices. There are 3 types of market risk within the Group's activity:
- commodity price risk;
- foreign currency risk;
- interest rate risk.

Commodity price risk
Commodity price risk is the risk or uncertainty arising from possible movements in prices for mine and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in mining activities and ultimately impact the Group's ability to settle own contractual obligations.
The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position.

Foreing currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group’s exposure to the risk of changes in foreign exchange rates relates primarily to the Group’s operating activities (when revenue or expense are denominated in a different currency from the Group’s functional currency). Such transactions are carried out mainly in USD. The Group’s exposure to foreign currency changes for all other currencies is not material.

The sensitivity to the change in USD of the Group's profit before tax:	At 30 June 2010	Increase / decrease in exchange rate,	Effect on profit before tax
Cash and cash equivalents	717	10	72
		(10)	(72)
Non-current loans and borrowings received	15 000	10	(1 500)
		(10)	1 500
Current loans and borrowings	630	10	(63)
		(10)	63
Total effect of change in exchange rate		10	(1 491)
		(10)	1 491

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Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

34 Management of financial risks (continued)

	At 30 June 2009	Increase / decrease in exchange rate,	Effect on profit before tax
Trade receivables	801	10	80
		(10)	(80)
Cash and cash equivalents	236	10	24
		(10)	(24)
Non-current loans and borrowings received	13 600	10	(1 360)
		(10)	1 360
Total effect of change in exchange rate		10	(1 256)
		(10)	1 256

According to management assessments, the Group's exposure to foreign currency risk is within acceptable level, so heging instruments are not used.

Interest rate risk

The Group is exposed to the effects of fluctuations in interest rates which may negatively affect the financial results of the Group. The Group uses fixed interest rate for loans and borrowings, thus, it is not affected by changes in interest rate risk.

Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of financial instruments:

	Carrying amount			Fair values		
	at 30 June 2010	at 30 June 2009	at 30 June 2008	at 30 June 2010	at 30 June 2009	at 30 June 2008
Financial assets						
Non-current financial assets						
Notes receivable	919	50	-	919	50	-
Loans issued	-	9 318	3 858	-	9 318	3 858
Current financial assets						
Loans issued	17 058	7 270	4 875	17 058	7 270	4 875
Available-for-sale financial assets	-	-	78	-	-	78
Trade and other receivables	11 111	17 082	5 058	11 111	17 082	5 058
Cash and cash equivalents	108	436	1 098	108	436	1 098
Financial liabilities						
Non-current loans and borrowings						
Borrowings received	15 000	13 600	-	15 000	13 600	-
Notes issued	255	2 375	5 720	255	2 375	5 720
Current loans and borrowings						
Bank loans	4 298	367	4 599	4 298	367	4 599
Interest free financial liabilities	13 419	8 987	1 956	13 419	8 987	1 956
Notes issued	1 634	-	-	1 634	-	-
Obligation under finance lease	5 520	-	-	5 520	-	-
Trade and other payables	14 541	15 234	17 935	14 541	15 234	17 935

The following methods and assumptions were used to estimate fair values:

Cash and short-term deposits, trade receivables, trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Receivables are evaluated by the Group based on individual creditworthiness. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at each reporting date, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

The fair value of unquoted instruments, loans from banks, long-term promissory notes issued, obligations under finance leases as well as other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Capital management

Management considers the main elements of capital management are debt and equity. 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 maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or adjust the dividend payment to shareholders.

Notes to consolidated financial statements for the years ended 30 June 2010, 2009 and 2008

35 Operating lease

Operating lease liabilities – the Group as a lessee

The Group concluded certain agreements on commercial lease of production facilities, office premises and equipment. The terms of lease under these agreements vary from 1 to 5 years. The indicated agreements about a lease do not impose any limitations on the Group.

Information about basic lease agreements is presented below:

Lessor	Type of the property transferred in a lease	The amount of expenses for the year ended 30 June		
		2010	2009	2008
LLC "Ugledobyvajushie technologii"	production facility	75	75	27
LLC "Antracit"	production facility	-	-	304
LLC "Mechanic"	office premises	13	16	-
Other	production facility, transport, office premises	25	65	88
		113	**156**	**419**

Minimum lease payment to be paid in future periods under non-cancellable lease agreements are immaterial.

Operating lease liabilities – the Group as a lessor

The Group concluded certain agreements on commercial lease of office and working areas, equipment of the Group. The terms of lease under these agreements vary from 1 to 3 years.

Information about basic lease agreements is presented below:

Lessee	Type of the property transferred in a lease	The amount of income for the year ended 30 June		
		2010	2009	2008
LLC "Donbasvuhleprohodka"	production facility	-	11	24
CwAL LE Sh/U Chapaeva	production facility	-	50	-
CwAL LE Novodzerzhynskaya Mine	production facility	9	-	-
Others	production facility, office premises, working areas	4	9	3
		13	**70**	**27**

Minimum lease payment to be received in future periods under non-cancellable lease agreements are immaterial.

36 Contingent assets and liabilities

The management of the Group consider that claims of the Group to the third parties and Claims of third parties to the Group are no material and have no impact on regular economical activity.

37 Off-balance sheet liabilities

Companies of the Group were engaged in indemnity contracts and guarantee contracts to secure liabilities of third parties.

Off-balance sheet liabilities as at 30 June 2010:

Contract of guarantee assuring liabilities LLC "Ugletechnic" in amount to USD 10 118 thousand. Maturity date is 23 September 2011;

Pledge agreement guaranteeing liabilities of CwAL LE Novodzerzhynskaya Mine. The pledge is finished goods carrying values of which amount to USD 2 983 thousand. Maturity date is 27 May 2011.

Off-balance sheet liabilities as at 30 June 2009:

Contract of guarantee assuring liabilities LLC "Ugletechnic" in amount of USD 15 727 thousand. Maturity date is 23 September 2011.

38 Events after the reporting date

All significant events after the reporting date are presented in the interim consolidated financial statements for the nine months ended 31 March 2011.

ANNEX I
DEFINED TERMS

Admission	Admission of the Shares to trading on the WSE
Allotment Date	The date on which the Offer Shares will be allocated to Investors and on which the Offer Price and the final number of the Offer Shares to be offered in the Offering are determined
AMC	The Antimonopoly Committee of Ukraine
Antracit LLC	Antracit LLC (limited liability company), with its registered office at 105 Illicha Avenue, Donetsk, 83059, Ukraine recorded with the companies' registrar of Ukraine under the number 31906082
Articles of Association	The articles of association of the Company
Beneficial Owners, Beneficiaries	Mr. Vyshnevetskyy and Mrs. Vyshnevetska
Board of Directors	The board of directors of the Company
BOYD Mineral Experts Report	Mineral Experts Report, Coal Resource/Reserve Estimates, Coal Energy S.A. Mining Licenses prepared for Coal Energy S.A. by John T. Boyd Company, Mining and Geological Consultants, Pittsburgh, Pennsylvania, dated June 2011
CIF	*(Cost, Insurance and Freight)* as defined under INCOTERMS 2000 of the International Chamber of Commerce - a common term in a sales contract meaning that the selling price includes the cost of the goods, the freight or transport costs and also the cost of marine insurance
CIS	The Commonwealth of Independent States
Co-Lead Manager	Dom Maklerski BZWBK S.A.
Companies' Act 1915	The Luxembourg law of August 10, 1915, regarding commercial companies, as amended
Company, Issuer, Coal Energy	Coal Energy S.A. a public limited company (*société anonyme*), having its registered office at 46A, avenue J. F. Kennedy, L-1855 Luxemburg, Grand Duchy of Luxembourg and registered with *Registre de Commerce et des Sociétés* in Luxembourg under number B 154.144
Consolidated Financial Statements	Audited Consolidated financial statements of the Group for the years ended 30 June 2010, 2009, and 2008 and reviewed Interim consolidated financial statements for the nine months ended 31 March 2011
CSSF	*Commission de Surveillance du Secteur Financier* – capital market regulatory authority in Luxembourg
CwAL	Company with additional liability
CwAL LE Novodzerzhynskaya Mine	CwAL LE Mine Novodzerzhynskaya Mine (company with additional liability), with its registered office at 1 Festyvalna Street, Dzerzhynsk, 85201, Ukraine, recorded with the companies' registrar of Ukraine under the number 36182252

CwAL LE Sh/U Chapaeva	CwAL LE Sh/U Chapaeva (company with additional liability), with its registered office at Leningradska Street, Shahtarsk, 86200, Ukraine, recorded with the companies' registrar of Ukraine under the number 35879173
Current Report	The official electronic information dissemination service as defined in article 56.1 of the Public Offering Act
Donantracit LLC	Donantracit LLC (limited liability company), with its registered office at 111 Illicha Avenue, Donetsk, 83059, Ukraine, recorded with the companies' registrar of Ukraine under the number 35560004
Donbasuglerazrabotka LLC	Donbasuglerazrabotka LLC (limited liability company), with its registered office at 1 Zhmury Street, Donetsk, Donetsk, 83007, Ukraine, recorded with the companies' registrar of Ukraine under the number 33161575
Donprombiznes LLC	Donprombiznes LLC (limited liability company), with its registered office at 112 Universytetska Street, Donetsk, 83004, Ukraine, recorded with the companies' registrar of Ukraine under the number 23610149
Donugletekhinvest LLC	Donugletekhinvest LLC (limited liability company), with its registered office at 105 Illicha Avenue, Donetsk, 83059, Ukraine, recorded with the companies' registrar of Ukraine under the number 33371718
EBITDA	Operating profit before finance (income) costs, income taxes, depreciation and amortisation, foreign exchange (gains) losses and other (income) expense and is calculated as operating profit after adding back depreciation and amortisation
EEA	European Economic Area
ESPI	The electronic public company reporting system in Poland
EU	The European Union
EUR, €, euro	The lawful currency of the European Economic and Monetary Union., of which Luxembourg is a member.
Eximenergo PEK LLC, Eximenergo LLC	Eximenergo Palyvno-Energetychna Kompaniya LLC (limited liability company), with its registered office at 1 Zhmury Street, Donetsk, Donetsk, 83007, Ukraine, recorded with the companies' registrar of Ukraine under the number 30597632
FOB	(*Free On Board*) as defined under INCOTERMS 2000 of the International Chamber of Commerce - a common term in a sales contract meaning that the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays freight, insurance, unloading costs and transportation from the port of destination to the factory.
FSMA	The United Kingdom Financial Services and Markets Act 2000
FY	Financial year
General Meeting of Shareholders	The General Meeting of Shareholders of the Company
Group, Coal Energy Group	Coal Energy S.A. together with its direct and indirect subsidiaries
Group Subsidiary	Any direct or indirect subsidiary of the Company

Hryvnia or UAH	The lawful currency of the Republic of Ukraine
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	The International Monetary Fund
Institutional Investors	Selected corporate entities (legal persons) and non-corporate entities other than individuals, to whom the Offering is addressed
LE	Company under Ukrainian law initially established on the basis of a leased integral property complex
Listing Agent, Offering Agent	Dom Maklerski BZ WBK S.A.
Listing Date	First day of trading in Shares on the WSE
LLC	Limited liability company under Ukrainian law
Luxembourg Corporate Governance Code	Corporate governance code contained in "Ten principles of corporate governance of the Luxembourg stock exchange"
Management Committees	Audit Committee of the Company
Management Team	Management Team of the Group consisting of members of the Management Committees
Managers	Lead Manager and Co-Lead Manager
Maximum Price	The maximum price at which the Offer Price will be set
Member State	A Member State of the European Economic Area
Mémorial C	Official gazette in Luxembourg - *Mémorial C, Recueil des Sociétés et Associations*.
MIFiD	Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC
MT	metric tone
Mtce	metric tone of coal equivalent
NBA	The National Bank of Poland
NBU	The National Bank of Ukraine
NDS	*Krajowy Depozyt Papierów Wartościowych S.A*. (*KDPW S.A*), *t*he National Depository for Securities – the clearing and settlement institution in Poland
Nedra Donbasa LLC	Nedra Donbasa LLC (limited liability company), with its registered office at 1 Zhmury Street, Donetsk, Donetsk, 83007, Ukraine, recorded with the companies' registrar of Ukraine under the number 32931612

Offer Price	The offer price per Offer Share determined on the Allotment Date
Offer Shares	Up to 11,252,780 ordinary bearer shares in the corporate capital of Coal Energy S.A. offered in the Offering
Offering	The offering of up to 11,252,780 Offer Shares, based on this Prospectus
OJSC	Open joint-stock company under Ukrainian law
Operating Companies, Operating Subsidiaries	Antracit LLC, CwAL LE Mine Novodzerzhynskaya Mine, CwAL LE Sh/U Chapaeva, Donantracit LLC, Donbasuglerazrabotka LLC, Donprombiznes LLC, Donugletekhinvest LLC, Eximenergo PEK LLC, Nedra Donbasa LLC, Tekhinnovatsiya LLC, and Ugledobycha LLC
PAP	The Polish Press Agency
PFSA	The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), the capital market regulatory authority of the Republic of Poland.
PLN, Polish zloty	The lawful currency of the Republic of Poland.
Placement Agreement	The agreement in respect of the Offering to be entered into on or about the Pricing and Allotment Date by the Issuer, the Lead Manager and the Co-Lead Manager
PP&E	Properties, plant and equipment
Principal Shareholder	Lycaste Holdings Limited
Prospectus	This Prospectus constituting a prospectus in the meaning of the Prospectus Directive prepared or the purpose of the Offering and the Admission
Prospectus Act 2005	Luxembourg law dated July 10, 2005 relating to prospectuses for securities , implementing the Prospectus Directive into the Luxembourg law
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of the European Union of November 4, 2003, on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and any relevant implementing measures.
Public Offering Act	The Polish Act of July 29, 2005, on Public Offerings and Conditions governing the Admission of Financial Instruments to Trading on Organized Markets, and on Listed Companies
Public Takeovers Law	The Luxembourg law on public takeovers dated May 19, 2006
Regulation 809/2004, Prospectus Regulation	Commission Regulation (EC) no 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended.

Regulation S	Regulation S promulgated under the United States Securities Act of 1933, as amended, governing offers and sales made outside the United States without registration under the US Securities Act
Retail Investors	Individuals and legal entities who intend to purchase Offer Shares in the Offering
Settlement Date	The date of the settlement of the Offering
Shares	The ordinary bearer shares of Coal Energy S.A. with nominal value of US$0.01 each
Stabilisation Regulation	The European Commission Regulation (EC) no. 2273/2003 of December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments
Subscription Periods	The period in which Investors may place orders to subscribe for or purchase the Offer Shares
Takeover Directive	Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004, on takeover bids
Tekhinnovatsiya LLC	Tekhinnovatsiya LLC (limited liability company), with its registered office at 2a Kharytonova Street, Donetsk, 83023, Ukraine, recorded with the companies' registrar of Ukraine under the number 35293307
Trading in Financial Instruments Act	The Polish Act of July 29, 2005, on Trading in Financial Instruments
Ugledobycha LLC	Ugledobycha LLC (limited liability company), with its registered office at 112 Universytetska Street, Donetsk, 83004, Ukraine recorded with the companies' registrar of Ukraine under the number 32116830
US Securities Act	The United States Securities Act of 1933, as amended
US$, US$, US Dollars	US dollar, the lawful currency of the United States of America
WSE	The Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), a regulated market in Poland
WSE Corporate Governance Rules	Polish Principles of Corporate Governance contained in "Best Practices in Public Companies in 2005" approved by the WSE
WTO	The World Trade Organization
9m	Nine months of a financial year

ANNEX II
GLOSSARY OF TECHNICAL TERMS

Best Practice	Operating procedures that are recognised in the international mining community which maximise productivity and return on investment commensurate with stewardship of the assets.
Billion	One thousand million.
Blending	Mixing two or more materials together to give a mixture of the desired quality.
Coal	A readily combustible rock containing more than 50% by weight and 70% by volume of carbonaceous material, including inherent moisture. It is formed from plant remains that have been compacted, indurated, chemically altered and metamorphosed by heat and pressure during geological time.
CO2	Carbon dioxide
Deposit, Deposits	An area of coal resources or reserves identified by surface mapping, drilling or development.
Development	(i) The initial stages of opening up a new mine, and/or (ii)Removal of overburden, or tunnelling to prove the location and value, and allow the extraction of ore.
Development	Excavations or tunnels required to access the coal or ore.
Dilution	The contamination during the mining process of excavated coal by non-coal material from the roof, floor or in-seam partings.
Disposal	Final placement or destruction of toxic, radioactive, or other wastes; surplus or banned pesticides or other chemicals; polluted soils; and drums containing hazardous materials from removal actions or accidental releases.
Dump	A site used to dispose of solid wastes without environmental controls.
Environment	The sum of all external conditions affecting the life, development, and survival of an organism.
ERU	Emissison reduction unit.
Exploitation	Method of deriving benefit from a resource.
Exploration	Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.
Feasibility Study	A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the technical and economic viability of a project and to support the search for project financing.
Grade	The classification or value of coal. The relative quality.
HSE	Health, safety and environmental.
JORC Code	The "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004 Edition) published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia.
km	Kilometre.
Lease	Contract between two parties enabling one to search for and/or produce minerals from the other's property.
Long wall mining	Form of underground coal mining, where a longwall of coal is mined in a single slice.
Mine	Any operation where mineral is extracted from the ground. This may be by opencast or underground mining methods.
Mineable	Capable of being mined under current mining technology and environmental and legal restrictions, rules and regulations.
Mineable	That portion of a resource for which extraction is technically and economically feasible.

Mining License .... Permission to mine minerals.

Monitoring .... Periodic or continuous surveillance or testing to determine the level of compliance with statutory requirements or pollutant levels in various media or in humans, animals, and other living things.

Permit .... An authorisation, license, or equivalent control document issued by an approved agency to implement the requirements of an environmental regulation; e.g., a permit to operate a wastewater treatment plant or to operate a facility that may generate harmful emissions.

Pit .... A hole in the ground – an excavation below original ground level – a surface mine may comprise one or more pits.

Plant .... Fixed or moveable equipment required in the process of winning or processing the ore.

Prevention .... Measures taken to minimize the release of wastes to the environment.

Rehabilitation .... Land restored to its former condition.

Reserve(s) .... Resources to which modifying factors (mining, economic, marketing, legal, environmental, social and governmental) have been applied

Resource(s) .... Geologically defined resource of coal, becomes a Reserve when the modifying factors (mining, economic, marketing, legal, environmental, social and governmental) are taken into account.

ROM coal .... Run-of-mine coal, coal that comes directly from a mine.

Seam .... A layer or bed of coal or lignite. Correlated seams of coal are normally assigned a name, letter or number. A single seam can contain one or more non-coal partings resulting in a sub-division into leaves.

Settling tank/ponds/lagoons A holding area for wastewater in which heavier particles sink to the bottom for removal and disposal.

Split .... An in-seam parting which attains a thickness such that the resultant leaves of coal are considered as separate seams from a mining point of view.

t .... Metric tonne

Waste .... Rock or material of no commercial value residing within the seam, above the seam or below the seam.

Wastes .... 1. Unwanted materials left over from a manufacturing process. 2. Refuse from places of human or animal habitation.

ANNEX III
MINERAL REPORT

MINERAL EXPERTS REPORT
COAL RESOURCE/RESERVE ESTIMATES
COAL ENERGY S.A. MINING LICENSES

Donetsk Oblast, Donbas Coal Region, Ukraine

Prepared For

COAL ENERGY S.A.

By

John T. Boyd Company

Mining and Geological Consultants

Pittsburgh, Pennsylvania

Report No. 3485.1

JUNE 2011

John T. Boyd Company
Mining and Geological Consultants

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24 June 2011
File: 3485.1

Coal Energy S.A.
11 Komsomolsky Avenue
Donetsk, 83000
UKRAINE

Attention: Board of Directors

Subject: Mineral Experts Report
Coal Resource/Reserve Estimates
Coal Energy S.A. Mining Licenses
Donetsk Oblast, Donbas Coal Region
Ukraine

Dear Sirs:

John T. Boyd Company (BOYD) was engaged in May 2010 by Coal Energy S.A. (Coal Energy) to complete an analysis of the coal resources and reserves for mining license areas currently controlled by Coal Energy. The Coal Energy coal holdings are located in the Donbas coal production region and within 1 to 80 km of the city of Donetsk, Ukraine, in the Donetsk Oblast. We have provided independent technical consultancy services for a review of the coal holdings where nine underground coal mines are operating. The mines had a combined output of 0.73 Mt in nine months of fiscal year 2011 and are expected to reach approximately 5.0 Mt in fiscal year 2016.

During the course of this study, a team of BOYD's technical specialists in coal mining and geology and reserves completed a series of visits to offices and mines in June 2010, and subsequently in March of 2011. The objectives of our visits were to complete firsthand observations of Coal Energy's operations, to collect available source data, and to discuss historic performance and future plans with Coal Energy staff and management personnel. During our visit, the BOYD team met with Coal Energy technical personnel, who made presentations of the geology and resources for the mine plan area and proposed expansion areas.

This report addresses tasks we completed to confirm technical recoverability of the specified reserves, consistent with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). By assignment, we have quantified reserves, assessed projected mining cost, and developed cost projections based on input parameters provided by Coal Energy. Additionally, we have opined on capital projections developed by Coal Energy and have included BOYD modifications where appropriate. We have not preformed evaluations of future coal markets, nor have we developed independent forecasts of sales revenue for the subject operations.

Respectfully Submitted

JOHN T. BOYD COMPANY
By:

John T. Boyd II
President and CEO

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TABLE OF CONTENTS

JOHN T. BOYD COMPANY

TABLE OF CONTENTS - Continued

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JOHN T. BOYD COMPANY

1.0 INTRODUCTION

1.1 Background

John T. Boyd Company (BOYD) was engaged in May 2010 by Coal Energy S.A. (Coal Energy) to complete an analysis of the coal resources and reserves for coal license areas currently controlled by Coal Energy. Research and Manufacturing Association, Mechanic (RMA), the predecessor designation of Coal Energy, was formed in the mid-1990s with the intent to consolidate various idled and producing underground mining operations to form a diversified coal production and holding company. Within the context of the Ukraine coal industry, Coal Energy is currently a middle-sized coal producer with output for nine months of fiscal year 2011, from ten operating mines of approximately 0.73 Mtpa. Mining operations are located in the Donbas coal production region, within 1 to 80 km of the city of Donetsk, Ukraine, in the Donetsk Obalst.

The selected coal mining operations, waste reprocessing operations, processing plants, undeveloped areas, and resource holdings of Coal Energy included in this report are summarized in the following table:

Company	Mining Operations	Undeveloped Areas	Resource Holdings of other Mines	Waste Pile Reprocessing	Processing Plant
East Central Donbass Coal Area					
Donprombiznes LLC					
	Prepodobnogo Sergiya Radonezhskogo Mine		Chapaeva Mine		
			Svyato-Nikolaevskaya Mine		
			Svyato-Andreevskaya Mine		
Eximenergo LLC					
	Svyato-Andreevskaya Mine		Svyato-Nikolaevskaya Mine		
CwAL LE Sh/U Chapaeva					
	Chapaeva Mine				
	1 May Mine				
	Ternopolskaya Mine				
Ugledobycha LLC					
	Svyato-Nikolaevskaya Mine	Mine District Rassipnyanskiy-Krutoy			
Other Areas					
Donbasuglerazrabotka LLC					
	Svyatitelya Vasiliya Velikogo Mine	Mine District Mogutchiy			
Nedra Donbasa LLC					
	Svyato-Serafimovskaya Mine				
Tekhinnovatsiya LLC					
	Svyato-Pokrovskaya Mine				
CwAL LE Novodzerzhynskaya					
	Novodzerzhynskaya Mine				
Antratcit, LLC					
				Pod'yemnaya - Pile #1	
				Severnaya - Pile #2	
				Severnaya - Pile #3	
Donugletekhinvest LLC					
					Postnikovskaya

Figures 1.1, 1.2, 1.3, 1.4, 1.5, 1.6 following this text, show the general location of the Coal Energy mining right areas.

1.2 Scope of Work

By assignment, the scope of work for this study is an independent estimate of resources/reserves in accordance with the international JORC Code standard. The effective date of this resource/reserve estimate was 1 March 2011.

Source data for the coal mining operations, undeveloped areas, and resources holdings were provided to BOYD by RMA/Coal Energy.

1.3 Work Program

In June 2010, a team of BOYD's technical specialists in coal mining, geology, and reserves completed visits to the Coal Energy sites to complete firsthand field observations, to collect available source data, and to discuss historic performance and future plans with Coal Energy staff and management personnel. A subsequent trip was conducted in March 2011

While the primary source of information (written and verbal) relied upon by BOYD in preparing this report was provided by Coal Energy, the basis of our professional opinion relies on the technical expertise and broad international experience of the contributing BOYD team members. To ensure that our interpretation of the Coal Energy data was reasonable, follow-up discussions were conducted with company representatives after our initial analysis to confirm our findings and, where necessary, to collect additional information.

The findings and conclusions presented in this report are supported by the text, tables, and figures contained herein.

1.4 Project Team

The BOYD project team has extensive professional experience in coal resource and mine and preparation plant evaluations. Included in this team are:

Mr. Ronald L. Lewis – Managing Director and Chief Operating Officer, BS (Civil Engineering)
Mr. Lewis has over 40 years of experience in assessment and evaluation of coal mining companies, with specialized expertise in the areas of coal/mineral reserve estimation, opencut and underground mine analysis, and economic assessment of mining operations. He is a Registered Professional Mining Engineer within the United States and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the JORC Code.

Mr. James F. Kvitkovich – Vice President, BS (Mining Engineering)
Mr. Kvitkovich has 28 years of experience in assessment and evaluation of underground coal mining operations throughout the world. He is a Registered Professional Engineer within the United States and is highly experienced with regard to reviewing and evaluating continuous miner (CM) and longwall (LW) mining operations. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is a Competent Person as defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code).

Mr. Paul D. Anderson – Director of Geological Services, BS (Geology)
Mr. Anderson is a Certified Professional Geologist (AIPG) with 31 years of professional experience in exploration, evaluation, and development of coal and mineral deposits. Mr. Anderson is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and a member of the American Institute of Professional Geologists, and is qualified as a Competent Person as defined in the JORC Code.

Mr. Christian J. Breckenridge – Senior Mining Engineer, BS (Mining Engineering)
Mr. Breckenridge is a Licensed Professional Engineer with 16 years of professional experience in operations, engineering, mine valuation analysis, mine planning, exploration, business development, and environmental permitting. Mr. Breckenridge is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the JORC Code.

Mr. Stephen R. Doe – Associate Senior Geologist, BS (Coal Mine Technology)
Mr. Doe is a Certified Professional Geologist with 30 years of experience in geological work. Mr. Doe has been responsible for geologic core hole pressure testing, core logging, soil sampling, data analysis relative to operational geologic risk assessment, and technical report writing. Mr. Doe has completed postgraduate work in the fields of hydrogeology.

Following this page are:

Figures

Respectfully submitted,

JOHN T. BOYD COMPANY
By:

Stephen R. Doe
Associate Senior Geologist

Christian J. Breckenridge
Senior Mining Engineer

Paul D. Anderson
Director of Geological Services

James F. Kvitkovich
Vice President

Ronald L. Lewis
Managing Director and COO

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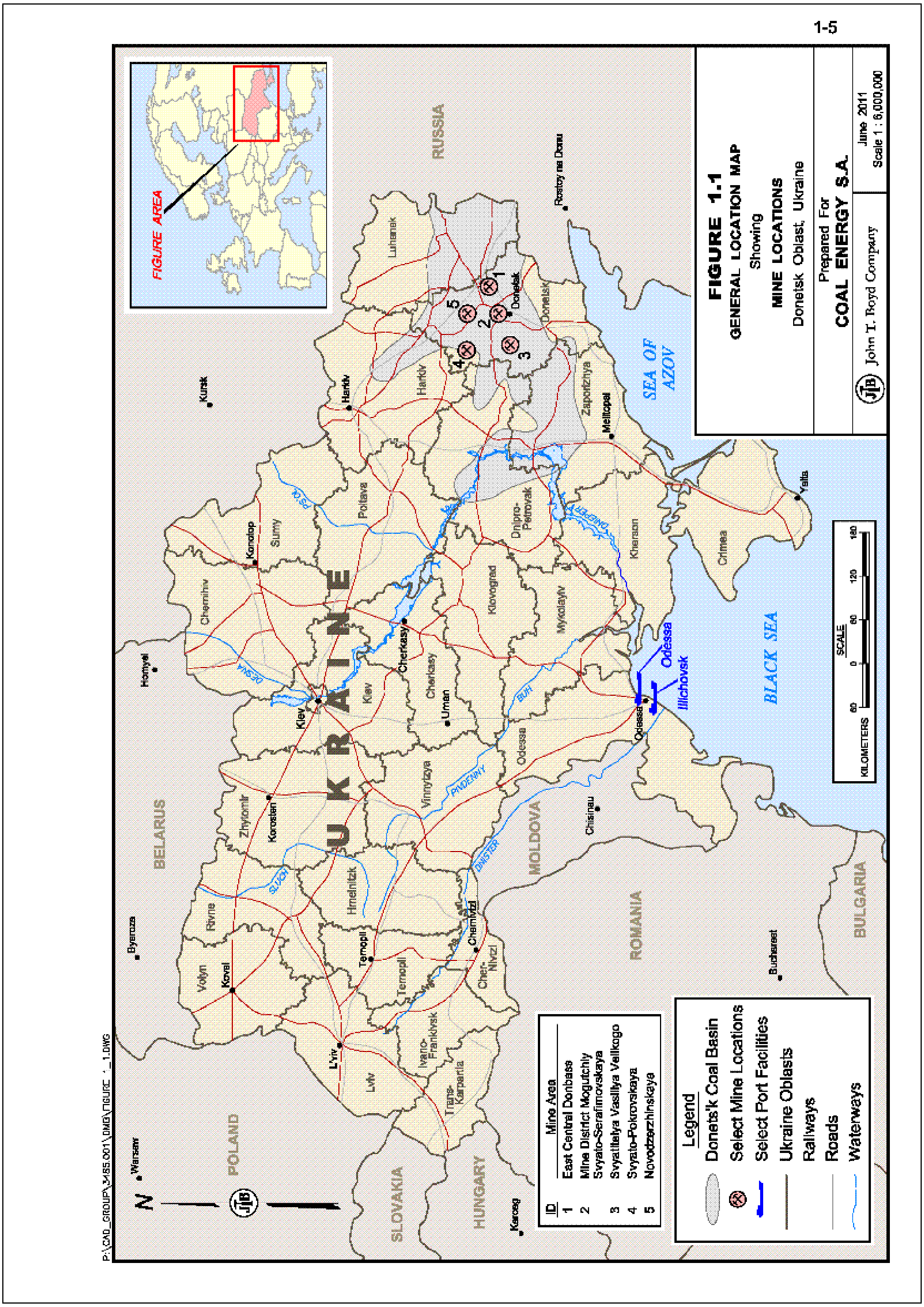
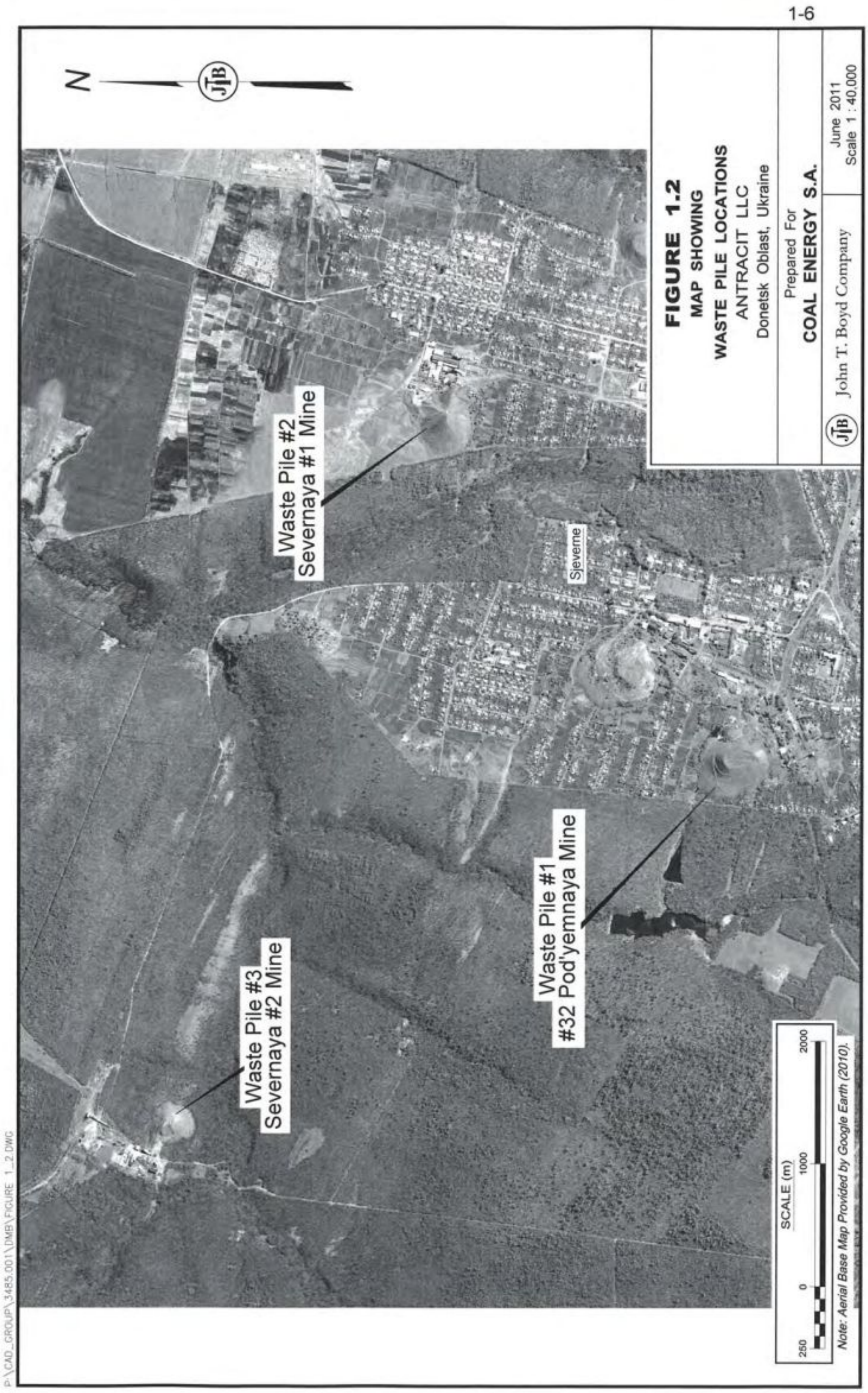
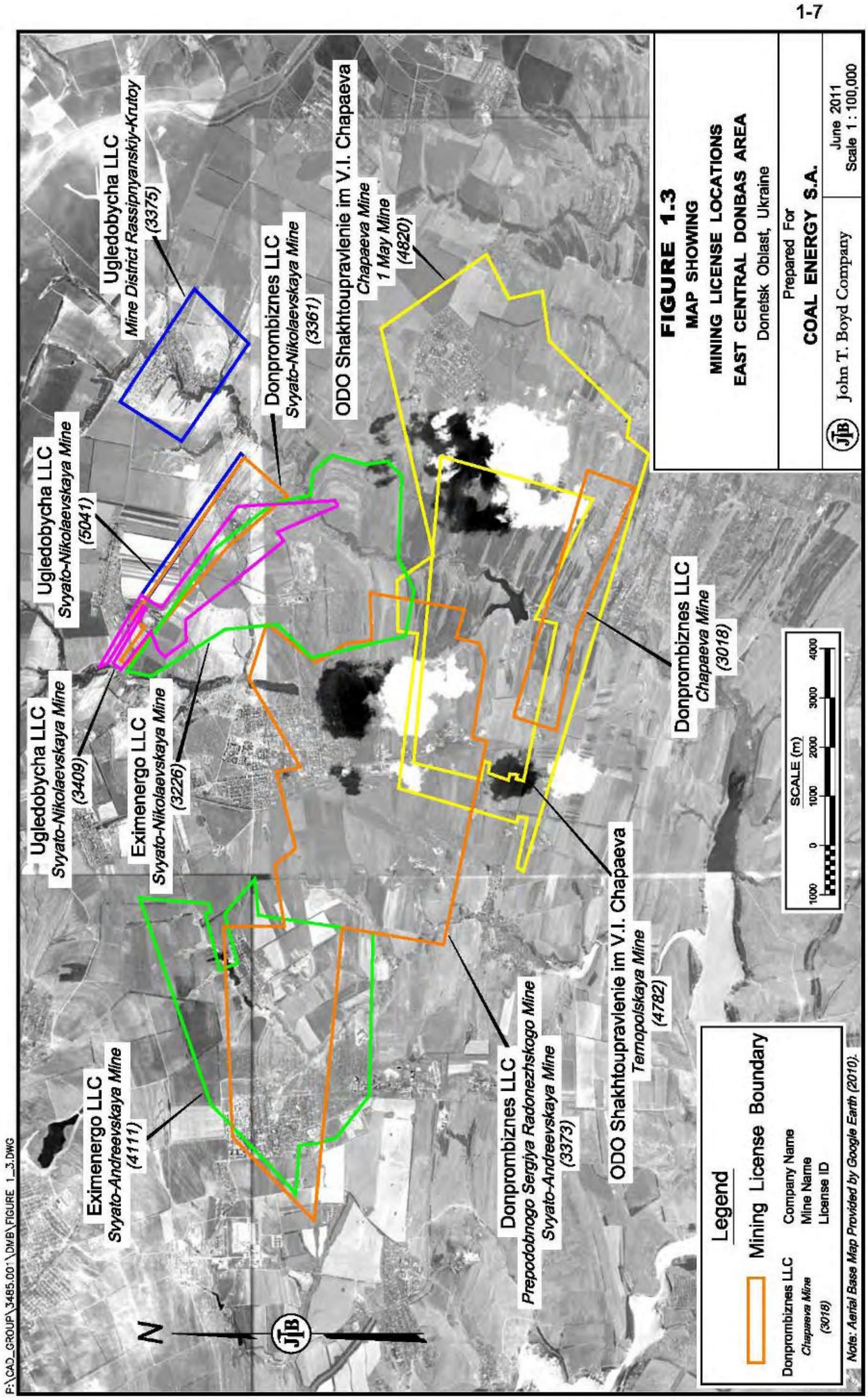
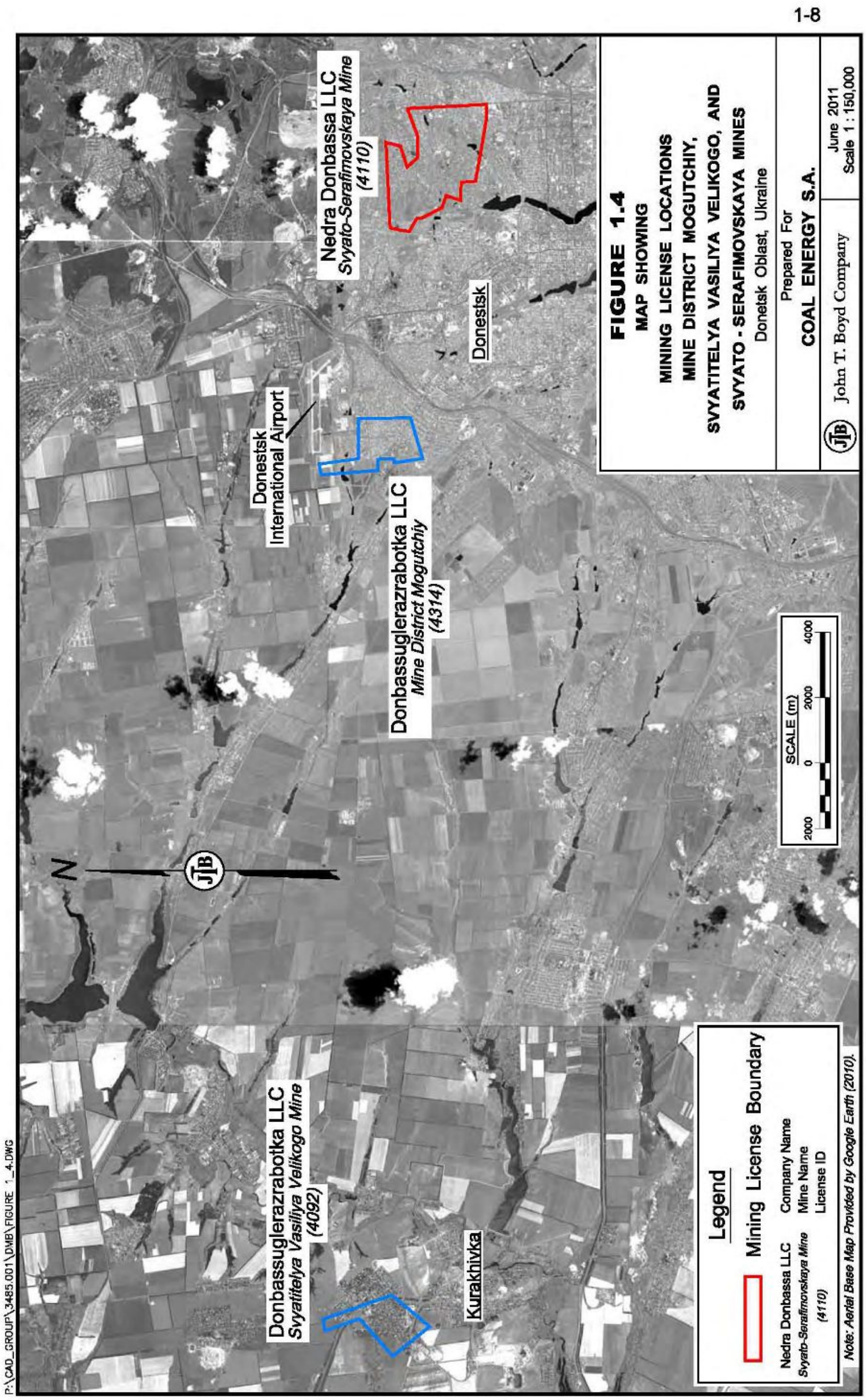
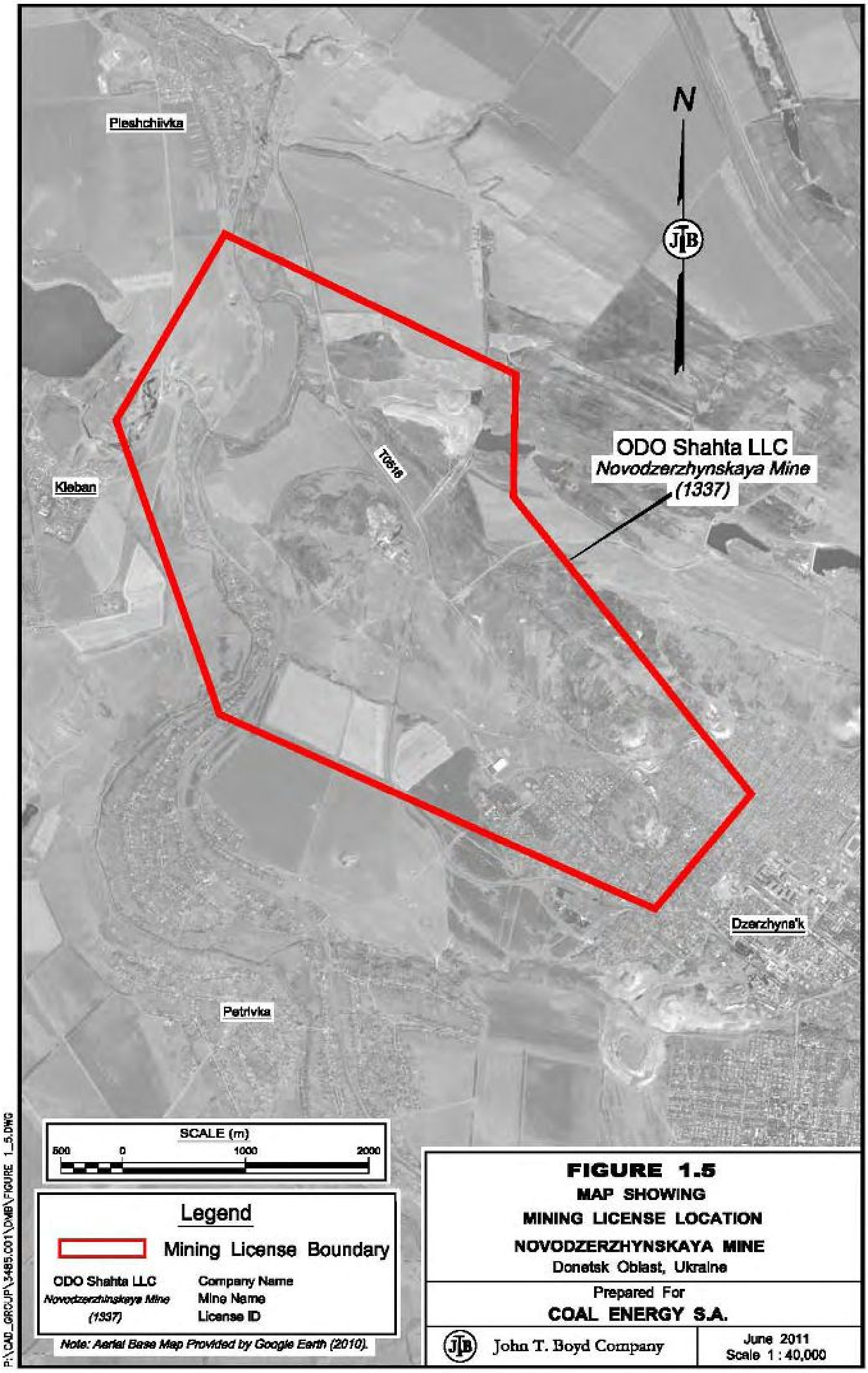

1-5
FIGURE 1.1
GENERAL LOCATION MAP
Showing
MINE LOCATIONS
Donetsk Oblast, Ukraine
Prepared For
COAL ENERGY S.A.
John T. Boyd Company
June 2011
Scale 1 : 6,000,000
ID Mine Area
1 East Central Donbass
2 Mine District Mogutchiy Svyato-Serafimovskaya
3 Svyatitelya Vasiliya Velikogo
4 Svyato-Pokrovskaya
5 Novodzerzhinskaya
Legend
Donets'k Coal Basin
Select Mine Locations
Select Port Facilities
Ukraine Oblasts
Railways
Roads
Waterways
SCALE
KILOMETERS
60 0 60 120 180
FIGURE AREA
N
UKRAINE
RUSSIA
BELARUS
POLAND
SLOVAKIA
HUNGARY
ROMANIA
MOLDOVA
BULGARIA
SEA OF AZOV
BLACK SEA
Odessa
Illichovsk
Donetsk
Luhansk
Harkiv
Zaporizhnya
Melitopol
Kherson
Crimea
Yalta
Dnipro-Petrovsk
Poltava
Sumy
Konotop
Chernihiv
Kiev
Cherkasy
Kirovograd
Mykolayiv
Vinnytsya
Uman
Zhytomir
Korostien
Rivne
Volyn
Kovel
L'viv
Ternopil
Hmelnitsk
Ivano-Frankivsk
Trans-Karpatia
Chernivtsi
Chisinau
Bucharest
Warsaw
Byeroza
Homyel
Kursk
Rostov na Donu
Kecskemet
P:\CAD_GROUP\3485.001\DWG\FIGURE 1_1.DWG


1-6
N
FIGURE 1.2
MAP SHOWING
WASTE PILE LOCATIONS
ANTRACIT LLC
Donetsk Oblast, Ukraine
Prepared For
COAL ENERGY S.A.
John T. Boyd Company
June 2011
Scale 1 : 40,000
Waste Pile #2
Severnaya #1 Mine
Sjeverne
Waste Pile #1
#32 Pod'yemnaya Mine
Waste Pile #3
Severnaya #2 Mine
SCALE (m)
250 0 1000 2000
Note: Aerial Base Map Provided by Google Earth (2010).

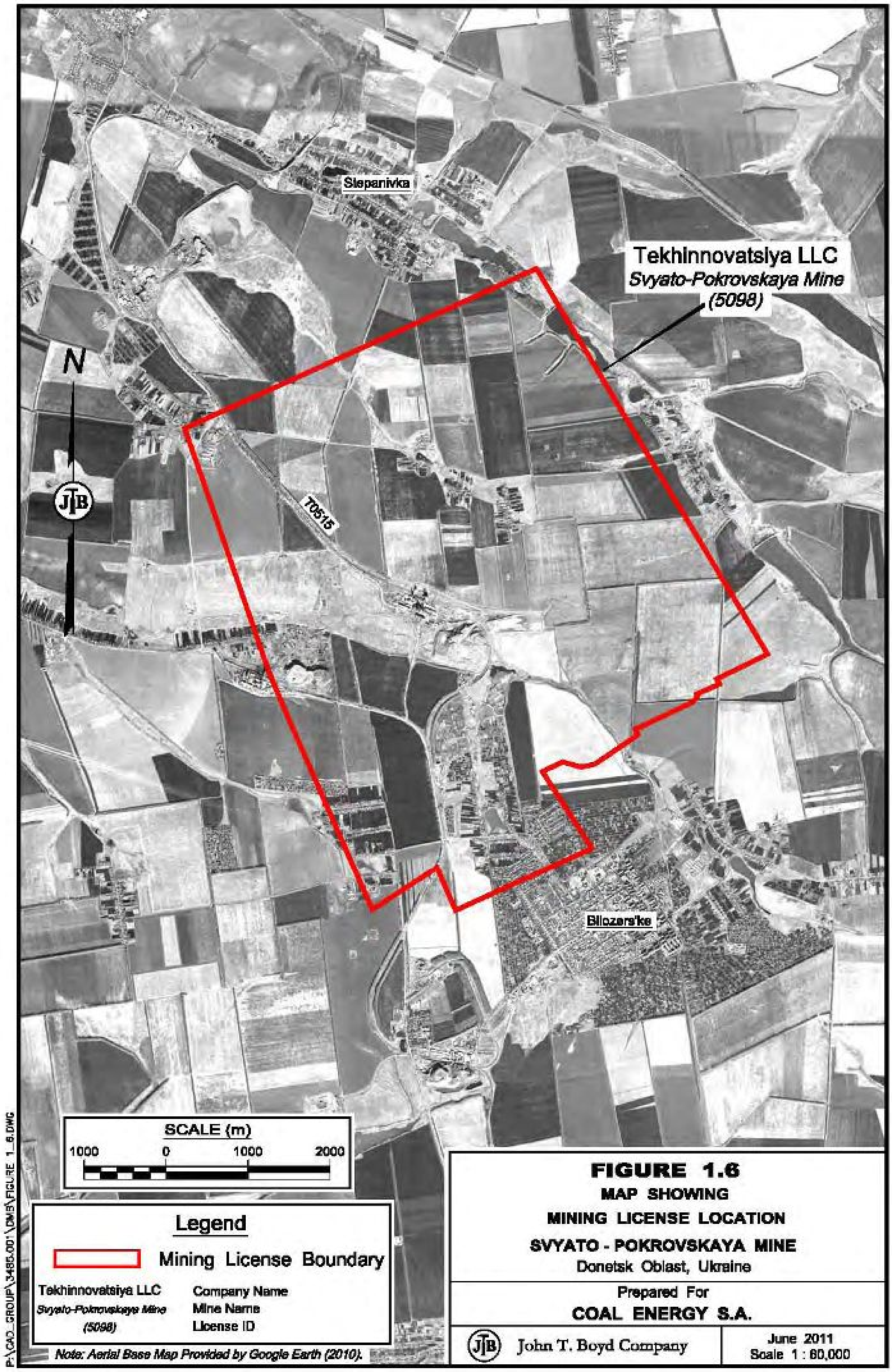

1-7
FIGURE 1.3
MAP SHOWING
MINING LICENSE LOCATIONS
EAST CENTRAL DONBAS AREA
Donetsk Oblast, Ukraine
Prepared For
COAL ENERGY S.A.
John T. Boyd Company
June 2011
Scale 1 : 100,000
Ugledobycha LLC
Mine District Rassipnyanskiy-Krutoy
(3375)
Donprombiznes LLC
Svyato-Nikolaevskaya Mine
(3361)
ODO Shakhtoupravlenie im V.I. Chapaeva
Chapaeva Mine
1 May Mine
(4820)
Ugledobycha LLC
Svyato-Nikolaevskaya Mine
(5041)
Ugledobycha LLC
Svyato-Nikolaevskaya Mine
(3409)
Eximenergo LLC
Svyato-Nikolaevskaya Mine
(3226)
Donprombiznes LLC
Chapaeva Mine
(3018)
SCALE (m)
1000 0 1000 2000 3000 4000
ODO Shakhtoupravlenie im V.I. Chapaeva
Ternopolskaya Mine
(4782)
Donprombiznes LLC
Prepodobnogo Sergiya Radonezhskogo Mine
Svyato-Andreevskaya Mine
(3373)
Eximenergo LLC
Svyato-Andreevskaya Mine
(4111)
Legend
Mining License Boundary
Donprombiznes LLC
Chapaeva Mine
(3018)
Company Name
Mine Name
License ID
Note: Aerial Base Map Provided by Google Earth (2010).
N
F:\CAD_GROUP\3485.001\DWB\FIGURE 1_3.DWG


1-8
FIGURE 1.4
MAP SHOWING
MINING LICENSE LOCATIONS
MINE DISTRICT MOGUTCHIY,
SVYATITELYA VASILIYA VELIKOGO, AND
SVYATO - SERAFIMOVSKAYA MINES
Donetsk Oblast, Ukraine
Prepared For
COAL ENERGY S.A.
John T. Boyd Company
June 2011
Scale 1 : 150,000
Nedra Donbassa LLC
Svyato-Serafimovskaya Mine
(4110)
Donestsk
Donestsk International Airport
Donbassuglerazrabotka LLC
Mine District Mogutchiy
(4314)
SCALE (m)
2000 0 2000 4000
N
Donbassuglerazrabotka LLC
Svyatitelya Vasiliya Velikogo Mine
(4092)
Kurakhivka
Legend
Mining License Boundary
Nedra Donbassa LLC
Svyato-Serafimovskaya Mine
(4110)
Company Name
Mine Name
License ID
Note: Aerial Base Map Provided by Google Earth (2010).
P:\CAD_GROUP\3485.001\DWB\FIGURE 1_4.DWG

1-9


N
Pleshchiivka
Kleban
T0516
ODO Shahta LLC
Novodzerzhynskaya Mine
(1337)
Dzerzhyns'k
Petrivka
SCALE (m)
500
0
1000
2000
Legend
Mining License Boundary
ODO Shahta LLC
Novodzerzhinskaya Mine
(1337)
Company Name
Mine Name
License ID
Note: Aerial Base Map Provided by Google Earth (2010).
FIGURE 1.5
MAP SHOWING
MINING LICENSE LOCATION
NOVODZERZHYNSKAYA MINE
Donetsk Oblast, Ukraine
Prepared For
COAL ENERGY S.A.
John T. Boyd Company
June 2011
Scale 1 : 40,000

1-10


Stepanivka
Tekhinnovatsiya LLC
Svyato-Pokrovskaya Mine
(5098)
N
T0515
Bilozers'ke
SCALE (m)
1000 0 1000 2000
Legend
Mining License Boundary
Tekhinnovatsiya LLC Company Name
Svyato-Pokrovskaya Mine Mine Name
(5098) License ID
Note: Aerial Base Map Provided by Google Earth (2010).
P:\CAD_GROUP\3485.001\DMS\FIGURE 1_6.DWG
FIGURE 1.6
MAP SHOWING
MINING LICENSE LOCATION
SVYATO - POKROVSKAYA MINE
Donetsk Oblast, Ukraine
Prepared For
COAL ENERGY S.A.
John T. Boyd Company
June 2011
Scale 1 : 60,000

2.0 SUMMARY

2.1 Introduction

This report provides John T. Boyd Company's independent analysis and estimate of coal resources and reserves underlying 15 mining license areas currently controlled by Coal Energy in Donetsk Olbast, Ukraine. The principal findings of BOYD's coal resource and reserve analysis and general review of mine operations are summarized in this chapter and are supported by the text included in the body of this report. Technical description and discussion of mine and operating practices concerning the subject mines are included to support the technical mineability of the reported coal reserves and can be found in their respective sections.

Coal Energy controls mining licenses through eight subsidiary companies in the Donetsk coal basin, as follows:

Company and Mine Area	Mining License No.	Area (km^2)	Authorized Seams	Authorized Elevation (m)	License Dates (mo/yr) Grant	Expiration
Donbasuglerazrabotka LLC						
Svyatitelya Vasiliya Velikogo Mine	4092	2.58	L_8^1, L_7	-375	10/2006	10/2026
Mine District Mogutchiy	4314	2.88	N_1		07/2007	07/2019
Donprombiznes LLC						
Prepodobnogo Sergiya Radonezhskogo Mine	3373	34.70	M_3, L_7, L_6, L_4, L_3, L_1^{1B+H}, L_1^{1H}		07/2004	07/2014
Svyato-Andreevskaya Mine	3373	34.70	M_5^1, M_4^4		07/2004	07/2014
Svyato-Nikolaevskaya Mine	3361	3.16	L_4	30 to -370	07/2004	07/2014
Chapaeva Mine	3018	4.80	K_3	-330	07/2003	07/2013
Eximenergo LLC						
Svyato-Andreevskaya Mine	4111	15.56	M_3	-952	11/2006	11/2026
Svyato-Nikolaevskaya Mine	3226	13.50	M_3		10/2003	10/2013
Nedra Donbasa LLC						
Svyato-Serafimovskaya Mine	4110	7.60	L_8, L_7^1, L_3, L_1, K_8, K_5	-730	11/2006	11/2026
CwAL LE Novodzerzhynskaya						
Novodzerzhynskaya Mine	1337	14.30	M_6^{1H}, M_4^0, M_3, L_8, L_7^B, L_5, L_4^B, L_4^H, L_3, L_2^1, L_2, L_1^1, K_8		04/1998	04/2018
CwAL LE Sh/U Chapaeva						
Chapaeva Mine	4820	36.60	K_4^1, K_3, K_2^3, K_2		12/2008	2020
1 May Mine	4820	36.60	K_7, K_5		12/2008	2020
Ternopolskaya Mine	4782	20.94	K_7, K_5, K_2		11/2008	2021
Tekhinnovatsiya LLC						
Svyato-Pokrovskaya Mine	5098	31.55	M_6^2, M_5^1, M_4^2, M_4^0, M_1^1, L_8, L_8^B, L_8^H		12/2009	12/2029
Ugledobycha LLC						
Svyato-Nikolaevskaya Mine	3409	3.50	L_7, L_6, L_3	40 to -560	09/2004	09/2014
Svyato-Nikolaevskaya Mine	5041	0.46	L_3		11/2009	11/2029
Svyato-Nikolaevskaya Mine	3375	3.90	H_{11}, H_8, H_7, H_6^1, H_6, H_2^1	-400 to -500	07/2004	07/2014

BOYD has reviewed the mining license documentation as provided by Coal Energy with regard to their current coal holdings. To the extent supported by the documentation and from BOYD's standing as a technical expert, we accept that Coal Energy holds the mining right licenses for the areas evaluated in this report. However, we are not qualified to offer, nor do we offer, opinion in regard to mining licenses.

Coal Energy also controls three mine waste piles and owns a waste pile processing plant through its Antracit LLC subsidiary.

2.2 Geology and Resources

2.2.1 Conclusion

The geologic setting of the coal deposits evaluated in this report is judged by BOYD to be moderate (i.e., not geologically complex). There is a long history of mining in the Donetsk Basin, and therefore, coal occurrence and mining conditions are well known. The coal-bearing strata are of Carboniferous age, and coal rank varies between areas and seams and includes low-, mid-, and high-volatile bituminous; semi-anthracite; and anthracite.

Based on our review of the coal resource data and the methodology used to define the resources, visits to the active mining operations, and interaction with Coal Energy personnel, we have a high degree of confidence that the resource and reserve estimates shown in this report are representative of the specified mine properties.

2.2.2 Proved and Probable Reserves

Our estimates of the Measured, Indicated, and Inferred Resources and Proved and Probable Recoverable and Marketable Reserves, as of 1 March 2011, are summarized as follows:

	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Marketable Reserves (Mt)			% of
Mine	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Proved	Probable	Total	Reserves
Antracit LLC											
Total	-	7.57	-	7.57	-	7.19	7.19	-	1.14	1.14	1
Donbasuglerazrabotka LLC											
Svyatitelya Vasiliya Velikogo	0.59	-	-	0.59	0.25	-	0.25	0.23	-	0.23	-
Mine District Mogutchiy	2.36	-	-	2.36	1.03	-	1.03	0.94	-	0.94	1
Total	2.95	-	-	2.95	1.28	-	1.28	1.17	-	1.17	1
Donprombiznes LLC											
Prepodobnogo Sergiya Radonezhskogo	14.62	1.76	-	16.38	10.82	1.52	12.34	9.56	1.38	10.94	9
Svyato-Andreevskaya	22.71	-	-	22.71	17.24	-	17.24	15.62	-	15.62	12
Svyato-Nikolaevskaya	0.86	1.74	0.29	2.89	0.71	1.41	2.12	0.57	1.22	1.79	1
Chapaeva	4.06	0.61	-	4.67	3.58	-	3.58	3.22	-	3.22	3
Total	42.25	4.11	0.29	46.65	32.35	2.93	35.28	28.97	2.60	31.57	25
Eximenergo LLC											
Svyato Andreyevskaya	0.63	1.04	-	1.67	0.50	0.82	1.32	0.46	0.76	1.22	1
Svyato-Nikolaevskaya	5.09	-	-	5.09	3.88	-	3.88	3.48	-	3.48	3
Total	5.72	1.04	-	6.76	4.38	0.82	5.20	3.94	0.76	4.70	4
Nedra Donbasa LLC											
Svyato-Serafimovskaya	3.08	1.59	0.08	4.75	1.25	1.10	2.35	1.14	1.00	2.14	2
CwAL LE Novodzerzhynskaya											
Novodzerzhynskaya	34.78	-	-	34.78	20.25	-	20.25	17.46	-	17.46	14
CwAL LE Sh/U Chapaeva											
Chapaeva	32.20	6.67	-	38.87	22.81	3.63	26.44	20.13	3.16	23.29	18
1 May	10.56	2.86	-	13.42	7.73	2.07	9.80	6.46	1.61	8.07	6
Ternopolskaya	10.74	0.17	-	10.91	7.38	0.13	7.51	6.46	0.11	6.57	5
Total	53.50	9.70	-	63.20	37.92	5.83	43.75	33.05	4.88	37.93	29
Tekhinnovatsiya LLC											
Svyato- Pokrovskaya	34.78	19.50	3.07	57.35	18.90	7.91	26.81	16.69	6.85	23.54	18
Ugledobycha LLC											
Svyato-Nikolaevskaya	0.86	-	-	0.86	0.71	-	0.71	0.65	-	0.65	1
Mine District Rassipnyanskiy-Krutoy	10.63	-	-	10.63	8.37	-	8.37	7.30	-	7.30	6
	11.49	-	-	11.49	9.08	-	9.08	7.95	-	7.95	7
Total											
	188.55	43.51	3.44	235.50	125.41	25.78	151.19	110.37	17.23	127.60	100

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Coal reserves are well defined, with 87% in the Proved classification. Approximately 64% of the coal reserves are located in the East Central Donbas Coal Area (Donprombiznes LLC, Eximenergo LLC, ODO Shakhtoupravlenie im. V. I. Chapaeva, and Ugledobycha LLC). Coals in this region are low volatile bituminous, semi-anthracite, and anthracite in rank.

2.2.3 Coal Quality

Coal quality characteristic differ in various parts of the Donetsk coal basin. The following table shows the typical in-place coal quality for the various Coal Energy mines.

Company and Operating Mines	In-Place Coal Quality						
	Coal Grade	Coal S.G.	Moisture (%)	Ash % (d)	Sulfur % (d)	V.M. % (daf)	Calorific Value (kcal/kg) (daf)
East Central Donbas Coal Area							
Donprombiznes LLC							
Prepodobnogo Sergiya Radonezhskogo Mine	T,A	1.35	1 - 3	9 - 13	2 - 5	7	8,500
Eximenergo LLC							
Svyato-Andreevskaya Mine	T	1.40	1 - 5	14	2 - 7	9 - 18	8,500
CwAL LE Sh/U Chapaeva							
Chapaeva Mine	T,A	1.35	1	12	2	6	8,450
1 May Mine	T	1.40	1	14	2 - 4	6	8,500
Ternopolskaya Mine	T	1.40	1	15	2 - 3	6	8,500
Ugledobycha LLC							
Svyato-Nikolaevskaya Mine	T	1.40	1 - 3	14	2 - 5	8	8,400
Mine District Rassipnyanskiy-Krutoy	A	1.45	2	20	1 - 4	4	8,000
Other Areas							
Donbasuglerazrabotka LLC							
Svyatitelya Vasiliya Velikogo Mine	D	1.35	4	8	2	41	7,700
Mine District Mogutchiy	DG	1.35	4	11	1.9	39	6,500
Nedra Donbasa LLC							
Svyato-Serafimovskaya Mine	K, Zh	1.35	1	10	1 - 3	29	8,350
CwAL LE Novodzerzhynskaya Novodzerzhynskaya Mine	Zh, G	1.35	1	10 - 20	2 - 5	32 - 35	8,400
Tekhinnovatsiya LLC							
Svyato-Pokrovskaya Mine	G, DG	1.35	2	5 - 15	2 - 4	35-45	7,000 - 8,000

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The coal grades shown in the table are according to the Russian grading system. The United States equivalent grades are as follows:

Ukrainian/Russian Coal Grades			Western Classification
Grade	Type of Coal	Purpose	
A	Anthracite	Thermal	Anthracite
T	Lean Coal	Thermal	Low Volatile Thermal Coal
D	Long-Flame Coal	Thermal	High Volatile Thermal Coal
DG	Long-Flame Gas Coal	Thermal	High Volatile Thermal Coal
G	Gas Coal	Dual Purpose	High Volatile Coking Coal
Zh	Fat Coal	Coking	Medium Volatile Coking Coal
K	Coking	Coking	Low Volatile Coking Coal

Higher sulfur coal qualities are typically associated with areas having an immediate marine limestone roof.

Coal in the other areas is of mid- to high-volatile bituminous rank. The coal at Novodzerzhynskaya is a high-volatile coking coal and the Svyato-Serafimovskaya Mine produces a mid-volatile coking coal. Some of the coals at Svyato-Pokrovskaya Mine are used in coking coal blends.

Typical product coal quality from the active mines is as follows:

Company and Operating Mines	Coal Seam	Coal Grade	Product Quality Moisture (%)	Ash % (d)	Sulfur % (d)	Volatile Matter % (daf)	Calorific Value (kcal/kg) (daf)
Donbasuglerazrabotka LLC							
Svyatitelya Vasiliya Velikogo Mine	L_8^1	D	14-17	13-20	1.3-1.8	36-40	7,620
Donprombiznes LLC							
Prepodobnogo Sergiya Radonezhskogo Mine	M_3	T	3-4.5	16-22	2.8-3.5	9-11	8,520
	L_4	T	3-4.5	14-21	2.8-3.7	9-11	8,460
Eximenergo LLC							
Svyato-Andreevskaya Mine	M_3	T	4.5-6	12-18	1.3-1.9	9-11	8,480
Nedra Donbasa LLC							
Svyato-Serafimovskaya Mine	L_1	Zh	5.4-7.6	16-28	2.8-3.5	31-34	8,540
CwAL LE Novodzerzhynskaya							
Novodzerzhynskaya Mine							
	M_3	Zh	2.3-2.5	22.1-23.5	1.2-1.5	31.9-32.3	8,382
	L_7^B	Zh	2.0-2.3	13.0-14.1	1.5-2.2	31.1-33.3	8,451
	L_5	Zh	1.6-2.3	10.4-11.9	3.6-3.8	35.2-36.4	8,463
	L_2^1	Zh	1.5-1.6	17.9-19.2	4.1-4.3	32.4-34.5	8,561
CwAL LE Sh/U Chapaeva							
Chapaeva Mine	K_2	T	3.5-4.5	18-22	1.4-1.8	8-10	8,480
1 May Mine	K_5	T	3.5-4.5	18-23	1.4-1.8	8-10	8,410
Ternopolskaya	K_7	T	3.5-5	18-23	1.9-2.8	8-10	8,536
	K_5	T	3.5-5	12-16	1.3-1.8	8-10	8,560
Tekhinnovatsiya LLC							
Svyato- Pokrovskaya Mine	M_4^0	G	7.5-9	7.2-9.4	2.6-3.2	38-40	8,120
Ugledobycha LLC							
Svyato-Nikolaevskaya Mine	M_3	T	3.5-4	16-20	1.8-2.1	10-12	8,500
	L_3	T	3.5-4	14-18	2.2-3.4	10-12	8,430

2.3 Mine Operation

2.3.1 Mines

The mining license areas included in this study currently have ten operating mines that utilize various coal production methods. A range of mining mechanization, from hand loading to partially mechanized LW faces, is used to facilitate coal production. While these mines involve reactivation of prior abandoned underground mines, they are generally considered to be in transition mode and have limited operating histories. Observations of working conditions at each mine, review of mine infrastructures, in-depth discussions with the Coal Energy staff and management team, and our review of mine projections have provided significant background and insight into their experience and capabilities.

Coal Energy mines employ mainly labor-intensive mining techniques that are consistent with regional mining practices. Physical mining conditions are characterized by relatively thin coal seams and moderate to steep (12 to 45 degrees) seam gradients. The operations practice selective mining to minimize dilution and ash in the ROM product. The advancing LW method used by Coal Energy minimizes development time and cost and enables the rapid initiation of LW production once a strategic LW face location has been identified and main roadways are developed to an appropriate extent.

The Coal Energy mining organization is continuing to evolve from former state-run mines to being operated as an integrated company. The management team has implemented numerous measures to transition to a private mining entity and initiate production in the early stages of the transition process. These efforts have been successful to date and the mine operations as a group are producing at a level higher than pre-shutdown output rates.

2.3.2 Historical Output

Historical output of saleable raw coal of Coal Energy mines for the period 2008-FY through 2011-FY (9 months) is shown as follows:

Toal Production - Tonnes - (Fiscal Year Basis)

Production Center	2008-FY	2009-FY	2010-FY	(9 Months) 2011-FY
Eximenergo FEC, LLC	270,492	301,922	176,813	119,681
Donprombiznes LLC	217,797	229,443	81,795	68,477
Ugledobycha LLC	134,966	175,322	154,072	62,696
CwAL LE Sh/U Chapaeva	-	-	-	252,069
Tekhinnovatsiya LLC	-	-	-	51,877
Donbasuglerazrabotka LLC	15	32,068	33,425	19,908
Nedra Donbasa LLC	4,191	18,400	600	27,123
CwAL LE Novodzerzhynskaya	-	-	-	125,000
Total	627,461	757,155	446,705	726,831

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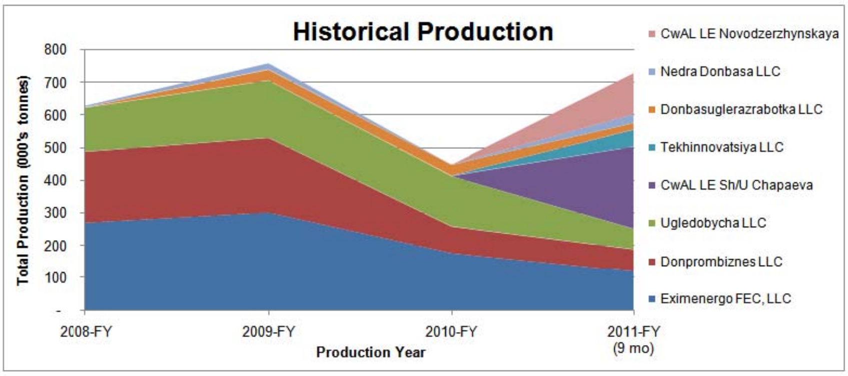
A graphical representation of the total output from the ten Coal Energy mines is illustrated below, assuming nine months 2011 FY output.



Based on BOYD's analysis, historical labor productivity is summarized based on selected 2011-FY (9 months) full production at each of the Coal Energy mines. The production and productivity rates are assessed based on this production period as it represents all operations in a full production scenario with respect to their current start-up situation. The productivity rates are summarized as follows:

Labor Efficiency (9 Months 2011-FY)
(tonnes per employee per year)

Production Center	Underground	All Empl.
Eximenergo FEC, LLC	390.0	144.9
Donprombiznes LLC	280.0	97.5
Ugledobycha LLC	310.0	150.0
CwAL LE Sh/U Chapaeva	360.0	129.1
Tekhinnovatsiya LLC	240.0	90.1
Donbasuglerazrabotka LLC	180.0	71.4
Nedra Donbasa LLC	200.0	83.7
CwAL LE Novodzerzhynskaya	450.0	132.4
Total	330.0	120.7

2.4 Economic Conclusion

Coal Energy is proposing to implement a series of capital programs in order to expand coal production. These proposed capital programs are consistent with improvements discussed with Coal Energy management during our site visits and are considered necessary to maintain current production as well as to facilitate additional production to achieve proposed targets.

The Coal Energy cost structure in the near term is expected to be representative of mines that are in a transition mode. Recognizing that the operational transition is incomplete, the Coal Energy operations are expected to be in transition for two to three additional years. During this period, operating costs, planned capital spending and revenue projections will most likely be volatile and need to be carefully managed by the Coal Energy Team. This is typical of a company in this stage of operations.

Our experience with the Coal Energy operations indicates that appropriate management of ongoing operations and the proper application of proposed capital improvement programs expenditures, the production levels projected are achievable.

Our assessment of production, revenue, operating costs, and capital spending appear to be achievable, and indicate a positive cash flow for the Coal Energy enterprise. It is noted, however, that not all of the mines will individually achieve similar proportional cash flows in the same manner at the same time. Our analysis indicates that Coal Energy's mine plans and projections provide a basis for determining that there is a reasonable expectation that the Company's reserve holdings are economically viable.

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3.0 GEOLOGY AND RESOURCES

3.1 Geology

The coal deposits evaluated in this report are located in the Donetsk, or Donbas, coal basin in southeastern Ukraine (see Figure 1.1). This is one of the major coal basins in the world. Comprising over 60,000 km^2, of which 50,000 km^2 is in Ukraine, the Donetsk coal basin is underlain by over 130 coal seams greater than 0.45 m thick. The basin has been actively mined for coal since the 1820s, and by 1913, the Donetsk coal basin was producing over 87% of all Russian coal. Production from the basin has varied widely during this history, with major disruptions during World War I and World War II and the collapse of the Soviet Union. Over 400 mines have operated at various times in the basin, with approximately 160 underground and 3 surface mines currently operating in the area. In 1992, over 300,000 people were employed in the coal industry in the Donetsk region.

While significant mining has been conducted in the basin, government estimates show 52 billion tonnes remaining. It is estimated that approximately 50% of coal mined in the basin has been at depths less than 600 m, with 30% from 600 to 900 m and 20% from 900 to 1,200 m. Therefore, remaining coal resources tend to be at greater depths, except for thinner seams that were bypassed in deference to mining available thicker coal seams. Coal seams in the basin are relatively thin, with most remaining seams less than 1 m thick.

The coal-bearing strata in the basin are of Middle Carboniferous age and are contained in the following four geologic series, listed in descending stratigraphic order:

Series	Seam Code
C_2^7 - Gorlovka	M
C_2^6 - Diamond	L
C_2^5 - Kamenskaya	K
C_2^3 - Smolyaninovskaya	H

Structurally, the coal basin is a large syncline. As is typical with this geologic feature, the seams dip steeply near outcrop and are less steep toward the axis of the syncline. Seam dips typically range from nearly 50° at the outcrop, gradually decreasing to 5 to 8 degrees as mining advances downdip. However one of the mines is in a localized anticlinal structure with dips of 10 to 20 degrees along the relatively shallow axis of the structure and from 40 to 70 degrees along the flanks.

There are several major thrust and flexural thrust systems in the region, many of which geologically define the various coalfields occurring within the basin. Mining within and in the vicinity of these systems typically encounters low amplitude faulting and fracturing of surrounding rock. Numerous rolls and seam flow structures have been mapped in the underground mines in the area.

The general geological setting of the Donetsk basin is considered to be moderate (i.e., not geologically complex).

The stratigraphy of the Donetsk coal basin is fairly typical of all coal-bearing Carboniferous-age coal deposits. The non-coal lithologies vary from sandstone, shale, and siltstone, to marine limestone. Since the region has undergone some post-Carboniferous metamorphism, some of the shales have been slightly metamorphosed into what is known as argillite—hardened shale that has not quite been transformed into slate. As with most coal-bearing formations, the seams in this region exhibit localized seam scouring from overlying sandstone-filled paleochannels, low amplitude compaction faults, and areas of poor roof associated with the overlying channel sediments. The limestone units, when present, form very good roof conditions; however, they are also associated with higher sulfur content in the underlying coal. Clay normally underlies the coal seams and forms the mine floor. While competent when dry, the clay floor becomes weak as water infiltrates from mining.

Coal Energy mining operations and control of mining leases are organized under eight subsidiary companies. Each company operates one or more mines in the Donetsk basin. As shown in the following table, four of the companies are located in the East Central Donbas Area, with the remaining four companies located in other parts of the basin (see Figures 1.2 through 1.4).

Company	Mining Operations	Undeveloped Areas	Resource Holdings in Other Mines
East Central Donbas Coal Area			
Donprombiznes LLC	Prepodobnogo Sergiya Radonezhskogo		Chapaeva Svyato-Nikolaevskaya Svyato-Andreyevskaya
Eximenergo LLC	Svyato-Andreevskaya		Svyato-Nikolaevskaya
CwAL LE Sh/U Chapaeva	Chapaeva 1 May Ternopolskaya		
Ugledobycha LLC	Svyato-Nikolaevskaya	Mine District Rassipnyanskiy-Krutoy	
Other Areas			
Donbasuglerazrabotka LLC	Svyatitelya Vasiliya Velikogo	Mine District Mogutchiy	
Nedra Donbasa LLC	Svyato-Serafimovskaya		
CwAL LE Novodzerzhynskaya	Novodzerzhynskaya		
Tekhinnovatsiya LLC	Svyato- Pokrovskaya Mine		

The eight companies each control one operating mine, except for CwAL LE Sh/U Chapaeva, which controls three mines. Ugledobycha LLC and Donbasuglerazrabotka LLC control the undeveloped Rassipnyanskiy and Mogutchiy mine districts, respectively.

The mining licenses of the four companies in the East Central Donbas Coal Area overlap (see Figure 3), and therefore, in several instances, coal controlled by one

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company is being mined by a mining operation controlled by a different company. For example some of the coal controlled by Donprombiznes LLC will be mined by the Chapaeva, Svyato-Nicholaeskaya, and Svayto-Andeevskaya mines, which are controlled by the three other companies in this area.

In this report, estimates of resources and reserves are reported by the company that legally holds the mining license and are also shown by the mine that will recover the tonnage. The discussion of geology and estimating methodology is by the mine that will recover the coal, regardless of which company holds the mining license.

Coal Energy also controls Antracit LLC. The company controls three mine waste piles and owns and operates a processing plant that recovers the remaining coal from mine waste material. The recovered coal is sold to local power plants.

3.2 East Donbas Coal Holdings – Coal Seams

Following is a summary of geologic information for the seams in the East Donbas Coal Area by mine:

Company and Mines Area	Coal Seam	Seam Dip (degrees)	Mining Depth (m)	Seam Thickness (m) Coal	Parting	Seam	Seam Interval (meters)
Donprombiznes LLC Prepodobnogo Sergiya Radonezhskogo Mine	M_3	6-9	100 to 400	0.77	-	0.77	
							220
	L_6	12-17	50 to 350	0.66	-	0.66	
							95
	L_4	12-16	50 to 400	0.86	-	0.86	
							35
	L_3	13-18	50 to 400	0.78	0.03	0.81	
							75
	L_1	13-21	50 to 550	0.76	0.12	0.88	
Eximenergo LLC Svyato-Andreevskaya Mine	M_5^1	21-36	50 to 550	0.62	-	0.62	
							50
	M_4^4	21-45	Subcrop to 500	0.84	0.01	0.85	
	M_3	8-12	775 to 910	0.95	-	0.95	
CwAL LE Sh/U Chapaeva Chapaeva Mine	K_4^1	12-18	500 to 750	0.53	-	0.53	
							50
	K_3	11-15	50 to 950	0.76	0.02	0.78	
							65
	K_2	6-16	650 to 900	0.90	0.10	1.00	
1 May Mine	K_7	4-13	300 to 600	0.78	0.13	0.91	
							120
	K_5	10	350 to 850	0.93	0.20	1.13	
Ternopolskaya	K_7	9-18	150 to 600	0.80	0.10	0.90	
							125
	K_5	13-16	450 to 725	1.05	0.03	1.08	
Ugledobycha LLC Svyato-Nikolaevskaya Mine	M_3	5-16	50 to 250	0.67	-	0.67	
	L_7	10-30	100 to 350	1.01	-	1.01	
							100
	L_6	8-15	350 to 475	1.50	-	1.50	
							75
	L_4	16-36	50 to 350	1.02	0.01	1.03	
							25
	L_3	45	Subcrop to 50	1.34	-	1.34	
Mine District Rassipnyanskiy-Krutoy	H_{11}	45	Subcrop to 500	1.10	0.15	1.25	
							450
	H_7	45	Subcrop to 500	0.72	0.03	0.75	
							100
	H_6^1	45	Subcrop to 500	0.73	0.09	0.82	
							20
	H_6	45	Subcrop to 500	0.87	0.13	1.00	

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As shown in the table, seam dips are greatest in the shallow areas near the seam subcrop and are less steep at greater depth. The thickness of most seams is between 0.6 and 1.0 m. Rank of the coal in this area is classified as low volatile bituminous (lean coal) and anthracite.

Detailed geology by mine area and seam is described as follows:

Prepodobnogo Sergiya Radonezhskogo Mine
The Sergiya Radonezhskogo Mine is located in the central portion of the southern wing of the Chistyakovo-Snezhnyanskiy syncline. This structural feature is monoclinal with strata dip angles of 5 to 18 degrees. No major faults are identified in the area nor are they anticipated. The seams are very high in methane content, producing as much as 31 to 38 m^3/tonne.

M_3 Seam
The M_3 Seam was mined from 1955 to 1972 and was mined extensively on the east side of the reserve area into the late 1980s. The M_3 Seam is consistent, ranging from 0.65 to 0.95 m in thickness. The immediate roof is composed of silty shale with sandstone layers and averages 21 m in total thickness. The seam lies on sandstone, providing good, competent floor material.

L_6 Seam
The L_6 Seam has been mined from 1957 to 2005 intermittently and was mined extensively on the east side of the resource area. The seam is thin but consistent, ranging from 0.58 to 0.78 m thick, with the majority of the resources between 0.60 and 0.75 m. The immediate roof is composed of silty shale, with sandstone in the outermost eastern portion of resource area. The roof shale is carbonaceous and argillaceous at the coal interface and, consequently, is weak. During previous mining of the seam, this portion of the shale roof fell up to 2.5 m in the roadways. The total thickness of shale ranges from 4.7 to 13.7 m thick. The immediate floor of the seam is composed of silty shale and is considered moderately competent.

L_4 Seam
The L_4 Seam has been mined from 1955 to 1979 and was mined extensively on the east side of the resource area to 1997. The L_4 is consistent in thickness, ranging from 0.68 to 0.95 m, with the majority of the area exhibiting coal between 0.82 and 0.94 m. The immediate roof is composed of shale with thin layers of coal, and is slickensided and weak, caving to 3.0 m, sometimes to the full thickness of unit, which can be up to 15 m thick. The roof is considered weak to extremely weak. The sandy shale above is fractured also and fissile and can be up to 11.5 m thick. It is considered weak to moderately competent. The immediate floor is composed of sandy shale and is competent.

L_3 Seam
The L_3 Seam has been extensively mined adjacent to the east side of resource area from 1963 to 1990, with a small amount of production at the outcrop from 1940 to 1957. The coal seam ranges from 0.65 to 1.00 m thick, with the majority of the resources between 0.75 and 0.85 m thick. The roof strata are composed of sandy shale and carbonaceous shale, which forms draw roof up to 0.5 m. Where present, the carbonaceous shale is 0.3 to 13.9 m thick and more competent than the L_4 roof. The floor material varies from shale, which is prone to heaving, to more competent sandy shale and sandstone.

L_1, L_1^B, L_1^{B+H} Seam
The L_1 Seam was previously mined along the outcrop in 1957. The seam occurs as two benches of coal, with the top coal bench 0.40 to 0.65 m thick; a middle parting 0.10 to 1.0 m thick; and the bottom coal bench 0.40 to 0.65 m thick. The two benches are to be mined together where the parting is minimal and separately where the parting reaches the point where the product will be out of spec on ash content.

Svyato-Andreevskaya Mine
The Svyato-Andreevskaya Mine is located in the western part of the southern flank of the Chistyakovo-Snyezhnyansk syncline. The whole area dips to the north; dip angles range from 6 to 16 degrees and the western flank of the syncline dips from 13 to 27 degrees. The western border of the mine passes the Yunkomovsk overthrust. The overthrust dips in the eastern direction of 35 to 50 degrees, and stratigraphic displacement has been measured at 50 to 80 m.

M_5^1 Seam
The M_5^1 Seam has not been previously mined. The seam is consistent in thickness, ranging from 0.53 to 0.74 m, with an estimated average of 0.62 m. The roof is composed of argillaceous shale, with shale also comprising the floor material. The seam is anticipated to have high methane content.

M_4^4 Seam
The M_4^4 Seam has not been previously mined. The seam thickness ranges from 0.45 to 1.16 m. The immediate roof is composed of limestone and sandstone. The M_4^4 Seam is not considered to contain a significant amount of methane.

M_3 Seam
The M_3 Seam has been mined from 1958 to the present. The seam thickness ranges from 0.85 to 1.00 m and is very consistent throughout the proposed mining area. The M_3 Seam is considered very gassy, producing as much as 35 m^3/tonne. Methane gas bursts are possible in fault zones M_3 Seam. Overall, the M_3 Seam is considered hazardous with respect to methane gas and explosive coal dust.

Chapaeva Mine
The Chapaeva Mine is located in the western part of the southern limb of the Chistyakovo-Snezhnyanskiy syncline. The formation dip varies from 2 to 20 degrees,

decreasing gradually towards the syncline axis. The strata orientation is influenced by the Davydovskiy flexura-thrust located in the northeast part of the reserve, which strikes northeast and exhibits offset of 5 to 6 m.

K_4^1 Seam

The K_4^1 Seam has not been previously mined, as 80% of the reserve is less than .50 m in thickness. The seam reaches a maximum thickness of 0.50 m to 0.59 m.

K_3 Seam

Previously mined from 1978 to 2000, approximately 75% of the resources lie between the old mining works and the outcrop. The seam is very consistent and ranges from 0.75 to 0.85 m in thickness, with localized partings of 0.02 to 0.05 m. The immediate roof of the K_3 Seam is composed of sandstone, approximately 5 m thick.

K_2^3 Seam

The K_2^3 Seam has not been previously mined, as all of the coal is below 0.50 m, except in isolated areas.

K_2 Seam

The K_2 Seam was extensively mined from the 1950s to 1988. The seam ranges from 0.50 to 1.2 m thick. In the western portion of the resource area, the seam contains a parting from 0.05 to 0.20 m thick. The roof is composed of fine-grained sandstone, 7 to 8 m thick. The presence of sandstone scours are noted in the previous mining in the Chapaeva mine works. Displacement faults of 0.15 to 0.4 m throw were encountered in the old works of the Chapaeva Mine and are associated with the Chistyakovo-Snezhnyanskiy fault system.

1 May Mine

K_7 Seam

The K_7 Seam was previously mined from 2000 to 2005. The seam ranges in thickness from .65 m to 1.10 m in thickness. The Davydovskiy thrust fault zone exhibited from a few tenths of a meter to 2.3 m displacement in the old mine works. The seam is anticipated to be gassy below the 75 m depth and is classified as coal/rock/gas outburst prone. The K_7 Seam is not prone to self-ignition.

K_5 Seam

The K_5 Seam was extensively mined from 1933 to 1999. The seam is very consistent and ranges from 0.90 to 1.10 m thick, with a 0.05 to 0.25 m thick parting. In most areas, the parting ranges from 0.20 to 0.25 m in thickness. The seam is considered to be gassy, and in the old works of the 10th and 11th eastern faces, there were six recorded gas outbursts.

Ternopolskaya Mine

K_7 Seam

The K_7 Seam was extensively mined from 1957 to 2002. The seam ranges from 0.45 to 0.75 m in the eastern portion of the resource with typical parting thickness of 0.04 to 0.15 m. The seam is somewhat thicker in the western area, ranging from 0.70 to 1.10 m, with a seam parting of 0.04 to 0.35 m. Some sandstone scouring of the seam was noted in the previous mining works.

K_5 Seam

The K_5 Seam has been mined from 1955 to the present. The seam is very consistent and ranges from 1.0 to 1.15 m thick. Over 90% of the area of interest contains no seam partings, and where present, the parting is less than 0.15 m thick.

Svyato-Nicholaevskaya Mine

The Svyato-Nicholaevskaya Mine is located in the central part of the northern limb of the Chistyakovskaya syncline, which strikes southeast. Previous mining in this area encountered low amplitude faults of short length. Some coal seams are high in methane, which increases quickly with depth, to as much as 35 m^3/tonne. The H_{11} Seam is particularly high in methane, whereas the other H series seams are not. No major fault zones are anticipated.

M_3 Seam

The M_3 Seam was mined extensively from 1957 to 2002. The seam is very consistent and measures from 0.54 to 0.80 m thick. The M_3 Seam is considered a very gassy seam.

L_7 Seam

The L_7 Seam was previously mined from 1958 to 1990. The coal seam is 1 to 1.15 m thick, with a maximum localized parting thickness of 0.05m. The immediate roof is composed of sandy shale (approximately 75%) and clayey shale. The L_7^B Seam, where present, is 0.10 to 0.15 m thick and is found 0.50 to 0.85 m above the seam. The seam floor is composed of sandy shale and claystone and is prone to heaving.

L_6 Seam

The L_6 Seam reserves are surrounded by previous mining. The coal thickness ranges from 1.14 to 1.65 m, with a parting from 0.23 to 0.55 m thick. The immediate roof is composed of clay shale with coal interbeds, and carbonaceous shale. The roof material is considered unstable to extremely unstable. The seam floor is sandy shale with sandstone below and is considered to be medium stable to unstable.

L_4 Seam

The only previous mining was along the subcrop. The coal thickness ranges from 0.85 to 1.10 m.

L_3 Seam
Proposed mining of the L_3 Seam will be along the outcrop where the seam dip is from 40 to 50 degrees. The coal thickness ranges from 1.30 to 1.64 m. The immediate roof is limestone overlain by shales with sandstone above. Locally, carbonaceous shale has been noted at the coal roof. The limestone forms a good, solid roof material. The floor is composed of sandy shale 0.60 to 2.85 m thick and is underlain by sandstone 13 to 35 m thick.

Mine District Rassipnyanskiy-Krutoy
This mine district is located approximately 2 km from the Svyato-Nicholaevskaya Mine and Coal Energy will prepare new access to the seams.

H_{11} Seam
The H_{11} Seam was extensively mined from 1945 to 1960. The seam is irregular and coal thickness ranges from 0.84 to 1.31 m. Some areas exhibit a parting up to 0.23 m thick. The immediate roof is composed of sandy shale and clayey shale and is considered medium stable. The floor is composed of sandy shale. Overall roof and floor conditions for H_{11} Seam are anticipated to be good.

H_8 Seam
The H_8 Seam has not been previously mined. The total coal thickness ranges from 0.35 to 0.68 m. Approximately half of the area is less than 0.50 m thick and the remaining area ranges from 0.47 to 0.68 m thick. The roof strata are composed of clayey shale, sandy shale, and sandstone. The floor underclay becomes sandy with depth but is prone to heaving, especially if the soft zone extends 1 m deep. Overall, roof and floor conditions are anticipated to be good.

H_7 Seam
The H_7 Seam is very consistent in thickness at 0.72 m. The main roof is composed of sandy shale and clayey shale with occasional sandstone. Sandstone comprises the immediate roof, with some areas of clay shale with slickensides. The clay shale is friable and interbedded with coal lenses. The seam floor material is claystone, generally 1 m thick, becoming sandy with depth. Overall roof and floor conditions are anticipated to be generally good.

H_6^1 Seam
The H_6^1 coal thickness ranges from 0.66 to 1.11 m and occasionally contains a parting of 0.1 to 0.24 m thick. The main roof is composed of sandy and clayey shale. When clay shale forms the immediate roof, it is generally less than 2 m thick and is slickensided and not competent. The sandy shale is 16 to 29 m thick. The floor is generally composed of sandy shale with some localized claystone.

H_6 Seam
The H_6 Seam ranges from 0.65 m to 1.04 m of total coal, with a parting of 0.1 to 0.35 m thick where present. The main roof is composed of a thin bed of clay shale that is 0.40 to 7.5 m thick. Where it is less than 0.60 m it is not competent. Also comprising the roof material is sandy shale, which is competent when over 0.50 m thick. The floor is comprised of sandy shale and sandstone. The shale is clayey

immediately under the coal seam but becomes sandy with depth. The floor is considered to be competent, especially where it is comprised of sandstone.

H_2^1 Seam

The H_2^1 Seam is thin, consistent, and ranges from 0.52 to 0.69 m. There are no partings found within the seam. The immediate roof is composed of sandstone, generally 1.7 m thick. The floor is sandy shale and sandstone, with isolated areas of claystone. Both roof and floor are considered to be competent, although seam scours are anticipated locally.

3.3 Remaining Areas – Coal Seams

Geologic information for the seams in the other Coal Energy coal holdings by mine and seam follows:

Company and Mines Areas	Coal Seam	Seam Dip (degrees)	Mining Depth (m)	Average Seam Thickness (m) Coal	Parting	Seam	Seam Interval (meters)
Donbasuglerazrabotka LLC							
Svyatitelya Vasiliya Velikogo Mine	L_8^1	6-12	50 to 300	1.15	0.03	1.18	[illegible]
	L_7	12	150 to 300	2.38	0.25	2.63	
Mine District Mogutchiy	N_1	8-12	Subcrop to 580	2.09	0.14	2.23	
Nedra Donbasa LLC							
Svyato-Serafimovskaya Mine	L_8	12-32	400 to 725	0.67	-	0.67	145
	L_3	17-22	150 to 800	0.53	-	0.53	[illegible]
	L_1	18-20	300 to 525	1.54	0.50	2.04	[illegible]
	K_8	11-18	750 to 950	1.00	-	1.00	[illegible]
	K_5	15-32	300 to 1,025	0.60	-	0.60	
CwAL LE Novodzerzhynskaya							
Novodzerzhynskaya Mine	M_6^{1H}	16 - 45	350 - 900	0.56	0.50	1.06	[illegible]
	M_4^{U}	25 - 45	350 - 900	0.56	-	0.56	[illegible]
	M_3	20 - 45	200 - 900	0.87	-	0.87	[illegible]
	L_8	20 - 45	250 - 700	0.55	-	0.55	[illegible]
	L_7^{B}	20 - 30	150 - 900	1.00	0.02	1.02	[illegible]
	L_5	12 - 40	500 - 900	0.76	-	0.76	[illegible]
	L_4^{B}	20 - 45	500 - 900	0.63	-	0.63	[illegible]
	L_4^{H}	20 - 25	500 - 900	0.55	0.02	0.57	[illegible]
	L_3	12 - 30	350 - 900	1.00	0.24	1.24	[illegible]
	L_2^1	10 - 30	500 - 900	1.03	-	1.03	[illegible]
	L_2	15 - 30	200 - 900	0.58	-	0.58	[illegible]
	L_1^1	10 - 32	250 - 900	0.54	0.03	0.57	[illegible]
	K_8	20 - 30	530 - 900	1.00	0.06	1.06	
Tekhinnovatsiya LLC							
Svyato- Pokrovskaya Mine	M_6^2	11-13	100 to 800	0.56	-	0.56	100
	M_5^1	11-14	250 to 850	1.00	0.23	1.23	45
	M_4^2	11	700 to 850	1.17	-	1.17	30
	M_4^0	10-12	375 to 830	1.11	-	1.11	60
	M_1^1	11-13	100 to 500	0.92	0.01	0.93	55
	L_8^b	9-12	100 to 850	0.77	0.06	0.83	
	L_8^h			0.87	-	0.87	
	L_8			1.72	0.41	2.13	

Thick coal controlled by Donbasuglerazrabotka LLC in the Svyatitelya Vasiliya Velikogo Mine and the Mine District Mogutchiy is located in barriers along the main entries of the mine. Coal in these areas is classified as mid- to high-volatile bituminous coal. Coal at the Svyato-Serafimovskaya Mine and Novodzerzhynskaya Mine is classified as coking coal, and several seams at the Svyato-Pokrovskaya Mine are used in coking coal blends.

Detailed mine geology by seam is described as follows:

Svyatitelya Vasiliya Velikogo Mine
This area was previously mined from 1939 to 1997. The strata maintain a northwest strike and northeast dip of 7 to 16 degrees. No major faults are anticipated in the area.

L_8^1 Seam
The L_8^1 Seam ranges from 0.73 to 1.27 m in thickness. The roof material is composed of argillite 6 to 8 m thick, with some siltstone. The seam floor is claystone with siltstone below. The L_8^1 Seam is considered dust explosive.

L_7 Seam
The L_7 Seam has been extensively mined from 1939 to 1986. The seam ranges from 0.40 to 0.94 m in thickness. The mine roof is composed of siltstone and argillite, with localized areas of sandstone. Although the L_7 Seam is prone to self-ignition and is explosive (dust), it is not anticipated to be methane producing. It should be noted that proposed mining will be in old works and is expected to be complicated due to previous fracturing and subsidence of the surrounding rock.

Mine District Mogutchiy
The Mine District Mogutchiy is located approximately 25 km east of the Svyatitelya Vasiliya Velikogo Mine.

N_1 Seam
The N_1 Seam was mined from 1955 to approximately 1976. Proposed future mining will be limited to second mining of mains and barrier pillars. The seam ranges from 1.9 to 2.35 m in total coal, with a parting of 0.13 to 0.20 m thick.

Svyato-Serafimovskaya Mine
The Svyato-Serafimovskaya Mine is located in the Kalmius-Toretsk crater. The coal field extends to the northwest and northeast, with strata dip ranging from 16 to 40 degrees. Four large thrust faults with offsets of 5 to 25 m define the natural borders of the mine and have affected zones up to 100 m laterally. Methane

production near the lowermost mining is expected to be approximately 10 m^3/tonne of coal.

L_8 Seam

The L_8 Seam has been sporadically mined before 1940 and again in the late 1950s to 1963. The coal seam ranges from 0.50 to 0.84 m thick. The immediate roof is composed of clay shale, siltstone, and sandstone. The seam floor is claystone and or silty shale.

L_3 seam

The L_3 Seam was previously mined in 1940 and from 1961 to 1973. The L_3 Seam ranges from 0.25 to 0.60 m thick, with approximately half of the remaining resource area less than 0.50 m. The L_3 Seam roof is composed of clay shale and silty shale. Where the clay shale is 0.80 to 10.0 m thick, the previous mining experienced poor roof conditions. The seam floor is comprised of silty shale and sandstone and is considered competent.

L_1 Seam

The L_1 Seam was extensively mined from 1904 to 1992 and was the main target seam in the area. The proposed mining will be located in areas of coal left behind from previous mining and will have seam heights from 1.45 to 2.65 m. The immediate roof is comprised of silty shale. Sandstone above this stratum is competent and considered middle to hard caving. The seam floor is silty shale with claystone below and is prone to heaving. Ground control is anticipated to be difficult, with hard caving sandstone, weak immediate roof, and floor that tends to heave. All of the anticipated mining will be among remaining coal blocks that have been completely mined previously.

K_8 Seam

Mining of the K_8 Seam began before the 1920s, with the last panel mined in 1962. In the area of proposed mining, the seam ranges from 0.70 to 1.24 m. The immediate roof is clay shale with slickensides, with a 4-m limestone lying above the shale. The shale doesn't adhere to the overlying limestone it draws. However, the main limestone roof is hard caving. The floor is siltstone (aleurolite) and clayey shale.

K_5 Seam

The K_5 Seam was previously mined from 1908 to approximately 1975. The seam ranges from less than 0.50 to 0.72 m thick and is generally 0.60 m thick throughout most of the resource area. The immediate roof is clay shale 0.45 m to 3.0 m thick. In areas where it is less than 0.50 m thick, it is very unstable. Sandstone lies above and forms the main roof. It is between 1 and 48 m thick and is generally 10 m thick. The seam floor is composed of siltstone with occasional thin claystone areas of less than

1 m in thickness. A displacement fault with 5 to 12 m throw crosses the western panels sublatitudinally and will affect mining in three of the five panels. A displacement fault traverses the eastern panels in a northwesterly direction with 5 to 38 m of offset and will affect mining in five of the panels.

Novodzerzhynskaya Mine

The Novodzerzhynskaya Mine lies in the central portion of the Donetsk basin, approximately 45 kilometers north of the regional capital of Donetsk, on the outskirts of the city of Dzerzhynsk. Production from the Novodzerzhynskaya Mine has varied throughout the last 70 years, with major disruptions during World War II and the collapse of the Soviet Union. Initial exploration efforts were begun at the turn of the 20th century, with the majority of the exploration performed between 1947 and 1977.

The resource area of the mine encompasses approximately 15 km^2 and is bounded in the north and west by the technical boundary of -835 m elevation contour, in the east by the Yeletsky and Almazny faults, and in the south by the Main overthrust. The mine is located at the western termination of the Donbas – Main anticline, which traverses the entire Donbas coal basin. The anticline is asymmetrical at its western terminus, with the northeast flank exhibiting dip angles of 65-70°, the southwest flank 40-50°, and the western terminus 10-20°. The Novodzerzhynskaya resource area is located along the southwest flank and the western terminus of the anticline.

In addition to the strata dipping to the west and southwest, there are approximately 40 known displacement faults within the mine reserve area. The primary longitudinal faults are associated with the axis of the anticline, with transversal faults found mainly along the southwest flank. Both sets of faults are characterized as reverse or overthrust faults, with the primary faults exhibiting numerous branch faults. The amplitude of the various faults ranges from 5 m to over 175 m. The vast majority exhibit an average displacement of 15 to 30 m.

Detailed geology by seam is described as follows:

<u>M_6^{1H} Seam</u>

Mining of the M_6^{1H} seam has been limited to small areas in the immediate vicinity of the outcrop during 1912 and 1917, and 1956 to 1958. The seam is thin but consistent, ranging from 0.50 to 0.60 m thick and is composed of a two benches throughout all but the westernmost portion of the area, where the bottom bench is composed of carbonaceous shale. The immediate roof is composed of 5 to 8 m of argillite, with approximately 10 m of sandstone above. The floor is composed of siltstone throughout half of the area and argillite in the remaining areas. The seam dips at approximately 16° near the outcrop, increasing to 45° near the -800 m elevation contour along the southeastern border of the resource area. The dip angle is a 20° in the western portion of the area. The M_6^{1H} seam is not currently being mined.

M_4^0 Seam

The M_4^0 seam has previously been mined in an adjacent mine to the east along the outcrop during the 1930's and later in the 1970's and 1980's. The seam is very thin, non-continuous, and composed of a single bench ranging from 0.45 to 0.60 m in thickness. The immediate roof and floor are both composed of sandstone. Approximately 50% of the area is less than 0.50 m thick. The M_4^0 seam dips from 25° near the surface to approximately 45° at depth and is not currently being mined.

M_3 Seam

The M_3 seam has been mined from the early 1970's to the present. The seam is continuous and ranges from 0.70 to 1.0 m thick, with most of the area between 0.85 to 0.90 m. The immediate roof and floor in the active mining area are composed of argillaceous shale. The majority of the remaining area has siltstone in the immediate roof and floor. The seam dips approximately 20° in the active mining area, increasing to 45° near the -800 m elevation contour along the southeastern border of the resource area. The dip angle is 20° in the western portion of the area. The M_3 seam is considered very gassy, is prone to methane outbursts at depth, and exhibits increased methane output below depths of 140 m.

L_8 Seam

The L_8 seam was mined along the outcrop in the 1940's. The seam is very thin and inconsistent, ranging from 0.35 to 0.60 m, with an average thickness of 0.55 m. The roof is primarily composed of argillite and the immediate floor generally of siltstone. The seam dips from approximately 25°, increasing to 40 - 45° near the -800 m elevation along the southeastern border of the resource area, and 20 – 25° in the west. The L_8 seam is not currently being mined.

L_7^B Seam

The L_7^B seam has been mined from the 1930's to the present. The seam is very consistent and ranges from 0.90 to 1.20 m thick, averaging 1.0 m. In the current mining area, the immediate roof and floor are composed of argillaceous shale, however the majority of the resource area has a competent siltstone roof and floor. The L_7^B seam dips from 20 to 30°, with the lower dip in the western portion of the mine area.

L_5 Seam

The L_5 seam has been actively mined from the 1930's to the present. The seam thickness is consistent and ranges from 0.70 to 0.90 m, and is typically 0.75 m thick in the resource area. The immediate roof is composed of argillite, with the seam floor composed of either argillite or siltstone. The L_5 seam dip ranges from 24° to 40° along the southeastern portion of the area, with the dip angle increasing with depth. In the western portion of the area the seam dip is from 12 to 20°.

L_4^B Seam

The L_4^B seam was mined from the 1940's through the 1980's. The seam is very thin and inconsistent, ranging from 0.50 to 0.80 m, with a nominal average thickness of

0.60 m. The seam has a sandstone roof and siltstone floor material, with numerous seam scours in the roof. The L_4^B seam dips approximately 15° in the western portion of the mine area, 20-25° in the southwest, and 30° increasing to 45° near the -800 m depth along the southeast flank of the anticline. This seam is not currently being mined.

L_4^H Seam

The L_4^H seam, which is the lower split in the L_4 horizon, has also been mined from the 1930's through the 1980's. However the remaining areas are thin from 0.30 to 0.60 m. The seam generally has either a siltstone or argillite roof, with sandstone and siltstone floor. There are numerous seam scours and washouts in the sandstone roof area, particularly in the southwest. The L_4^H seam dips 20 – 25°.

L_3 Seam

The L_3 seam has been actively mined from the 1930's to the present. The seam is composed of two to three benches with thin partings. The L_3 ranges from 0.70 to 1.4 m, with a average thickness of 1.2 m. The seam is generally over 1.0 m in the west, and varies in thickness in the south. The roof is composed entirely of argillaceous slate/shale, with sandstone and siltstone forming competent floor material. The L_3 seam dips approximately 25 – 30° in the south and southwest, with a 12 – 14° dip in the west. The mine currently operates a longwall face in the L_3 seam.

L_2^1 Seam

The L_2^1 seam has been actively mined from 1930 to the present. The seam thickness ranges from 0.85 to 1.2 m thick, with most of the area greater than 1.0 m thick. The immediate roof and floor are composed of argillite slate/shale. The L_2^1 seam dips 25 to 30° in the south and southeast, and 10 – 15° in the west.

L_2 Seam

The L_2 seam has been mined in adjacent mines from the 1930's to the 1980's. The seam is thin, ranging from 0.50 to 0.70 m throughout the western and southern portions of the mine area and frequently exhibits a parting which ranges from 0.10 to 0.20 m thick. Roof strata in the active mine area consists of argillaceous slate, with varying floor lithologies. As much as 45% of the resource area will have sandstone as the immediate roof and either sandstone or siltstone composing the primary floor. The L_2 seam dips approximately 25 – 30° in the south and southwest, with a 15° dip in the west.

L_1^1 Seam

The L_1^1 seam has been mined intermittently in adjacent mines from 1948 through 1985, with the most significant development taking place during the 1960's and 1970's. The seam is thin and non-continuous, with a nominal thickness of 0.60 m. The immediate roof is composed of argillite and, occasionally, siltstone. The floor material is competent and composed of either sandstone or siltstone. The seam dips 30 – 32° in the south and southeast, with a 10 – 15° dip in the west. The L_1^1 seam is not currently being mined.

K_8 Seam

The K_8 seam was mined from 1960 to 2004 and there is currently an active face in the seam. The seam ranges from 0.85 to 1.30 m thick, with a nominal average of 1.1 m. The immediate roof in the active mine area is argillaceous shale, with sandy shale composing the floor material. Approximately 60% of the resource area has an immediate roof composed of limestone, which is typical for the K_8 seam. The seam dips 20 – 30° throughout the area.

Svyato-Pokrovskaya Mine

The Svyato-Pokrovskaya Mine will be mining the remaining resources in the area within the closed mine, which operated from 1966 to 2000. General dip of the area is 9 to 15°. Two major fault systems divide the area into three blocks. The Samoylivsky extends through the entire field with amplitude of 0.5 to 12 m. The Gnylushynsky system is located in the central part of the reserve, crossing east-west and is composed of a series of stepped displacement faults with 4 to 19 m displacement. The Gnylushynsky North is located in the northwest portion of the reserve, trends sub east-west, and exhibits displacement of 13 to 25 m. The block bounded by the two Gnylushynsky fault systems is intensely disturbed, with numerous small 0.1 to 2.0 m faults. In this area, higher methane potential can be expected at the fault zones. The seams are not prone to self-ignition.

M_6^2 Seam

The M_6^2 Seam was not mined in the Krasnoarmiyaska Mine or any of the adjacent mines. The seam thickness ranges from 0.54 to 0.60 m. The M_6^2 Seam hasn't been well studied due to the thin seam characteristics.

M_5^1 Seam

The M_5^1 Seam was mined from 1957 to 1959 in this area. The seam ranges from 0.75 to 1.50 m thick. The immediate roof is sandstone, siltstone, and argillite. The sandstone is laminated and fractured. Underlying the sandstone is siltstone and argillite, which separate from the above sandstone when undermined. The immediate roof is friable and prone to roof falls. If the argillite/siltstone is greater than 2.5 m thick, it is very difficult to hold. The seam floor is composed of argillite also and swells when wet.

M_4^2 Seam

The M_4^2 Seam has been previously mined. The coal thickness ranges from 0.99 to 1.34 m. The immediate roof is limestone in approximately 75% of the area, and argillite in the remaining northern area. Solid, good roof is anticipated in the limestone areas; argillite falls if 2.0 to 2.5 m thick—leaving cap coal helped during previous mining. The argillite roof is particularly susceptible to falling around the fault zones. The floor is composed of argillite and claystone with slickensides and is susceptible to swelling when wet. Good mining conditions are expected north of

Samoylivsky fault zone. South of this zone there are areas of friable roof, which is prone to collapse when undermined.

M_4^0 Seam

The M_4^0 Seam was previously mined from approximately 1970 to 1981. The southern boundary of the resource area is defined by a sandstone channel 1.5 to 2.0 km wide. The coal thickness ranges from 0.68 to 1.19 m, with an approximate average of 1.07 m. The roof is composed of sandstone throughout the area. Generally competent, previous mining encountered laminated zones with coal spars, as well as fractured zones. The seam floor is composed of siltstone, sandstone, and argillite underlying the seam underclay. The underclay is prone to swelling when wet.

M_1^1 Seam

The M_1^1 Seam was previously mined from 1967 to 1980 to a depth of 150 m. The M_1^1 Seam is very irregular, ranging from 0.25 to 1.38 m in thickness. The immediate roof is composed of argillite, sandstone, limestone, and siltstone. Previous mining indicated that there is no cohesion to the overlying sandstone, making any underlying units prone to collapse to 2.4 m. This effect resulted in very poor roof in fault zone areas. Poor roof is anticipated in the central and northern areas where argillite is up to 0.5 m thick. In the south of the resource area, the seam and limestone are highly fractured due to small faults, resulting in excess roof and floor dilution. Siltstone forms the roof near the Pioner Mine and is 0.6 to 6.2 m thick and unstable. Siltstone roof resulted in the deformation of the arches in Bilozirska mine roadways. The seam floor is primarily siltstone, with some argillite and claystone. The floor material is competent when dry, but is prone to swelling when wet.

L_8, L_8^B, L_8^H seams

The L_8 horizon has been extensively mined in the adjacent mines. The seam generally occurs in two benches, both from 0.7 to 0.9 m thick. The seam is mined as a single seam in the south and southeast, the thickness of the shale parting ranges from 0.30 to 0.74 m. The parting thickness increases to the north and northwest to 1.0 to 6.0 m, at which point the seam splits into two distinct seams which are mined separately. The immediate roof is composed of argillite and siltstone with slickensides. Sandstone overlying these units forms the main roof. The seam floor is composed of argillite and siltstone.

3.4 Resource Source Data

In June of 2010 and March 2011, BOYD geologists and engineers met with Coal Energy technical personnel and conducted site visits and underground tours of all the mines and the waste piles and waste pile processing plant. During these meetings, each company made presentations of the geology, coal resources, and mine plans for each mining right area, and provided BOYD with detailed geologic data and current mine operating descriptions. During the mine site visits, detailed discussions with mine managers and personnel were conducted concerning coal resources.

In order to prepare an independent assessment of the coal resources, BOYD was provided with the following data:

1. Geologic reports.
2. Geologic data, including tables containing drill hole data and logs and coal quality analyses.
3. Resource tables and maps for each seam.
4. Life-of-mine plans and descriptive documents detailing mining methods.

The geologic reports for mining license areas contained the following information:

1. Regional Geology, Mine Geology, Coal Seam Geology.
2. Coal Quality.
3. Hydrology.
4. Engineering Geology.
5. Exploration Status.
6. Resource Assessment.

The reports also included various supporting maps, sections, and figures.

At BOYD's request, Coal Energy prepared life-of-mine plans for all seams in the mining license areas. These plans showed:

1. Mining barriers that define the mining districts within each area.
2. Mine plans showing main development roadways, gate roads, and LW faces.

The resource and mine design maps provided show drill hole and mine measurement locations, seam thickness and structure, faults, geologic features, coal quality data, barrier areas, and surface features. Resource polygons were shown with polygon identification number. The base maps were prepared in accordance with Russian standards by the previous mine owners and updated by Coal Energy. The maps show detailed geologic features and seam information in the mined areas and detailed drill hole information in the remaining resource areas. This thorough presentation of seam data meets or exceeds international standards, and therefore, we are confident that the maps form a reliable basis for resource estimation.

The number of reported seam data points (i.e., drill holes, and mine measurements) defining the coal resources within each mine area are shown on the following table:

Company and Mines Areas	Seam	No. of Data Points: Drill Holes	No. of Data Points: Mine Measurements	No. of Data Points: Total
East Central Donbass Coal Area				
Donprombiznes LLC				
Prepodobnogo Sergiya Radonezhskogo Mine	M_3	30	5	35
	L_6	38	4	42
	L_4	20	10	30
	L_3	21	1	22
	L_1^{1B+H}	67	-	67
Eximenergo LLC				
Svyato-Andreevskaya Mine	M_5^1	60	-	60
	M_4^4	59	-	59
	M_3	8	12	20
CwAL LE Sh/U Chapaeva				
Chapaeva Mine	K_4^1	119	-	119
	K_3	61	14	75
	K_2	90	22	112
1 May Mine	K_7	39	-	39
	K_5	30	15	45
Ternopolskaya	K_7	53	17	70
	K_5	21	8	29
Ugledobycha LLC				
Svyato-Nikolaevskaya Mine	M_3	4	8	12
	L_7	-	13	13
	L_6	1	4	5
	L_4	4	8	12
	L_3	1	9	10
Mine District Rassipnyanskiy-Krutoy	H_{11}	12	-	12
	H_7	18	-	18
	H_6^1	20	-	20
	H_6	11	-	11
	H_2	26	-	26
Other Areas				
Donbasuglerazrabotka LLC				
Svyatitelya Vasiliya Velikogo Mine	L_8^1	4	12	16
	L_7	39	9	48
Mine District Mogutchiy	N_1	-	22	22
Nedra Donbasa LLC				
Svyato-Serafimovskaya Mine	L_8	13	6	19
	L_3	15	13	28
	L_1	-	3	3
	K_8	22	3	25
	K_5	30	12	42
CwAL LE Novodzerzhynskaya				
Novodzerzhynskaya Mine	M_6^{1H}	85	-	85
	M_4^0	42	4	46
	M_3	60	4	64
	L_8	38	4	42
	L_7^B	62	6	68
	L_5	57	5	62
	L_4^B	26	2	28
	L_4^H	34	6	40
	L_3	48	5	53
	L_2^1	44	9	53
	L_2	70	4	74
	L_1^1	23	-	23
	K_8	35	3	38
Tekhinnovatsiya LLC				-
Svyato-Pokrovskaya Mine	M_6^2	96	-	96
	M_5^1	54	11	65
	M_4^2	22	17	39
	M_4^0	32	2	34
	M_1^1	30	9	39
	L_8^b	15	-	15
	L_8^h	11	-	11
	L_8	25	-	25

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Due to the extensive prior mining in the basin and the thorough exploration drilling, coal occurrence is well documented throughout the basin and within Coal Energy's license areas.

The available estimates of in-place coal resource tonnage were prepared for each seam by the previous mine owners and updated by Coal Energy by subtracting mine production. Procedures used to prepare the estimates were according to standards established by the Soviet Union for this coal classification and grade. Under applicable underground mineable coal standards, all underground mineable seams greater than 0.6 m in thickness are included as Balance Resource estimates, with thinner coal classified as Non-Balance (or subeconomic). In accordance with resource estimation protocol, geologists used a polygon method to define individual area subdivisions, which were then used to calculate in-place resources. A detailed accounting of all in-place coal tonnage is maintained to track exploitation of a strategic national asset.

Polygon tables were also provided by Coal Energy corresponding to the resource maps. These tables included polygon identification, polygon area, average thickness, and in-place tonnes, for each of the polygons and in total.

BOYD has reviewed the in-place resource estimates and found that the estimates were reasonable, prepared in accordance with government standards, and supported by available source exploration data. However, it is important to understand that these estimates represent an inventory of coal occurrence, as required by the government, and may include significant tonnage that is judged by BOYD to be not economically mineable. This non-economically mineable tonnage includes: thin and/or erratic seams that will not be recovered and coal to be left in barriers along main mine roadway areas.

By assignment, resource and reserve estimates prepared in this report are compliant with JORC Code. In the JORC Code, resources should only include portions of the deposit that have reasonable prospects for eventual economic extraction.

Since the in-place estimates prepared by the exploration teams contain significant uneconomic inventory coal, they are not JORC compliant and could not be used for purposes of this report. Therefore, BOYD prepared new estimates for the specified resource areas using the seam maps and life-of-mine plans prepared by Coal Energy as a base.

Coal Energy also provided resource estimates for the three waste piles controlled by Antracit. The piles were surveyed by the exploration team and the piles were drilled on approximate 50-m centers as follows:

Waste Pile	No. of Drill Holes	Bulk Samples
Pod'yemnaya No. 32 Mine- Pile #1	15	68
Severnaya No. 1 Mine - Pile #2	11	59
Severnaya No. 2 Mine - Pile #3	10	47

The drilling utilized a casing advancer which provides a continuous core sampling method. Samples were grouped into 5 meter intervals; which corresponds to the interval at which the piles will be recovered.

The density of the material was measured by digging a trench with a backhoe, weighing the material exhumed, lining the trench with plastic film to seal the walls and sides, and filling the void with water. By measuring the known quantity of water in an irregular void and weighing the material from the trench, the density was then calculated for the piles. A total of six density tests were performed on the three piles.

Thermal logging of the core holes was performed at all three sites to determine if any combustion is present in the piles. This was performed by lowering a mercury thermometer into each hole in 5 meter increments for 10 to 15 minutes at each zone. The thermometer was retrieved after the measurement was taken at each interval, the reading recorded, and lowered to the next interval for the allotted time period. The ambient temperature at the surface of the boreholes was also noted as the zero mark. Waste piles are classified as “fiery” if at least one source of combustion at a depth of greater than 2.5 meters exhibits temperatures above 80°C. A small zone of 40°C at a depth of .5 to 1.0 m was noted in the No. 1 pile at core hole No. 9. No zones were recorded in the No. 2 pile above 30°C. A maximum temperature of 32°C was noted at the 30 m depth of core hole Nos. 3 and 7. As a result of the collected data, the waste piles included in this project are not considered “fiery”, with no additional precautions required as the piles are recovered.

The bulk samples obtained from the core drilling of the piles, as stated previously, were segregated into 5 m intervals to match the actual mining method of the waste piles. The samples were quartered into 3 to 4 kg samples and analyzed for ash content. Data obtained from fraction analysis on various waste piles in the region were utilized to determine the relationship between coal fractions and total ash content. The waste piles were separated into two vertical segments to reflect the stratification of finer material found in the upper half of the piles, with the larger material with higher ash content found towards the bottom. Based on the fraction analysis and the sampled material ash results, a theoretical ash/yield curve was developed from which reserve tonnage was calculated.

BOYD has reviewed the exploration data for each pile and is in agreement with the pile volumes and densities. However the theoretical recovery used for the plies does not match (is higher) the actual processing plant recovery during the processing of a similar waste pile that was recently completed. Therefore we have prepared a new estimate of recoverable coal based on actual plant performance.

3.5 Resource Classification

In reporting resources for the valuation of mining properties, most international classification systems recognize two major factors that must be considered, namely:

- Geologic assurance of existence.
- Economic viability.

All systems require that the degree of geological assurance of existence be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements). Economic viability of resources is usually reported in economic and subeconomic categories. The terms Resource and Reserve are commonly used in the reporting of coal tonnage, but the usage or definition applied to these terms can vary between parties.

The relevant JORC Code definitions are found in the Glossary and Definitions section.

Based on the moderate geological setting, extensive prior mining, and generally uniform seam occurrence, we have used a 500-m spacing between seam data points of observation for Measured resources, a 1,000-m spacing for Indicated, and up to 2,000 m for Inferred. Due to extensive mining and generally uniform exploration drilling, approximately 80% of the resources are in the Measured classification, 18% are in the Indicated class, and only 2% are classified as Inferred. Therefore it is our opinion that there is minimal risk associated with seam occurrence.

Projections of resources in any classification beyond any point of observation do not exceed one-half of the defined spacing. We have assigned these spacing criteria based on our independent assessment of the site-specific geologic conditions at each mine. We believe the points of observation spacings used in this report are appropriate and provide the required level of geological assurance (geologic assurance).

The Resource estimates for the waste piles are classified as Indicated. While the pile volumes and densities are well defined, washability analyses were not conducted on the bulk samples to determine theoretical plant yields. We have used an ash vs. yield curve to estimate washing plant yield. Therefore we have used actual plant performance in 2010 of a similar waste pile to estimate product recovery. Since this method is less accurate than using both washablity data and historic plant performance, we have reduced the classification to Indicated status.

3.6 Estimation Methods

BOYD developed criteria to assess the economic viability of each seam resource area based on:

1. Coal Energy historic performance.
2. Coal Energy life-of-mine plans.
3. BOYD economic analysis of Coal Energy data.
4. Seam thickness.
5. Geological considerations.

BOYD has reviewed mine plans, costs, and other data and has developed an independent economic analyses and adjusted Coal Energy's life-of-mine plans (where warranted) to evaluate the coal resources. Minimum seam thickness criteria were developed for resources and reserves. Using these criteria, some of the thin seams (inventory coal) estimated in the geologic reports were excluded from our resource estimates.

In-Place Resources and Recoverable and Marketable Reserves were estimated beginning with the life-of-mine plan areas developed by Coal Energy and then adjusting the plans where needed to eliminate areas where seam thickness did not comply with criteria developed by BOYD.

BOYD used a minimum seam (coal plus in-seam partings) thickness of 0.5 m for resources and nominal minimum thickness of 0.6 m for reserves. These criteria are based on the current normal operating practices at Coal Energy mining operations and our knowledge of thin seam mining in Europe and other parts of the world. The nominal minimum thickness used for reserve does include some isolated thinner areas in order to achieve a logical mining plan.

Coal Energy has plans to recover seams down to 0.4 m thick and has provided these studies for our review. While some of these areas may be recovered in the future, it is our opinion that there is not sufficient sustained mining experience in these conditions to demonstrate economic viability. It should be noted that the thin seam areas excluded by BOYD are not a significant percentage of Coal Energy's total resource holdings.

In cases where the mine plan is based on LW mining of in situ coal areas, in-place resources were estimated in the mine plan LW panel areas (including gate roads and panels) where seam thickness was greater than 0.5 m, by resource classification. Coal in main entries and barriers will contribute minor tonnage to the total resource and was typically not estimated.

Where the mine plan is limited to secondary pillar mining within existing mine workings (i.e., the: L_8^1 and L_7 seams at the Svyatitelya Vasiliya Velikogo Mine, the N_1 Seam in the Mogutchiy District, and the L_1 Seam at the Svyato-Serafimovskaya Mine), the seams are thicker (from 1 to over 2 m) and material tonnages will be recovered by Coal Energy in pillar extraction (estimated by BOYD) and in mining barrier areas.

In cases of room-and-pillar (secondary mining of existing pillars), the estimated in-place resource tonnage is based on the original tonnage. However, the assigned secondary mining recovery is reduced to reflect the nominal 10% to 20% of the original coal mined in the existing main entries.

Coal tonnage was estimated using a specific gravity ranging from 1.30 S.G. to 1.45 S.G. dependent on the coal ash content (see coal quality section of this chapter). Parting tonnage was estimated using a density of 2.1 S.G. Waste pile density is 2.1 based on trench testing described in the resource source data section of this chapter.

To develop estimates of Recoverable and Marketable Reserves, BOYD reviewed the life-of-mine plans provided by Coal Energy. In areas where these plans recovered seams below our minimum 0.6 m thickness, the plan was modified to exclude these areas.

Recoverable Reserves include the coal that is projected to be recovered by the mining operations. Marketable Reserves represent the final product after coal processing, which in the case of Coal Energy is limited to screening and hand picking of the ROM coal material.

BOYD used various criteria shown below to estimate Recoverable and Marketable Reserves:

1. Mining Recovery
2. Geologic Recovery
3. Coal Processing Yield

3.6.1 Mining Recovery

Based on our review of historic LW mining and the LW plans developed by Coal Energy, these plans are designed to recover approximately 85% of the plan area, with the remaining losses in gate road pillars and barriers. In room-and-pillar mine areas that recover coal left in main entries and barriers, we estimate that future mining will recover 40% of the original in-place resource within the mine plan area.

The recovery factor of 95% was used for the three waste piles. The 5% loss will most likely occur at the base of the piles as drilling has indicted the presence of irregular sized object such as boulders which will make recovery of the bottom of the piles difficult.

3.6.2 Geologic Recovery

Mine plans were developed to efficiently recover coal. However, geologic factors such as faulting, erratic seam occurrence, low competent rock thickness, paleochannel occurrence, etc., result in less than 100% recovery within the mine plan area. The geologic conditions of each area were assessed and a geologic recovery factor was assigned to the mine plan ranging from

75% to 100%. The following table shows the geologic recoveries used in our estimates.

Company and Operating Mines	Coal Seam	Geologic Recovery	Major Risk Factors
East Central Donbass Coal Area			
Donprombiznes LLC			
Prepodobnogo Sergiya Radonezhskogo Mine	M_3	85	High Methane
	L_6	85	Weak Roof Strata
	L_4	75	Weak Roof Strata
	L_3	85	Floor Heaving
	L_1^{1B+H}	80	Thin Seam
	L_1^{B}	80	Thin Seam
Eximenergo LLC			
Svyato-Andreevskaya Mine	M_5^{1}	85	High Methane
	M_4^{4}	90	Normal
	M_3	85	High Methane
CwAL LE Sh/U Chapaeva			
Chapaeva Mine	K_4^{1}	85	Thin Seam
	K_3	90	Normal
	K_2	85	Seam Scours, Small Faults
1 May Mine	K_7	80	Small Faults, High Methane
	K_5	85	High Methane
Ternopolskaya Mine	K_7	80	Seam Scours
	K_5	90	Normal
Ugledobycha LLC			
Svyato-Nikolaevskaya Mine	M_3	85	High Methane
	L_7	85	Floor Heaving
	L_6	85	Very Weak Roof Strata
	L_4	90	Normal
	L_3	90	Normal
Mine District Rassipnyanskiy-Krutoy	H_{11}	85	Steep Dip
	H_7	85	Steep Dip
	H_6^{1}	85	Steep Dip, Weak Roof Strata
	H_6	85	Steep Dip
	H_2	85	Steep Dip, Seam Scours
Other Areas			
Donbasuglerazrabotka LLC			
Svyatitelya Vasiliya Velikogo Mine	L_8^{1}	100	Normal
	L_7	100	Normal
Mine District Mogutchiy	N_1	100	Normal
Nedra Donbasa LLC			
Svyato-Serafimovskaya Mine	L_8	90	Normal
	L_3	85	Weak Roof Strata
	L_1	90	Normal
	K_8	90	Normal
	K_5	75	Large Offset Faults
CwAL LE Novodzerzhynskaya			
Novodzerzhynskaya Mine	M_6^{1H}	80	Faults, Weak Roof Strata
	M_3	80	Faults, Weak Roof Strata
	L_7^{B}	85	Faults
	L_5	75	Faults, Very Weak Roof Strata
	L_4^{B}	85	Faults
	L_4^{H}	80	Faults, Weak Roof Strata
	L_3	75	Faults, Very Weak Roof Strata
	L_2^{1}	75	Faults, Very Weak Roof Strata
	L_2	85	Faults
	K_8	85	Faults
Tekhinnovatsiya LLC			
Svyato-Pokrovskaya Mine	M_6^{2}	90	Normal
	M_5^{1}	75	Faults, Very Weak Roof Strata
	M_4^{2}	85	Faults, Weak Roof Strata
	M_4^{0}	85	Faults, Weak Floor Strata
	M_1^{1}	80	Faults, Weak Roof and Floor Strata
	L_8^{b}	80	Faults, Weak Roof and Floor Strata
	L_8^{h}	80	Faults, Weak Roof and Floor Strata
	$L_8^{B}+L_8^{H}$	80	Faults, Weak Roof and Floor Strata

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The 100% geologic recovery was used in planned room-and-pillar mining areas along main entries and barriers since conditions are well defined by previous mining.

Recoverable coal reserves were estimated by applying the recovery factors to the appropriate in-place resource estimates. Mining dilution of 0.1 m was also added to the recoverable tonnage to account for roof and floor material that is normally recovered with the as-mined seam in the normal process of mining. A 2.3 S.G. was used to estimate the mining dilution tonnage.

3.6.3 Coal Processing Yield

Run-of-mine (ROM) tonnage is screened and hand-picked to remove rock material (in-seam partings and mining dilution). In preparing estimates of Marketable Reserve, we have assumed that 50% of this rock material is removed during the screening process.

The processing yield for the waste piles is based on comparison of the historic plant performance in processing a similar pile adjusted for the difference in ash content of the piles. Antracit has process a large waste pile that had an in place dry ash content of 72%. The actual processing yield to produce as 26% dry ash thermal product was 17%.

The three new piles have a slightly higher ash content, and therefore we have reduced the processing yields for these piles as follows:

Waste Pile	% Ash (dry)	Plocessing Yield %
Pod'yemnaya No. 32 Mine- Pile #1	74	16
Severnaya No. 1 Mine - Pile #2	75	16
Severnaya No. 2 Mine - Pile #3	77	15

3.7 Resource/Reserve Estimates

Our estimates of the Measured, Indicated, and Inferred Resources and Proved and Probable Recoverable and Marketable Reserves as of 1 March 2011 are summarized as follows:

	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Marketable Reserves (Mt)			% of
Mine	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Proved	Probable	Total	Reserves
Antracit LLC											
Total	-	7.57	-	7.57	-	7.19	7.19	-	1.14	1.14	1
Donbasuglerazrabotka LLC											
Svyatitelya Vasiliya Velikogo	0.59	-	-	0.59	0.25	-	0.25	0.23	-	0.23	-
Mine District Mogutchiy	2.36	-	-	2.36	1.03	-	1.03	0.94	-	0.94	1
Total	2.95	-	-	2.95	1.28	-	1.28	1.17	-	1.17	1
Donprombiznes LLC											
Prepodobnogo Sergiya Radonezhskogo	14.62	1.76	-	16.38	10.82	1.52	12.34	9.56	1.38	10.94	9
Svyato-Andreevskaya	22.71	-	-	22.71	17.24	-	17.24	15.62	-	15.62	12
Svyato-Nikolaevskaya	0.86	1.74	0.29	2.89	0.71	1.41	2.12	0.57	1.22	1.79	1
Chapaeva	4.06	0.61	-	4.67	3.58	-	3.58	3.22	-	3.22	3
Total	42.25	4.11	0.29	46.65	32.35	2.93	35.28	28.97	2.60	31.57	25
Eximenergo LLC											
Svyato Andreyevskaya	0.63	1.04	-	1.67	0.50	0.82	1.32	0.46	0.76	1.22	1
Svyato-Nikolaevskaya	5.09	-	-	5.09	3.88	-	3.88	3.48	-	3.48	3
Total	5.72	1.04	-	6.76	4.38	0.82	5.20	3.94	0.76	4.70	4
Nedra Donbasa LLC											
Svyato-Serafimovskaya	3.08	1.59	0.08	4.75	1.25	1.10	2.35	1.14	1.00	2.14	2
CwAL LE Novodzerzhynskaya											
Novodzerzhynskaya	34.78	-	-	34.78	20.25	-	20.25	17.46	-	17.46	14
CwAL LE Sh/U Chapaeva											
Chapaeva	32.20	6.67	-	38.87	22.81	3.63	26.44	20.13	3.16	23.29	18
1 May	10.56	2.86	-	13.42	7.73	2.07	9.80	6.46	1.61	8.07	6
Ternopolskaya	10.74	0.17	-	10.91	7.38	0.13	7.51	6.46	0.11	6.57	5
Total	53.50	9.70	-	63.20	37.92	5.83	43.75	33.05	4.88	37.93	29
Tekhinnovatsiya LLC											
Svyato- Pokrovskaya	34.78	19.50	3.07	57.35	18.90	7.91	26.81	16.69	6.85	23.54	18
Ugledobycha LLC											
Svyato-Nikolaevskaya	0.86	-	-	0.86	0.71	-	0.71	0.65	-	0.65	1
Mine District Rassipnyanskiy-Krutoy	10.63	-	-	10.63	8.37	-	8.37	7.30	-	7.30	6
	11.49	-	-	11.49	9.08	-	9.08	7.95	-	7.95	7
Total											
	188.55	43.51	3.44	235.50	125.41	25.78	151.19	110.37	17.23	127.60	100

Coal reserves are well defined, with 87% in the Proved classification. Approximately 64% of the coal reserves are located in the East Central Donbas Coal Area (Donprombiznes LLC, Eximenergo LLC, ODO Shakhtoupravlenie im. V.I. Chapaeva, and Ugledobycha LLC), which contains the low-volatile bituminous and anthracite rank coal. All estimates of coal resources are inclusive of coal reserves.

Tables 3.1 through 3.9 show detailed estimates by seam for each of the eight companies that control the mining licenses.

3.7.1 Potential Additions

As shown in the reserve table above, Donbasuglerazrabotka LLC and Nedra Donbasa LLC and contain 1% and 2% of the total Marketable Reserves controlled by Coal Energy, respectively. However, Coal Energy is currently applying for mining rights for contiguous areas that are underlain by significant resources that will be accessed from the existing Svyatitelya Vasiliya Velikogo and Svyato-Serafimovskaya mines. While we have not estimated tonnages in these pending areas, we have reviewed maps of some of them and can confirm that if Coal Energy is successful in obtaining the additional mining licenses, significant reserves would be added.

3.8 Coal Quality

Coal quality characteristic differ in various parts of the Donetsk basin. The following table shows the in-place coal quality in the East Central Donbas Coal Area.

Company		In-Place Coal Quality						
and Operating Mines	Coal Seam	Coal Grade	Coal S.G.	Moisture (%)	Ash % (d)	Sulfur % (d)	V.M. % (daf)	Calorific Value (kcal/kg) (daf)
Donprombiznes LLC								
Prepodobnogo Sergiya Radonezhskogo Mine	M_3	T	1.35	0.7	9	2.3	8.3	8,500
	L_6	T	1.35	0.7	12	2.4	6.8	8,400
	L_4	T	1.40	0.7	14	3.3	7.2	8,400
	L_3	T	1.35	0.8	10	2.0	7.7	8,600
	L_1[illegible]	A	1.35	3.2	12	3.9	7.6	8,650
	L_1^B	A	1.35	2.8	13	4.7	6.9	8,500
Eximenergo LLC								
Svyato-Andreevskaya Mine	M_5^1	T	1.40	1.4	16	2.0-7.5	9.3-18.4	8,500
	M_4^4	T	1.40	1.1	15	4.8	11.9	8,600
	M_3	T	1.35	5.1	12	1.7	9.1	8,500
CwAL LE Sh/U Chapaeva								
Chapaeva Mine	K_4^1	A	1.35	1.1	12	2.4	6.1	8,450
	K_3	T	1.35	1.2	12	1.7	5.1	8,450
	K_2	T	1.35	1.2	13	1.8	5.8	8,450
1 May Mine	K_7	T	1.40	1.0	15	4.2	5.3	8,760
	K_5	T	1.35	1.2	13	1.9	7.1	8,450
Ternopolskaya Mine	K_7	T	1.40	1.2	17	2.8	6.7	8,500
	K_5	T	1.35	1.0	12	1.8	5.6	8,600
Ugledobycha LLC								
Svyato-Nikolaevskaya Mine	M_3	T	1.35	3.3	11	2,1	8.1	8,500
	L_7	T	1.35	0.8	12	1.6	8.5	8,400
	L_6	T	1.40	0.8	15	2.5	8.0	8,400
	L_4	T	1.40	1.7	15	2.7-4.9	6.7-8.2	8,350
	L_3	T	1.40	1.1	15	2.0	8.6	8,400
Mine District Rassipnyanskiy-Krutoy	H_{11}	A	1.45	1.5	20	0.7-3.7	2.1-5.3	7,980
	H_7	A	1.45	1.7	22	0.5-2.8	1.1-5.6	7,940
	H_6^1	A	1.45	1.6	22	0.9-3.7	2.3-6.2	8,150
	H_6	A	1.40	1.6	15	0.8-3.6	2.6-4.6	8,050
	H_2	A	1.35	1.8	10	0.5-3.7	0.9-7.1	7,900

The coal grades shown in the preceding table are according to the Russian grading system. The United States equivalent grades are as follows:

Ukrainian/Russian Coal Grades			Western Classification
Grade	Type of Coal	Purpose	
A	Anthracite	Thermal	Anthracite
T	Lean Coal	Thermal	Low Volatile Thermal Coal
D	Long-Flame Coal	Thermal	High Volatile Thermal Coal
DG	Long-Flame Gas Coal	Thermal	High Volatile Thermal Coal
G	Gas Coal	Dual Purpose	High Volatile Coking Coal
Zh	Fat Coal	Coking	Medium Volatile Coking Coal
K	Coking	Coking	Low Volatile Coking Coal

The coals in the East Central Donbas Coal Area are of low-volatile bituminous, semi-anthracite, and anthracite rank. Higher sulfur coal qualities are typically associated with areas having marine limestone roof.

The coal quality in the remaining areas varies significantly from the East Central Donbas Area as follows:

Company		In-Place Coal Quality						
and Operating Mines	Coal Seam	Coal Grade	Coal S.G.	Moisture (ad%)	Ash % (d)	Sulfur % (d)	V.M. % (daf)	Calorific Value (kcal/kg) (daf)
Donbasuglerazrabotka LLC								
Svyatitelya Vasiliya Velikogo Mine	L_8^1	D	1.35	4.8	11	2.3	40.7	7,650
	L_7	D	1.30	5.2	6	1.5	40.9	7,750
Mine District Mogutchiy	N_1	DG	1.35	4.0	11	1.9	39.2	6,500
Nedra Donbasa LLC								
Svyato-Serafimovskaya Mine	L_8	Zh	1.40	1.3	15	1.1	30.2	8,400
	L_3	K, Zh	1.35	0.9	10	1.0	28.6	8,400
	L_1	Zh	1.35	3.5	13	3.0	30.7	8,250
	K_8	Zh	1.30	2.5	7	3.2	29.8	8,750
CwAL LE Novodzerzhyskaya								
Novodzerzhynskaya Mine	M_6^{1H}	G	1.40	1.0	18	5.0	39.9	8,300
	M_4^0	G, Zh	1.40	1.0	16	5.8	36.9	8,300
	M_3	Zh	1.35	1.0	7	1.5	32.2	8,400
	L_8	Zh	1.35	1.0	12	2.2	35.5	8,350
	L_7^B	Zh	1.35	1.0	8	2.2	33.3	8,450
	L_5	Zh	1.35	1.0	11	4.5	35.2	8,450
	L_4^B	Zh	1.45	1.0	20	3.9	35.2	8,300
	L_4^H	Zh	1.40	1.0	18	1.9	32.4	8,300
	L_3	Zh	1.35	1.0	12	2.9	32.7	8,350
	L_2^1	Zh	1.35	1.0	9	4.3	32.4	8,450
	L_2	Zh	1.45	1.0	20	3.9	32.6	8,250
	L_1^1	Zh	1.35	1.0	14	3.6	33.7	8,350
	K_8	Zh	1.35	1.0	12	3.9	32.3	8,350
Tekhinnovatsiya LLC								
Svyato-Pokrovskaya Mine	M_6^2	DG,G	1.35	1.9	15	4.3	38-45	7,400
	M_5^1	DG (K)	1.35	2.1	15	3.8	32-43	6,150
	M_4^2	G	1.35	1.3	13	4.2	36-43	7,350
	M_4^0	DG,G	1.30	2.0	7	2.4	34-42	7,900
	M_1^1	DG,G	1.30	2.1	7	3.4	33-46	6,700
	L_8^{u}	G	1.30	3.0	7	3.3	36-38	7,250
	$L_8^{''}$	DG	1.30	2.8	6	1.4	33-42	8,000

All coal in these areas is of mid- to high-volatile bituminous rank. The coal at Novodzerzhynskaya is a high-volatile coking coal and the Svyato-Serafimovskaya Mine produces a mid-volatile coking coal. Some of the coals at Svyato-Pokrovskaya Mine are used in coking coal blends.

Product quality from the active mines is as follows:

Company and Operating Mines	Coal Seam	Coal Grade	Product Quality Moisture (%)	Ash % (d)	Sulfur % (d)	Volatile Matter % (daf)	Calorific Value (kcal/kg) (daf)
Donbasuglerazrabotka LLC							
Svyatitelya Vasiliya Velikogo Mine	L_8^1	D	14-17	13-20	1.3-1.8	36-40	7,620
Donprombiznes LLC							
Prepodobnogo Sergiya Radonezhskogo Mine	M_3	T	3-4.5	16-22	2.8-3.5	9-11	8,520
	L_4	T	3-4.5	14-21	2.8-3.7	9-11	8,460
Eximenergo LLC							
Svyato-Andreevskaya Mine	M_3	T	4.5-6	12-18	1.3-1.9	9-11	8,480
Nedra Donbasa LLC							
Svyato-Serafimovskaya Mine	L_1	Zh	5.4-7.6	16-28	2.8-3.5	31-34	8,540
CwAL LE Novodzerzhynskaya							
Novodzerzhynskaya Mine	M_3	Zh	2.5	22	1.5	32	8,400
	L_7^B	Zh	2	14	1.5 - 2.0	32	8,450
	L_5	Zh	2	11	3.5	35	8,450
	L_2^1	Zh	1.5	19	4.0	33	8,400
CwAL LE Sh/U Chapaeva							
Chapaeva Mine	K_2	T	3.5-4.5	18-22	1.4-1.8	8-10	8,480
1 May Mine	K_5	T	3.5-4.5	18-23	1.4-1.8	8-10	8,410
Ternopolskaya	K_7	T	3.5-5	18-23	1.9-2.8	8-10	8,536
	K_5	T	3.5-5	12-16	1.3-1.8	8-10	8,560
Tekhinnovatsiya LLC							
Svyato- Pokrovskaya Mine	M_4^0	G	7.5-9	7.2-9.4	2.6-3.2	38-40	8,120
Ugledobycha LLC							
Svyato-Nikolaevskaya Mine	M_3	T	3.5-4	16-20	1.8-2.1	10-12	8,500
	L_3	T	3.5-4	14-18	2.2-3.4	10-12	8,430

3.9 Mining Licenses

3.9.1 Overview

Coal resources in Ukraine are owned by the state as established in the Ukraine mineral resources law. The law that governs certain aspects of mineral and coal resources control for exploitation (including the granting of new and the renewal of existing mining right permits) is administered by the Ministry for Protection of Natural Resources of the Ukraine (MPNR). Mining licenses are granted for specified periods of time, after which the rights may be extended upon application.

3.9.2 Mining Rights Review

BOYD has not completed an independent legal evaluation of the status of each company's mining rights but has reviewed the documentation for the certificates related to its current mining and future operations. It is our understanding that each company holds the mining rights (direct control as authorized by the MPNR) on their own behalf or through controlling interests for all the mines.

A summary of the mining right information is shown in the following table:

Company and Mine Area	Mining License No.	Area (km^2)	Authorized Seams	Authorized Elevation (m)	License Dates (mo/yr) Grant	Expiration
Donbasuglerazrabotka LLC						
Svyatitelya Vasiliya Velikogo Mine	4092	2.58	L_8^1, L_7	-375	10/2006	10/2026
Mine District Mogutchiy	4314	2.88	N_1		07/2007	07/2019
Donprombiznes LLC						
Prepodobnogo Sergiya Radonezhskogo Mine	3373	34.70	M_3, L_7, L_6, L_4, L_3, L_1^{1B+H}, L_1^{1H}		07/2004	07/2014
Svyato-Andreevskaya Mine	3373	34.70	M_5^1, M_4^4		07/2004	07/2014
Svyato-Nikolaevskaya Mine	3361	3.16	L_4	30 to -370	07/2004	07/2014
Chapaeva Mine	3018	4.80	K_3	-330	07/2003	07/2013
Eximenergo LLC						
Svyato-Andreevskaya Mine	4111	15.56	M_3	-952	11/2006	11/2026
Svyato-Nikolaevskaya Mine	3226	13.50	M_3		10/2003	10/2013
Nedra Donbasa LLC						
Svyato-Serafimovskaya Mine	4110	7.60	L_8, L_7^1, L_3, L_1, K_8, K_5	-730	11/2006	11/2026
CwAL LE Novodzerzhynskaya						
Novodzerzhynskaya Mine	1337	14.30	M_6^{1H}, M_4^0, M_3, L_8, L_7^B, L_5, L_4^B, L_4^H, L_3, L_2^1, L_2, L_1^1, K_8		04/1998	04/2018
CwAL LE Sh/U Chapaeva						
Chapaeva Mine	4820	36.60	K_4^1, K_3, K_2^3, K_2		12/2008	2020
1 May Mine	4820	36.60	K_7, K_5		12/2008	2020
Ternopolskaya Mine	4782	20.94	K_7, K_5, K_2		11/2008	2021
Tekhinnovatsiya LLC						
Svyato-Pokrovskaya Mine	5098	31.55	M_6^2, M_5^1, M_4^2, M_4^0, M_1^1, L_8, L_8^B, L_8^H		12/2009	12/2029
Ugledobycha LLC						
Svyato-Nikolaevskaya Mine	3409	3.50	L_7, L_6, L_3	40 to -560	09/2004	09/2014
Svyato-Nikolaevskaya Mine	5041	0.46	L_3		11/2009	11/2029
Svyato-Nikolaevskaya Mine	3375	3.90	H_{11}, H_8, H_7, H_6^1, H_6, H_2^1	-400 to -500	07/2004	07/2014

Coal Energy also controls three mine waste piles and owns a waste pile processing plant through its Antratsit LLC subsidiary.

These areas are shown on Figures 1.2, 1.3, 1.4, 1.5 and 1.6 of this report.

3.9.3 Mining Rights Permit Renewal

On the basis of documentation provided by each company, each company has valid mining right permits for the present operating mines for the specified periods. The MPNR has the legal authority to renew an existing mining right permit that is expiring. It is typical practice in other major coal-producing nations for governments to extend the term of the mining rights for the economic life of the reserves.

Following this page are:

Tables

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TABLE 3.1

COAL RESOURCE ESTIMATE
ANTRACIT LLC
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Waste	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)			% of
Pile	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Yield %	Proved	Probable	Total	Reserves
Pod'yemnaya - Pile #1	-	4.22	-	4.22	-	4.01	4.01	16	-	0.64	0.64	56
Severnaya - Pile #2	-	2.50	-	2.50	-	2.38	2.38	16	-	0.38	0.38	33
Severnaya - Pile #3	-	0.85	-	0.85	-	0.81	0.81	15	-	0.12	0.12	11
Total	-	7.57	-	7.57	-	7.19	7.19	16	-	1.14	1.14	100

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TABLE 3.2

COAL RESOURCE ESTIMATE
DONBASUGLERAZRABOTKA LLC
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Seam	Average Seam Thick (m)	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing Yield %	Marketable Reserves (Mt)			% of Reserves
		Measured	Indicated	Inferred	Total	Proved	Probable	Total		Proved	Probable	Total	
					Svyatitelya Vasiliya Velikogo Mine								
L_8^1	1.18	0.20	-	-	0.20	0.09	-	0.09	89	0.08	-	0.08	7
L_7	2.62	0.39	-	-	0.39	0.16	-	0.16	94	0.15	-	0.15	13
Total		0.59	-	-	0.59	0.25	-	0.25	92	0.23	-	0.23	20
					Mine District Mogutchiy								
N_1	2.23	2.36	-	-	2.36	1.03	-	1.03	91	0.94	-	0.94	80
					Total								
Total		2.95	-	-	2.95	1.28	-	1.28	91	1.17	-	1.17	100

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TABLE 3.3

COAL RESOURCE ESTIMATE
DONPROMBIZNES LLC
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Seam	Average Seam Thick (m)	In-Place Resource (Mt) Measured	Indicated	Inferred	Total	Recoverable Reserves (Mt) Proved	Probable	Total	Processing Yield %	Marketable Reserves (Mt) Proved	Probable	Total	% of Reserves
Prepodobnogo Sergiya Radonezhskogo Mine													
M_3	0.77	3.21	1.51	-	4.72	2.88	1.33	4.21	91	2.64	1.21	3.85	12
L_6	0.66	3.20	0.09	-	3.29	2.30	0.08	2.38	91	2.09	0.07	2.16	7
L_4	0.86	1.33	-	-	1.33	1.03	-	1.03	85	0.88	-	0.88	3
L_3	0.80	2.30	0.16	-	2.46	1.51	0.11	1.62	91	1.37	0.10	1.47	5
L_1^{1B+H}	0.88	4.58	-	-	4.58	3.10	-	3.10	83	2.58	-	2.58	8
Total		14.62	1.76	-	16.38	10.82	1.52	12.34	89	9.56	1.38	10.94	35
Svyato-Andreevskaya Mine													
M_5^1	0.62	9.35	-	-	9.35	5.80	-	5.80	90	5.20	-	5.20	16
M_4^4	0.85	13.36	-	-	13.36	11.44	-	11.44	91	10.42	-	10.42	33
Total		22.71	-	-	22.71	17.24	-	17.24	91	15.62	-	15.62	49
Svyato-Nikolaevskaya Mine													
L_4	1.03	0.86	1.74	0.29	2.89	0.71	1.41	2.12	84	0.57	1.22	1.79	6
Chapaeva Mine													
K_3	0.83	4.06	0.61	-	4.67	3.58	-	3.58	90	3.22	-	3.22	10
Total													
Total		42.25	4.11	0.29	46.65	32.35	2.93	35.28	89	28.97	2.60	31.57	100

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TABLE 3.4

COAL RESOURCE ESTIMATE
EXIMEREGO LLC
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Seam	Average Seam Thick (m)	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing Yield %	Marketable Reserves (Mt)			% of Reserves
		Measured	Indicated	Inferred	Total	Proved	Probable	Total		Proved	Probable	Total	
Svyato-Andreevskaya Mine													
M_3	0.95	0.63	1.04	-	1.67	0.50	0.82	1.32	92	0.46	0.76	1.22	26
Svyato-Nicholaevskaya Mine													
M_3	0.67	5.09	-	-	5.09	3.88	-	3.88	90	3.48	-	3.48	74
Total													
Total		5.72	1.04	-	6.76	4.38	0.82	5.20		3.94	0.76	4.70	100

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TABLE 3.5

COAL RESOURCE ESTIMATE
NEDRA DONBASA LLC
SVYATO-SERAFIMOVSKAYA MINE
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

	Average	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)			% of
Seam	Seam Thick (m)	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Yield %	Proved	Probable	Total	Reserves
L_8	0.67	0.32	0.72	0.08	1.12	0.24	0.63	0.87	90	0.22	0.56	0.78	37
L_3	0.53	0.69	0.17	-	0.86	-	-	-	-	-	-	-	-
L_1	1.74	-	0.12	-	0.12	-	0.10	0.10	90	-	0.09	0.09	4
K_8	1.00	0.56	0.49	-	1.05	0.45	0.31	0.76	93	0.42	0.29	0.71	33
K_5	0.60	1.51	0.09	-	1.60	0.56	0.06	0.62	90	0.50	0.06	0.56	26
Total		3.08	1.59	0.08	4.75	1.25	1.10	2.35	91	1.14	1.00	2.14	100

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TABLE 3.6

COAL RESOURCE ESTIMATE
CwAL LE NOVODZERZHYNSKAYA
NOVODZERZHYNSKAYA MINE
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Seam	Average Seam Thick (m)	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing Yield %	Marketable Reserves (Mt)			% of Reserves
		Measured	Indicated	Inferred	Total	Proved	Probable	Total		Proved	Probable	Total	
M_6^{1H}	0.61	2.68	-	-	2.68	1.98	-	1.98	85	1.68	-	1.68	10
M_4^0	0.56	0.78	-	-	0.78	-	-	-	-	-	-	-	-
M_3	0.87	3.47	-	-	3.47	2.66	-	2.66	90	2.40	-	2.40	14
L_8	0.55	1.01	-	-	1.01	-	-	-	-	-	-	-	-
L_7^B	1.02	4.31	-	-	4.31	3.13	-	3.13	91	2.85	-	2.85	15
L_5	0.76	3.31	-	-	3.31	2.18	-	2.18	92	2.01	-	2.01	12
L_4^B	0.63	1.44	-	-	1.44	1.11	-	1.11	90	1.00	-	1.00	6
L_4^H	0.57	1.27	-	-	1.27	0.15	-	0.15	87	0.13	-	0.13	1
L_3	1.24	5.04	-	-	5.04	3.17	-	3.17	65	2.07	-	2.07	12
L_2^1	1.03	3.72	-	-	3.72	2.30	-	2.30	92	2.12	-	2.12	12
L_2	0.58	2.77	-	-	2.77	0.93	-	0.93	89	0.83	-	0.83	5
L_1^1	0.57	0.97	-	-	0.97	-	-	-	-	-	-	-	-
K_8	1.06	4.01	-	-	4.01	2.64	-	2.64	90	2.37	-	2.37	13
Total		34.78	-	-	34.78	20.25	-	20.25		17.46	-	17.46	100

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TABLE 3.7

COAL RESOURCE ESTIMATE
CwAL LE Sh/U CHEPAEVA
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Seam	Average Seam Thick (m)	In-Place Resource (Mt) Measured	Indicated	Inferred	Total	Recoverable Reserves (Mt) Proved	Probable	Total	Processing Yield %	Marketable Reserves (Mt) Proved	Probable	Total	% of Reserves
Chapaeva Mine													
K_4[1]	0.53	2.35	0.31	-	2.66	-	-	-	-	-	-	-	-
K_3	0.77	13.61	1.51	-	15.12	11.50	0.68	12.18	90	10.33	0.62	10.95	29
K_2	0.99	16.24	4.85	-	21.09	11.31	2.95	14.26	87	9.80	2.54	12.34	33
		32.20	6.67	-	38.87	22.81	3.63	26.44	88	20.13	3.16	23.29	62
1 May Mine													
K_7	0.91	5.37	2.00	-	7.37	3.74	1.39	5.13	82	3.14	1.05	4.19	11
K_5	1.13	5.19	0.86	-	6.05	3.99	0.68	4.67	83	3.32	0.56	3.88	10
Total		10.56	2.86	-	13.42	7.73	2.07	9.80	82	6.46	1.61	8.07	21
Ternopolskaya Mine													
K_7	0.90	8.22	0.17	-	8.39	5.36	0.13	5.49	86	4.60	0.11	4.71	12
K_5	1.08	2.52	-	-	2.52	2.02	-	2.02	92	1.86	-	1.86	5
Total		10.74	0.17	-	10.91	7.38	0.13	7.51	87	6.46	0.11	6.57	17
Total													
Total		53.50	9.70	-	63.20	37.92	5.83	43.75	87	33.05	4.88	37.93	100

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TABLE 3.8

COAL RESOURCE ESTIMATE
TEKHINNOVATSIYA LLC
SVYATO-POKROVSKAYA MINE
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Seam	Average Seam Thick (m)	In-Place Resource (Mt)					Recoverable Reserves (Mt)			Processing Yield %	Marketable Reserves (Mt)			% of Reserves
		Measured	Indicated	Inferred	Total		Proved	Probable	Total		Proved	Probable	Total	
M_6^2	0.56	5.58	6.99	1.81	14.38		-	-	-	-	-	-	-	-
M_5^1	1.23	10.00	4.73	1.11	15.84		6.15	2.94	9.09	83	5.26	2.32	7.58	32
M_4^2	1.17	3.93	1.61	-	5.54		3.13	0.89	4.02	94	2.95	0.83	3.78	16
M_4^0	1.11	3.22	0.26	-	3.48		2.30	0.17	2.47	94	2.16	0.17	2.33	10
M_1^1	0.94	3.24	1.54	-	4.78		2.17	0.93	3.10	92	1.99	0.85	2.84	12
L_8^b	0.83	2.67	0.32	0.15	3.14		1.60	0.21	1.81	86	1.39	0.17	1.56	7
L_8^h	0.87	-	4.05	-	4.05		-	2.77	2.77	91	-	2.51	2.51	11
L_8	2.13	6.14	-	-	6.14		3.55	-	3.55	83	2.94	-	2.94	12
Total		34.78	19.50	3.07	57.35	#	18.90	7.91	26.81	88	16.69	6.85	23.54	100

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TABLE 3.9

COAL RESOURCE ESTIMATE
UGLEDOBYCHA LLC
Donetsk, Ukraine
Prepared For
COAL ENERGY S.A.
By
John T. Boyd Company
Mining and Geological Consultants
June 2011

Seam	Average Seam Thick (m)	In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing Yield %	Marketable Reserves (Mt)			% of Reserves
		Measured	Indicated	Inferred	Total	Proved	Probable	Total		Proved	Probable	Total	
						Svyato-Nikolaevskaya							
L_7	1.01	0.29	-	-	0.29	0.25	-	0.25	88	0.22	-	0.22	3
L_6	1.50	0.34	-	-	0.34	0.27	-	0.27	93	0.25	-	0.25	3
L_3	1.33	0.23	-	-	0.23	0.19	-	0.19	95	0.18	-	0.18	2
Total		0.86	-	-	0.86	0.71	-	0.71		0.65	-	0.65	8
						Mine District Rassipnyanskiy-Krutoy							
H_{11}	1.25	2.56	-	-	2.56	2.00	-	2.00	88	1.75	-	1.75	22
H_7	0.75	1.99	-	-	1.99	1.69	-	1.69	89	1.51	-	1.51	19
H_6^1	0.82	1.89	-	-	1.89	1.56	-	1.56	86	1.34	-	1.34	17
H_6	1.00	2.66	-	-	2.66	2.14	-	2.14	86	1.83	-	1.83	23
H_2	0.62	1.53	-	-	1.53	0.98	-	0.98	89	0.87	-	0.87	11
Total		10.63	-	-	10.63	8.37	-	8.37	87	7.30	-	7.30	92
						Total							
		11.49	-	-	11.49	9.08	-	9.08	88	7.95	-	7.95	100

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4.0 CURRENT OPERATIONS

4.1 Introduction

The Coal Energy subsidiary companies operate ten underground coal mines and one coal waste pile recovery program in eastern Ukraine in the Donetsk region, within 1 to 80 km of Donetsk City center. These operations involve the reopening of prior state-owned mines and are generally considered to be in transition mode and have a limited operating history under present ownership. Observations of working conditions at each operation, review of operation infrastructures, in-depth discussions with the Coal Energy team, and analysis of Coal Energy's projections provided significant background and insight into Coal Energy's experience and capabilities.

In general, the Coal Energy mines are small- to medium-sized underground mining operations that have transitioned from state-owned-and-operated operations to privately operated enterprises. Coal Energy is planning to incorporate higher levels of mechanization into the mines, but at present is using available facilities and labor-intensive mining practices to extract coal until modernization programs can be implemented. The mines currently controlled by Coal Energy and visited by the BOYD team are summarized as followed:

Summary of RMA Mines by Operating Company

Operating Company	Mine Name	Date of BOYD Site Visit
CwAL LE Sh/U Chapaeva	Chapaeva Mine	21-Jun-10
CwAL LE Sh/U Chapaeva	1 May Mine	22-Jun-10
CwAL LE Sh/U Chapaeva	Ternopolskaya Mine	22-Jun-10
Ugledobycha	Svyato-Nikolaevskaya Mine	23-Jun-10
Donprombiznes	Prepodobnogo Sergiya Radonezhskogo Mine *	23-Jun-10
Donbasuglerazrabotka	Svyatitelya Vasiliya Velikogo Mine	24-Jun-10
Tekhinnovatsiya	Svyato-Pokrovskaya Mine	24-Jun-10
Nedra Donbasa	Svyato-Serafimovskaya Mine	25-Jun-10
Eximenergo	Svyato-Andreevskaya Mine	25-Jun-10
CwAL LE Novodzerzhynskaya	Novodzerzhynskaya Mine	21-Mar-11

Operating Company	Waste Pile	Date of BOYD Site Visit
Antracit, LLC	Waste Reprocessing Plant	22-Mar-11
Antracit, LLC	Waste Pile - Active Work Site	22-Mar-11

* Formed by consolidation of three former closed mines: Davydovskaya-Severnaya No. 2, Rovenskaya-Komsomolskaya Mine, and Davydovskaya-Zapadnaya No. 4

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Brief histories of the active Coal Energy mining operations are summarized below:

Summary of Mine Historys

Mine Name	Year Built	Operations Shut Down by state	Acquired by Coal Energy	Production Resumed by Coal Energy
Chapaeva Mine	1912	no	2009	2009
1 May Mine	1932	no	2009	2009
Ternopolskaya Mine	1954	no	2009	2009
Svyato-Nikolaevskaya Mine	1957	2000	2004	2005
Prepodobnogo Sergiya Radonezhskogo Mine	1954-1956	1960-1982	2002	2002
Svyatitelya Vasiliya Velikogo Mine	1939	2005	2006	2007
Svyato-Pokrovskaya Mine	1966	1999	2007	-
Svyato-Serafimovskaya Mine	1889	1997	2006	2008
Svyato-Andreevskaya Mine	1958	2006	2007	2007
Novodzerzhynskaya Mine	1916 & 1954	no	2010	2010
Antracit, LLC - Reprocessing Operations	2004	no	2004	-

Based on field observations, the current mine operations incorporate low levels of mechanization when compared to other mining regions in Europe and around the world. Currently, coal production is performed using manual methods (pneumatic hammers) and semi-mechanized LW face equipment for coal mining. Chain conveyor, belt conveyors, and rail haulage are utilized for coal transportation. Wood posts and manually operated, hydraulic props are utilized for roof support in the advancing LW face methods used by Coal Energy. LW development is performed predominantly using drill and blast methods. Underground mining conditions are characterized by relatively thin coal seams and moderate to steep (12 to 45 degrees) seam gradients, and operating at extended mining depths. In some cases, the depth of mining was observed to be up to 600 m, with projected mining exceeding 800 m in depth.

These mines are currently recovering remnant coal reserves in upper seams to support future development in lower lying seams. This production plan is expected to provide the basis for consistent and economic extraction. Coal Energy intends to expand future coal output by making capital investments in equipment upgrades such as surge bins, underground bunkers, and mechanized face extraction equipment where appropriate.

In addition to the underground mining operations, the coal waste pile recovery program was observed. The current active operations were observed, as well as the planned successor piles that are planned to be exploited in the coming years.

Coal Energy reports control of the Postnikovskaya coal beneficiation plant located in Shakhtersk, in the Donetsk region. This facility was not visited by the BOYD. The details of this facility and its operation are included in this report based on information provided by the Coal Energy. Because of increasing planned production, greater throughput expansion is needed. Coal Energy has reportedly initiated additional modernization of the plant to increase the throughput capacity to approximately 1.08 million tons annually by the end of 2011-FY.

4.2 Conclusion

Coal Energy mines employ basic, labor-intensive mining techniques, which are consistent with regional mining practices. Physical mining conditions are challenging but typical of the region. The operations use selective mining practices to minimize dilution and ash in the ROM coal. The advancing LW method typically used by Coal Energy minimizes development time and front-end cost and enables the rapid initiation of LW production once a strategic LW face location has been identified and main roadways are developed to an appropriate extent.

The Coal Energy mines are continuing to evolve from former state-run mines to modernized mines operated as an integrated company. The management team has implemented numerous measures to transition to a private mining entity and initiate production in the early stages of the transition process. These efforts have been successful to date and the mines as a group are producing at a level higher than pre-shutdown output rates.

Under the Antracit, LLC, operating entity, Coal Energy is actively recovering and processing coal waste pile materials. The waste piles are expected to provide economic benefit, with limited operational risk. Surface infrastructure is reasonably easy to maintain, sufficient staffing is available, equipment has already been secured, and operations have been initiated by the Coal Energy team. The reprocessing program is a logical addition to the underground mining enterprise.

4.3 Underground Operating Practices

Based on BOYD's field observations, Coal Energy mines are organized under various operating production units. All mines operate on schedules appropriate to their production requirements and range between 250 and 350 days per year.

On a typical production day, four 6-hour shifts are scheduled, with worker change outs occurring at or near the working faces. While workers are scheduled to work 6 hours in their respective work areas, travel to and from the working areas is additive, and workers are typically paid on an 8-hour-per-shift basis. In most cases, three of these shifts are designated for production, with the fourth designated for mine maintenance, and upkeep.

Each of Coal Energy's mines was formed by reactivating and, in some cases consolidating, pre-existing idled mines. Once mines were reactivated, initial production was established as soon as practical in order to provide an initial cash flow during production buildup. In addition to using some of the existing infrastructures, new construction development is being initiated on an as-needed basis to allow the mines to balance the cost between revenue-generating production and development costs.

Based on BOYD's site visits, mines reuse pre-existing surface facilities wherever possible. Mine site surface facilities provide accommodations for all aspects of the mining operation, including administration and mine manager offices, materials and parts storage, shower rooms, locker rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc.

Since existing mine portals accessed the coal seam at the seam's outcrop (or at shallow depth) and coal seams are moderately dipping according to regional geology, Coal Energy mines typically use inclines developed on grade to access the seams for mining activities. The slope inclines use rail-mounted cable hoisting vehicles for supplies, access, and some product transportation. Intake and return shafts also use vertical hoisting to supplement inclined hoisting where these hoisting facilities were installed as part of the original mine.

Coal Energy mining practices are similar to those used at other mines in the Donbas region. LW face advancing rates vary according to the face lengths, seam thickness, mining conditions, equipment, and infrastructure. Based on our site visit observations, the Coal Energy installed LW faces appear to be capable of achieving face advance rates consistent with other regional producers using low levels of LW mechanization.

With the exception of the Svyato-Serafimovskaya Mine, Coal Energy LW face layouts and mine designs are minimally affected by villages within the mining right areas of Coal Energy mines, which are mostly located in rural areas. The Svyato-Serafimovskaya Mine reportedly has minimal issues with surface subsidence to date.

Based on BOYD's tour of selected underground mining areas in each operating Coal Energy mine, most entries (with some exceptions) appeared to be supported and stable. Steel arches, many of which are manufactured or refurbished by Coal Energy, are installed according to regionally accepted practices and are similar to those used in other Donbas regional mines.

It is BOYD's opinion that the loading capacities of the belt conveyor, scraper conveyor, and railcar methods are capable of handling the coal produced by LW faces in the Coal Energy mines. Several mines either use or are planning to install underground bunkers to meter underground production into an underground coal transport system. This will allow for a consistent throughput.

Coal Energy's approach to underground services, including transportation and power distribution, is typical practice in coal mines elsewhere in the Ukraine. Coal Energy's mines have access to power grids and water supply system. According to Coal Energy, power generation in this area is sufficient to support planned production. Likewise water is assumed sufficient for future production plans. Based on observations during BOYD's site visits, all active operations have demonstrated coal production abilities, i.e., used water and electricity supplied from the above mentioned water supply systems and power grids, respectively. As such, we conclude that continuation and modification of these services are reasonably expected.

Water inflows experienced by Coal Energy mines tend to be above average, but are within their capabilities of the installed pumping stations and place a priority on maintaining adequate water-handling systems. All mines have effective pumping systems with primary and secondary sump pumps that control water inflows from the coal seam and overlying/underlying strata.

Dewater activities are ongoing in several mines to allow for development of deeper seams for future production. Underground areas that were observed by BOYD that had been dewatered appear to be in good condition after many years of inundation. Redevelopment work in these areas is progressing as expected.

4.4 Underground Historical Production

Coal Energy has been focused on initiating production at its mines in order to develop the basis for expanding future output. Factors such as the 2008 financial crisis and ensuing economic slowdown, limited equipment availability, and extended refurbishment projects have constrained output at the mines. Coal Energy's production summary is as follows, where production for 2011 FY is an annualized projection based on the first nine months of actual production:

Toal Production Summary - Tonnes - (Fiscal Year Basis)

Production Center	2008-FY	2009-FY	2010-FY	(Annual pjt) 2011-FY
Eximenergo FEC, LLC	270,492	301,922	176,813	159,600
Donprombiznes LLC	217,797	229,443	81,795	91,300
Ugledobycha LLC	134,966	175,322	154,072	83,600
CwAL LE Sh/U Chapaeva	-	-	-	336,100
Tekhinnovatsiya LLC	-	-	-	69,200
Donbasuglerazrabotka LLC	15	32,068	33,425	26,500
Nedra Donbasa LLC	4,191	18,400	600	36,200
CwAL LE Novodzerzhynskaya	-	-	-	166,700
Total	627,461	757,155	446,705	969,200

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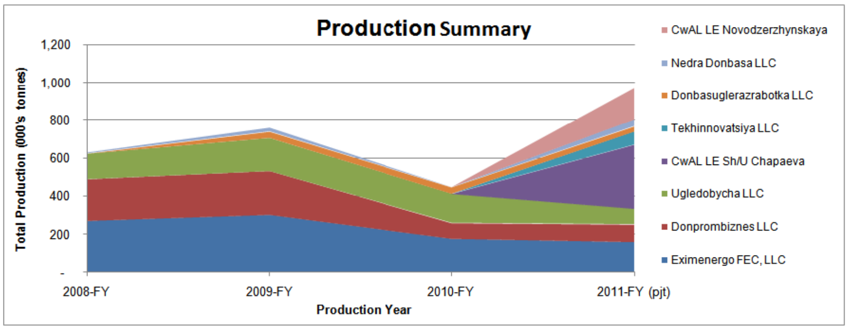
While individual mines have generally maintained their production levels, Coal Energy has achieved production growth with the acquisition of additional mine operations. Coal Energy plans to continue its rehabilitation and refurbishing activities to modernize the production equipment, upgrade and expand infrastructure capacity, and increase productivity performance and output.

The following chart illustrates Coal Energy's 2008 FY through 2011 FY.



4.5 Underground Employment and Labor Practices

The Donetsk coal basin is a mature mining area, where significant mining activity has occurred for more than a century. In the last 10 years, many mines in the basin were forced into closure. Since 2006, Coal Energy has acquired idled and/or low production operations with strategic future value with the aim of rehabilitating the operations. Coal Energy has assembled a capable, experienced management group from the regional workforce to oversee the rehabilitation, refurbishment, and operation of the mines. The region's history of mining provides an abundant base for building the necessary mine workforces for future staffing needs.

Coal Energy does not typically engage third-party service providers to provide primary production, development, or mine maintenance. Through the nine months of 2011 FY, Coal Energy generally maintained a workforce of surface (56%), underground (36%), and administrative/management (8%) workers to staff mine activities.

A summary of employees by description is as follows:

Total Mine Employment - (Fiscal Year Basis)

Location Assignment	2008-FY	2009-FY	2010-FY	(9 Months) 2011-FY
Surface	1,950	2,552	1,687	3,354
Underground	1,354	1,892	1,495	2,187
Administration	311	337	222	481
Total Staff	3,615	4,781	3,404	6,022

Total Mine Employment - (Percentage Basis)

Location Assignment	2008-FY	2009-FY	2010-FY	(9 Months) 2011-FY
Surface	53.9	53.4	49.6	55.7
Underground	37.5	39.6	43.9	36.3
Administration	8.6	7.0	6.5	8.0
Total Staff	100.0	100.0	100.0	100.0

The work activities observed during BOYD's site visits included traditional LW extraction, room-and-pillar operations, as well as drill-and-blast road development. Coal Energy's production teams are not traditionally staffed when compared to operations with more mechanization, and less labor-intensive production methods. Production teams are similar among the mines, with variations in personnel assignments based on mining situation, mining conditions, and mining method.

4.6 Underground Labor Cost and Productivity

Labor costs on an output basis at Coal Energy mines in their present situation are high in comparison to the major international coal industries. During our assessment of historical data, we recognized that the operations are typically in initial stages of expanding mine output and full output capacity had not been achieved.

Generally, our assessment of Coal Energy compensation indicates a range of average compensation ranging from approximately US$4,800 to US$6,000 on an annual basis. This range is for a majority of operational personnel, net of social costs. The compensation breakdown between wages and social costs is understood to be 67% to 33%, respectively. Coal Energy's compensation structure is adequate to assure highly qualified personnel within the region can be recruited and retained, considering that the operations are situated in an active mining region with many competitors.

Coal Energy labor efficiency (product tonnes divided by payroll personnel count), while low, is consistent with non-mechanized and partially mechanized production methods.

Coal Energy's labor productivity is summarized as follows:

Labor Efficiency - Underground Employees
(tonnes per employee per year)

Production Center	2008-FY	2009-FY	2010-FY	(9 Months) 2011-FY
Eximenergo FEC, LLC	640.0	650.0	440.0	390.0
Donprombiznes LLC	530.0	470.0	670.0	280.0
Ugledobycha LLC	350.0	240.0	190.0	310.0
CwAL LE Sh/U Chapaeva	-	-	-	360.0
Tekhinnovatsiya LLC	-	-	-	240.0
Donbasuglerazrabotka LLC	-	290.0	210.0	180.0
Nedra Donbasa LLC	40.0	160.0	30.0	200.0
CwAL LE Novodzerzhynskaya	-	-	-	450.0
Total	460.0	400.0	300.0	330.0

Labor Efficiency - All Employees
(tonnes per employee per year)

Production Center	2008-FY	2009-FY	2010-FY	(9 Months) 2011-FY
Eximenergo FEC, LLC	212.7	210.5	200.0	144.9
Donprombiznes LLC	184.7	178.1	139.1	97.5
Ugledobycha LLC	193.4	148.5	128.9	150.0
CwAL LE Sh/U Chapaeva	-	-	-	129.1
Tekhinnovatsiya LLC	-	-	-	90.1
Donbasuglerazrabotka LLC	0.1	95.2	110.0	71.4
Nedra Donbasa LLC	15.9	52.9	6.5	83.7
CwAL LE Novodzerzhynskaya	-	-	-	132.4
Total	173.6	158.4	131.2	120.7

4.7 Underground Historical Operating Cost

Since 2008, mine cash costs have reportedly decreased on a unit cost basis from US$60.37/tonne (2008-FY) to US$39.37/tonne (2010-FY) as development work has continued through the transition period.

While total costs have been volatile, production has steadily risen to provide for these unit cost reductions. Detailed historical costs on an operational unit fiscal year basis have not been provided by Coal Energy. Coal Energy output increased from approximately 630,000 in 2008-FY to an annualized rate of 970,000 in 2011-FY, and has been considered in our review of these summarized.

4.8 Coal Energy Mines

The BOYD team met with management at the Coal Energy operations and conducted underground tours of the underground workings at each mine location. Our summary of each mine is provided below.

4.8.1 CwAL LE Sh/U Chapaeva

Location:

- Three mines are included in the Chapaeva Mine group, as follows:
  - Chapaeva Mine
  - 1 May Mine
  - Ternopolskaya Mine

- The Shakhtoupravlenie im. V.I.Chapaeva Lease Enterprise is located in the Shakhtyorsk District, Donetsk Region, approximately 64 km from Donetsk. The mining operations are situated near the towns of Shakhtyorsk (12 km) and Kirovskoie (15 km).

- The operations are 86.5% owned by Coal Energy, with the remaining interest owned by the employees of the enterprise.

Mining Methods:

- Partially mechanized LW mining methods are utilized at the mine; conventionally mechanized methods utilizing three sets of shearers and scraper conveyors are employed.

- The 25 Eastern LW, in the K2 Seam, is equipped with a shearer, operating in combination with a scraper conveyor. LW support is provided by metal friction props and hydraulic props.

- The 25 Western LW, in the K2 Seam, is equipped with a shearer (1K-101), operating in combination with a scraper conveyor (SP-202). LW support is provided with metal friction props (6,7TU20) and hydraulic props (OKU03). Coal recovery in the No. 1 Western LW, also in the K2 Seam, is performed with air hammers (MO-6). Coal moves across the LW by gravity flow along metal pans (RS-I). LW face support in this section is comprised of wooden posts.

- The seven Western LW, in the K2 Seam, is equipped with a shearer (GSH68), operating in combination with scraper conveyor (SP-202). LW support is provided by wooden posts. The planned 9 Eastern LW, K2 Seam, will be equipped with a shearer (GSH68), operating in combination with a scraper conveyor (SP-202). LW face support is comprised of wooden posts.

- Roadway development uses drill and blast methods to remove rock and coal. A mucker (IPPN-5) is used in drill and blast operations to load blasted materials.

- Development roadways are supported with metal arch supports (KMP -A3-II). Support materials include ferroconcrete props, metal beams (DonUGI), and wooden posts.

Coal Transportation:

- Coal is transported from the 25 Eastern LW by scraper conveyor to the 25 Eastern roadway, in the K2 Seam, where it is loaded into wagons (VG-I.4). The coal wagons using auxiliary winches and battery electrical locomotives (AM-8D) are transported to the base of the main slope for the K2 Seam in the Eastern panel. Using a single-end hoist (BM-2500), the coal wagons are transferred to level 22.

- At level 22, wagons are transported in seam K2 to a vertical shaft bottom using electrical locomotives (AM-8D). Using a hoist (2TS-4* 1.8), coal wagons are delivered to the surface and their contents are dumped into coal storage or directly into trucks, which transport the coal to the processing plant.

- Coal from the 25 Western LW is transported by scraper conveyor to the 25 Western top gate, where it is loaded into coal wagons. Using auxiliary winches, coal wagons are transported to the incline of the main incline for the K2 Seam located in the Central panel area.

- Using a single-end hoist, coal wagons are transferred to the 22 level. On the 22 level, coal wagons are transported to vertical shaft bottom using electrical locomotives. Coal wagons are transferred to the surface by hoisting.

- Final coal shipments are facilitated with an available railway connection.

Mining Conditions:

- 25 Eastern LW: Main and immediate roof includes gray, fine-to-medium grain quartz sandstone. The seam floor consists of dark-gray, layered sandy shale. Sandstone occurs below the immediate floor horizon.

- 25 Western LW: Main and immediate roof includes gray, fine-to-medium grain quartz sandstone. The seam floor consists of sandy shale to the clay shale interfacing with the coal seam. The sandy shale is described as dark-gray, layered, with mica content. Sandstone occurs below the immediate floor.

- 1 Western LW: Main and immediate roof includes gray, fine-to-middle grain quartz sandstone. The seam floor consists of sandy shale, with dark-gray, layered mica. Sandstone occurs below the immediate floor.

- 7 Eastern LW: Main roof is gray, fine-to-medium grain quartz sandstone, with localized fractures. The immediate roof is composed of layered sandy shale, with low mica content. The seam floor consists of dark-gray sandy shale, with layered mica. Sandstone is present in the floor.

Ventilation:

- The Chapaeva Mine and 1 May Mine: The two mines are connected and serviced by a single ventilation network. Ventilation is performed with two fans installed at the vertical shaft located at the central panel of the Chapaeva Mine. Two fans are installed at the vertical shaft at the Eastern panel of Chapaeva Mine.
  - Air Volume: 6,700 to 7,000 m^3/min

- Power : 800 to 1,250 kW
- Diameter: 3.15 m
- Methane Content (at outlet): 0.13%

- Ternopolskaia Mine: The K7 Seam is vented with two fans installed at the Eastern ventilation shaft. Ventilation for K5 Seam is provided by two fans, installed at the auxiliary shaft for the K5 Seam. An exhausting ventilation system is used.
  - Airflow: 832 to 916 m^3/min.
  - Power: 450 to 630 kW
  - Diameter: 1.8 to 2.5 m.
  - Methane content (at outlet): 0.1% to 0.2%.

Processing:

- At the time of our June 2010 visit, the BOYD team observed the installation of vibratory screening equipment to facilitate separation of rock from the coal product. This upgrade is intended to provide sufficient removal of rock as the production targets are increased.

Crew and Scheduling:

- Crews are scheduled by mine depending on the resources needed to facilitate production considering the mining method being used and site-specific conditions.

- Production staffing at the Chapaeva Mine is summarized as follows:
  - 25 Western LW: 83 personnel
  - 25 Eastern LW: 147 personnel
  - 1 Western LW: 70 personnel

- Production staffing at the 1 May Mine is summarized as follows:
  - 7 Western LW: 114 personnel

- The Chapaeva Mine Group schedules four working shifts daily, six hours each shift, including three production shifts and one repair and preparation shift. Projected working days per year are 360.

4.8.2 Ugledobycha LLC

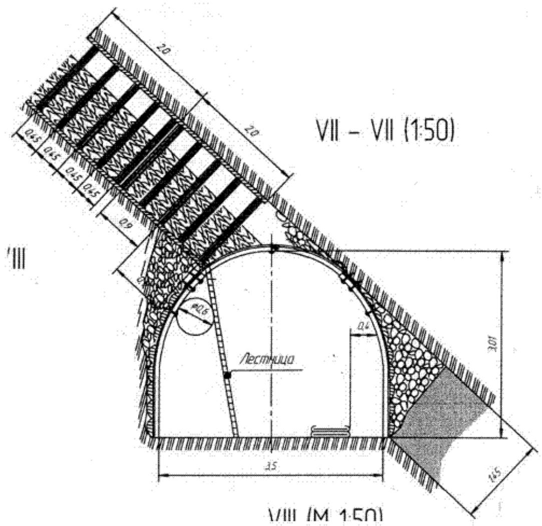
Location:

- Svyato-Nikolaevskaya Mine is part of the Udacha Mine Area, which is controlled by Ugledobycha. The mine is located in Shakhtyorsk District of Donetsk Region, approximately 2 km southeast of Kirovskoye and 70 km from Donetsk. The mine is 100% owned by Coal Energy.

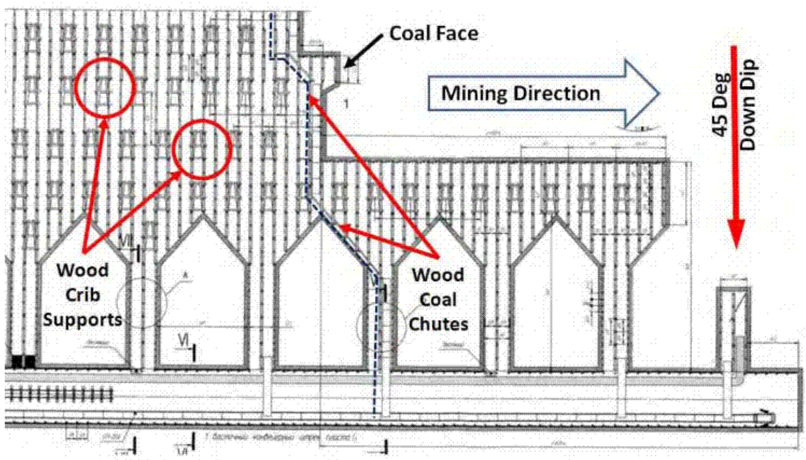
- Donetskaya and Nikolaevskaya mines of the Komsomolskoye Mine Group in the Shakhtyrosanthracite Production Association were commissioned in 1957; design production capacity was 100,000 tpya.

Mining Methods:

- The mine currently extracts steeply inclined seams up to 45 degrees, as illustrated in the cross section below.



- Production faces utilize a stepping profile to facilitate coal extraction and down dip delivery (gravity flow) of extracted coal via wooden chute systems. Extraction is performed with coal hammer, and LW faces are supported by individual wooden timber supports. Wooden cribs are installed for roof control, as shown in plan view below.



- Coal face locations at the time of the BOYD site visit included the following locations and methods:

  – 1st Eastern air heading, I3 Seam: Coal hammer heading.
  – 1st Eastern belt heading, I3 Seam: Drill and blast heading.
  – 1st Eastern air heading, M3 Seam: Hammer heading.
  – 1st Eastern belt heading, M3 Seam: Drill and blast heading.

- The LW was using an advancing LW process, with coal extraction via coal hammers operating in a 0.9 to 1.0 m height. Mechanized coal production was not observed. The advance rate of the LW was reported to be up to 40 m/month.

<u>Coal Transportation:</u>

- Coal is transported to the surface by a skip hoists from following openings:

  – Ventilation incline for the I6 Seam.
  – Main incline for the M3 Seam.

- LW faces are equipped with enamel-coated pans for coal haulage off the face to the gate roads.

- From the 1st Eastern LW face, raw coal is transported by a series of scraper conveyors to the No. 1 Eastern belt roadway and by belt conveyor and additional scraper conveyors to the coal storage bunker located near the ventilation shaft for the I6 Seam. Coal is transported to the surface using a double-skip hoisting system. Capacity of each skip is approximately 5 m^3, with a maximum efficiency of ten trips (two skips each) per hour.

- From the 1st Eastern LW face in the M3 Seam, raw coal is transported by scraper conveyors installed in the 1 Eastern belt roadway to the 1st level and on to the skip hoist at main shaft. Coal is transported to the surface using a single-skip hoist. Skip capacity is approximately 3 m^3, with a maximum of efficiency of eight skips per hour.

- The Udacha Mine Area has access to asphalt-covered roads, which connect the mine site to nearby towns: Kirovskoye and Shakhtyorsk, as well as highway connections to Kharkov, Gorlovka, Torez, and Snezhnoye.

- The mine can also access Lumshatskiy Rail Station on the Urkzalisnytsia State Company railway.

- Coal products are shipped to the consumers by railway and by over-the-road trucks.

<u>Mining Conditions:</u>

- 1st Eastern LW in the I3 Seam: The I3 Seam consists of three coal plies. The upper coal ply thickness is typically 0.28 m, with the bottom ply ranging in thickness from 0.78 to 0.80 m. The middle ply thickness averages 0.38 m. The partings consist of inter-bedded layers of clay shale ranging in thickness from

0.03 to 0.10 m. The dip of the seam ranges from 43 to 47 degrees. The immediate roof includes limestone and clay shale. The limestone ranges in thickness from 0.25 to 1.2 m, with hard pyritic lenses. The main roof strata are similar in composition to the immediate roof. The seam floor strata include sandstone and non-swelling aleurolite.

- 1st Eastern LW in the M3 Seam: The thickness of the coal seam ranges from 0.65 to 0.90 m. The immediate roof includes clay shale, 2.0 m thick, described as light gray with fine laminations. Exposure to moisture causes the immediate roof strata to deteriorate. The main roof strata include sandy dark-gray shale.

Ventilation:
- An exhausting ventilation system utilizing four fans is in service.

- Air flow is summarized as follows:

  – Seam l3: 777 m^3/min
  – Seam m3: 400 m^3/min

- Fan capacity: 610 m^3/min.

- Methane content (at mine outlet):

  – l3 Seam - CH_4 = 0.1%
  – M3 Seam - CH_4 = 0.1%

- Water sprinkler systems are installed in points where the ROM coal is either discharged or transferred. Water fog facilities are installed at the air headings for dust suppression purposes.

- The coal is reported to be not prone to self-ignition or to spontaneous combustions.

Processing:
- Surface processing facilities at the mine are designed to handle the ROM coal from the skip discharge to the railcar for shipment to the customers. The facility includes six flights of belt conveyors, a 1.65 m x 4.0 m vibratory screen, coal silo with feeder, crusher, electronic railway scales, and an auxiliary winch.

- ROM product from the l3 Seam is transported by belt conveyor from the skips to preliminary screen, where it is separated into 50 – 0 mm and +40 mm and +50 mm fractions. After screening, the separate products are transported to their respective storage facilities. Using bulldozer and reclaim feeders, coal is recovered from storage and placed onto a belt conveyor for further transporting and loading into railway wagons.

- The screen rejects are hand-picked to separate large coal lumps that are sent through chutes to the crusher silo. After crushing, the coal goes by belt conveyor to the storage facility.

- ROM product from the M3 Seam is transported by belt conveyor to silo storage for transfer to trucks. Waste rock is separately transported by trucks to the waste disposal area.

Crew and Scheduling:
- Crews are scheduled by mine according to the resources needed to facilitate production; the number of employees is predicated on mining method and site-specific conditions.

- Production staffing for the Svyato-Nikolaevskaya Mine is summarized as follows:

	No. of Personnel
1st Eastern air roadway, I3 Seam:	10
1st Eastern belt roadway, I3 Seam:	16
1st Eastern air roadway M3 Seam:	8
1st Eastern belt roadway, M3 Seam:	14

- The work schedule utilizes four shifts daily, six hours/shift, including three production shifts and one repair and preparation shift. Working days per year are projected at 355.

4.8.3 Donprombiznes LLC

Location:
- Three mines included in the Prepodobnogo Sergiya Radonezhskogo Mine group are discussed as a unified operation. Mines and active seams are summarized as follows:

  – Davydovskaya-Severnaya No. 2 Mine: M3 Seam
  – Rovenskaya-Komsomolskaya Mine: I6 Seam
  – Davydovskaya-Zapadnaya No. 4 Mine: I3 and I4 seams

- The mines are located in Shakhtyorsk District of the Donetsk Region, approximately 12 km south of Kirovskoye and approximately 60 km from Donetsk. The Davydovskaya-Severnaya No. 2 Mine and Rovenskaya-Komsomolskaya Mine were originally commissioned in 1956. The Davydovskaya-Zapadnaya No. 4 Mine was originally commissioned in 1955.

- At present, the following LW faces are in operation at the mines:

  – Davydovskaya-Severnaya No. 2 Mine: 1st Western LW in the M3 Seam is operating in areas that were re-mined on the 1st level.
  – Davydovskaya-Zapadnaya No. 4 Mine: 5th Western LW in the I4 Seam.

- Prepodobnogo Sergiya Radonezhskogo Mine is 100% owned by Coal Energy.

Mining Methods:
- The mine currently extracts moderately steep, inclined seams ranging in dip from 14 to 18 degrees, with face production predominately performed using pneumatic coal hammers.

- Development workings are advanced using drill and blast methods.

- Advancing LW methods are utilized, attaining an advance rate of approximately 1.5 m/day.

Coal Transportation:

- The auxiliary slope for the M_3 Seam uses side discharge cars for coal transportation. Coal is transported from the belt roadway to the shaft bottom using scraper conveyors, with a capacity of up to 360 tph.

- ROM coal is transported in all workings of the mine and on the main incline with 800-mm-wide belt conveyors, which have 270-tph capacity.

- On the main I4 Seam incline, coal is transported by 800-mm-wide belt conveyors.

- Depending on the customer, coal from the mine is transported by both railway and trucks.

- The railway branch of Donprombiznes Limited Liability Company adjoins the Bunkernaya Station of Donetsk Railway's Debaltsevo Division.

Mining Conditions:

- As observed by BOYD in June 2010, the active LW face was operating 0.9 m in thickness.

- The dip of the coal seams is moderately steep, ranging between 14 to 18 degrees. Historically, mining has encountered fault areas with localized gradients up to 27 degrees.

- The seams are subject to various mining stresses, which affect roof control and mining performance.

- Depth of cover in the active production areas ranges between 220 and 250 m.

Ventilation:

- Davydovskaya-Zapadnaya No. 4: The mine is classified as a 2nd grade methane liberation mine, as determined by the local authority for the Donetsk Region. The I4 Seam in this mine is not known for blowouts, self-ignition, rock and coal bursts, coal dust ignitions, and methane bleeders. Average absolute gas content of the mine is reported to be 0.29 m^3/min, with the relative gas content equal to 6.77 m^3/t. An exhausting ventilation system is utilized, with two main ventilation fans. Degasification units are not utilized and de-dusting is not applied. Ventilation parameters were reported as follows:

  - Air Volume: 1,334 m^3/min.
  - Maximum Air Volume: 3,000 m^3/min
  - Pressure: 168 mm

- Rovenskaya-Komsomolskaya Mine: The mine is classified as a 1st grade methane liberation mine, as determined by the local authority for the Donetsk Region. The I5 Seam in this mine is not known for blowouts, self-ignition, coal and rock bursts, coal dust ignition, and methane bleeders. Average absolute gas content of the mine is reported to be 0.27 m^3/min, with the relative gas content of the mine typically 4.05 m^3/tonne. A centralized exhausting ventilation system is used, which includes two working fans and a backup unit. Degasification units are not utilized and de-dusting is not applied. Ventilation parameters were reported as follows:

  – Air Volume: 1,719 m^3/min
  – Maximum Air Volume: 4,800 m^3/min
  – Pressure: 156 mm

- Davydovskaya-Severnaya Mine No. 2: The mine is classified as a 1st grade methane liberation mine, as determined by the local authority for the Donetsk Region. The I4 Seam in this mine is not known for blowouts, self-ignition, coal and rock bursts, coal dust ignition, and methane bleeders. Average absolute and relative gas content is reported to be negligible, at 0.0 m^3/min and 0.0 m^3/tonne, respectively. A centralized exhausting ventilation system is used. Degasification units are not utilized and de-dusting is not applied. Ventilation parameters were reported as follows:

  – Air Volume: 895 m^3/min
  – Maximum Air Volume: 3,800 m^3/min
  – Pressure: 105 mm

Processing:

- Surface coal transportation between industrial sites of the mine is performed by truck. ROM coal is processed using two vibratory screens.

- There is currently no coal storage facility at the mine surface. Coal is transported daily by trucks to the main industrial coal storage facilities, which have 18,000 and 12,000 tonne storage capacities. Additional surface storage is available with capacity of 14,000 tonnes.

- Transportation of coal is performed by the mine personnel; coal loading is performed using front-end loaders.

- Coal loading into railway wagons is performed as follows:

  – Rovenskaya-Komsomolskaya: dozers and scraper conveyors.
  – Davydovskaya -Zapadnaya No. 4: dozers and belt conveyors.

Crew and Scheduling:

- Roadway crews typically consist of 10 to 15 personnel, depending on mechanization level. Staffing is as follows:

  - 1st Western LW M3 Seam: 49 personnel
  - 5th Western LW I4 Seam: 62 personnel

- Work schedule includes four 6-hour working shifts daily: three production and one repair and preparation shift. Projected working days per year are 350.

4.8.4 Svyatitelya Vasiliya Velikogo Mine

Location:

- The Svyatitelya Vasiliya Velikogo Mine is located near the town of Gorniak, an urban type settlement located 45 km from Donetsk and approximately 20 km east of Selidovo. The mine was commissioned in 2008 by Coal Energy.

- The mine is 100% wholly owned by Coal Energy.

Mining Methods:

- Currently, the there are no LWs operating at the mine. Coal production is performed using post and pillar methods, where workers use pneumatic coal hammers for coal excavation.

- Production was observed in the I7 Seam, where the depth of cover ranges from 270 to 295 m. Production areas are active in the 7th Northern, 10th Northern, and the 5th Southern portions of the mine. Belt conveyor roadways are maintained to service production in these areas. Additional mining in the I8 Seam was reported but not observed.

- Metal arch supports are utilized to provide support in the active roadways.

- Average production rate for the active production faces is reported to be 54 tonne/day.

Coal Transportation:

- Coal transportation in Auxiliary No. 2 Incline is provided by a skip hoist. Underground haulage from the face to the Auxiliary No. 2 Incline is by scraper-type conveyors.

- The skip system utilizes three-skip cars, with each skip having a capacity of 4 m^3. The hoisting rate averages six skip trips per hour (or 70 tph).

- Rail and truck transportation is used for coal transportation. The nearest railway stations are the Tsukurikha and Kurakhovskaia stations.

Mining Conditions:

- Mining thickness in the I7 Seam is reported to be 2.5 m. The thickness of the I8 Seam was reported to be 1.0 m.

- Dip of the coal seams was observed to range from 12 to 13 degrees across the production face; average working depth was 270 m.

Ventilation:

- An exhausting ventilation system is used with two main fans, one operating and one backup. Flow rate is reported to be 2,152 m^3/min.
- Typically methane content of the air leaving the mine is reported to be 0%.
- Sprinkler systems are utilized on discharge and transfer points on the coal conveyor system. Breathing protection devices (anti-dust respirators) are available for use by workers.

Processing:

- Surface coal handling facilities utilize scraper conveyors to feed the vibratory screen installation.
- Coal is loaded into railcars and/or over the road trucks by mobile loaders for transport to the customer.

Crew and Scheduling:

- The mine operates four 6-hour shifts per day with three production shifts and one shift for maintenance and mine upkeep. The mine is projected to operate 350 days annually.
- The production crew is comprised of 44 workers, including a repair team consisting of eight personnel and a production team consisting of five personnel. The remaining personnel are needed for general mine activities.

4.8.5 Tekhinnovatsiya LLC

Location:

- The Svyato-Pokrovskaya Mine is located in the northwest portion of the Krasnoarmeyskiy coal-bearing area in Donbas, Dobropolie, and Aleksandrovka Districts of the Donetsk region. The mine is located approximately 6 km from Bielozerskoie and 120 km from Donetsk.
- The Krasnoarmeyskaia Hydraulic Mine was designed to extract coal using hydraulic methods. The mine was originally commissioned in 1966, with a design production capacity of 1.2 Mtpa. The mine is wholly owned by Coal Energy.
- At present, coal production is performed in the M_4^0 and M_4^2 seams.

Mining Methods:

- Current coal production is performed using post and pillar methods. LW methods are planned for future mine production.
- Preparation of the No. 1 Incline roadway in the M_4^0 Seam had commenced at the time of our site visit to support future LW production.

- Currently the post and pillar production methods utilize conveyors for coal haulage to the underground rail loading point, with coal extraction by pneumatic coal hammers.

Coal Transportation:

- ROM coal is transported in railcars through the underground workings and to the surface through a vertical shaft; the cars are mechanically tipped and returned underground for reuse.

- The cage and hoisting mechanisms are planned to be upgraded to support higher mine output. The current hoisting system, with a capacity of one car per 3.5 minutes, is temporary.

- There is no direct rail facility area available to the active mine. Coal products for rail customers are transported by truck to the Legendarnaia Railway Station.

Mining Conditions:

- The seams designated for near-term extraction are moderately steeply dipping ranging between 10 to 12 degrees. Average seam thickness ranges between 0.94 and 1.18 m as follows:
  - M_5^1: 0.94 m
  - M_4^0: 1.05 m
  - M_4^2: 1.18 m
  - M_1^1: 0.95 m
- Current mining conditions are consistent with the historical experience at the mine. The immediate roof was described as stable, with the coal seam floor described as weakly stable and susceptible to swelling following extraction and exposure to the mine atmosphere.

- There are reportedly no extraordinary geologic conditions at this time with respect to coal extraction. Depth of mining is expected to range between 80 and 800 m over the life of the mine plan. The coal seams at this mine are not known for self-ignition (spontaneously combustible).

Ventilation:

- An exhausting ventilation system is utilized, with two main ventilation fans installed. Degasification units are not currently utilized. Ventilation parameters were reported as follows:
  - Air Volume: 2,400 to 2,500 m^3/min
  - Power: 400 kW
  - Fan Diameter: 3.15 m

- Methane content in the air leaving the mine outlet is reported to be negligible (0.0% CH_4).

- Sprinkler systems are utilized on discharge and transfer points on the coal conveyor system.

Processing:
- Currently the ROM coal is not screened or processed before transport to customer. Coal is transferred from the surface silo with scraper type conveyors, into trucks for transport to the railway station.

Crew and Schedule:
- The mine operates four shifts per day; production is currently scheduled for all four shifts; at the present time, there are no scheduled maintenance shifts. Shift length is six hours, exclusive of transportation time. The mine is scheduled to operate 350 days annually.

- Production crews total 108 people assigned to various tasks to facilitate coal production. There are currently no designated underground development crews for heading development.

4.8.6 Svyato-Serafimovskaya Mine

Location:
- The Svyato-Serafimovskaya Mine is located in the Chervonogvardeyskii Mining District, in Makeyevka, approximately 1 km from Donetsk. The mine was originally commissioned in 1898 and has been under rehabilitation by Coal Energy since August 2007. Coal production was originally resumed in May 2008. Following a period of operation, the mine was idled in 2009 due to economic-related issues and resumed operation in June 2010.

- Currently there are no LW mining faces operating in the mine. Exploratory development has commenced with minimal initial production observed in June 2010.

- The operation is 100% owned by Coal Energy

Mining Methods:
- Current coal production is performed by post and pillar practices. LW methods are planned for future mine production.

- Additional mining activities are underway in the Western Exploratory Roadway in the I1 Seam. Pneumatic coal hammers are utilized in this area.

- Because the mine is in transition to a fully activated operation, production rates are minimal. Near-term projections are 100 t/month until the transition is complete.

Coal Transportation:
- Coal is transported from the active sections of the mine via belt conveyor to the underground rail loading point. Railcars haul the ROM coal to the shaft bottom for hoisting to the surface (in the underground railcars). This system will be upgraded as production is increased and the mine transitions to full production.

- There is access to a railway facility available to the mine. Coal products are transported to the Chaykino Station using trucks.

Mining Conditions:
- Average mining height is 1.16 m. The seams are moderately to steeply dipping; dip in the near term is projected to range from 9 to 22 degrees. Average working depth is 300 m.

Ventilation:
- Average absolute gas content is 3.18 m^3/min. A centralized exhausting ventilation system is used, which includes two fans. Degasification units are not utilized. Ventilation parameters were reported as follows:

  – Air Volume: 1,540 m^3/min
  – Power: 800 kW

- The methane content of the air leaving the mine outlet is reported to average 0.2%.

- Sprinkler systems are utilized on discharge and transfer points on the coal conveyor system.

Processing:
- Currently, the mine is in its initial stages of production, screening facilities were not completed as of BOYD's site visit.

Crew and Scheduling:
- The mine operates four shifts per day with three production shifts and one maintenance and mine up keep shift. Shift length is six hours exclusive of transportation time. The mine is scheduled to operate 350 days annually.

- A typical production crew consists of 24 workers, including a repair team, a production team, and staff needed for general mine activities. The crews are assigned to the various active areas of the mine to facilitate production, development, and exploratory work.

4.8.7 Eximenergo LLC

Location:
- The mine, operated by the Eximenergo Limited Liability Company, is located in the territory of Zhdanovka, Shakhtyorsk District, of the Donetsk Region, approximately 45 km southwest of Donetsk. The mine, located near the Yenakiievo, Kirovskoie, and Khartsyzk mines, was originally commissioned in 1958.

- Currently the 12 Eastern LW is in operation, with the 13 Eastern LW in preparation for production.

- The mine is 100% owned by Coal Energy.

Mining Methods:
Production is ongoing in the 12 Eastern LW, which utilizes a partially mechanized mining face, including individual hydraulic prop faces, shearer, and scraper conveyor. Web cut distance is 800 mm.

- Development operations include the following:
  - 12 Eastern haulage road - drill and blast section.
  - 12 Eastern ventilation road - drill and blast section.
  - 13 Eastern belt road - drill and blast section.
  - 13 Eastern LW ventilation road - drill and blast section.
  - 13 Eastern ventilation road - drill and blast section.
- Support of main and gateway entries utilize metal yielding arch supports, as well as wood and ferro-concrete bracing.

Coal Transportation:
- Underground coal transportation utilizes belt conveyors in the incline from the 3,500 m Level to the 1,400 m Level. A skip hoist (two skips) is installed in the main shaft and is used to transport coal from the 1,400 m Level to the surface.
- Railway haulage is used for coal transport in the LW gate roads and main roadways; the railcars are dumped into small bunkers, which feed the incline conveyor.
- Coal is screened on the surface, and then transported to customer via truck and rail modes.

Mining Conditions:
- Average mining height is 0.9 to 1.05 m. The seam dip in near-term projections is moderate and expected to range from 12 to 16 degrees.
- Various mining conditions are continuously monitored, including high temperatures, high methane content, increased pressure related to depth, and increased coal spalling issues.
- Current working depth is 800 m.

Ventilation:
- A centralized exhausting ventilation system is used; a total of six fans are installed on multiple shafts as follows:
  - 1 Eastern Shaft: 2 fans: 1 operating/1 reserve
  - 3 Eastern Shaft: 2 fans: 1 operating/1 reserve
  - 1 West Shaft: 2 fans: 1 operating/1 reserve

- Ventilation parameters were reported as follows:

  – Air Volume: 4,630 m^3/min

Summary of Fan Dimensions and Capacities

Fan Type	Power Consumption (kW)	Preformance Rating (m^3/s)	Dimensions Diameter (m)
VOD 2.1	100 - 430	20 - 110	2.1
VOKR 1.8	75 - 435	18 - 90	1.8
BOKD 1.8	100 - 450	23 - 93	1.8

- The methane content of the mine at the mine outlets is summarized as follows:

  – 1 Eastern Shaft: 0.1%
  – 3 Eastern Shaft: 0.2%
  – 1 West Shaft: 0.0%

- Water sprinkling systems are utilized on conveyor belt discharge points, on mining equipment, and on coal/dust accumulation points.

- In-seam degasification is utilized, which comprises vertical well (borehole) drilling, pumping, and transport to the surface using pipelines. Captured gas is currently vented into the atmosphere.

Processing:
- Following transport to the surface, coal is transferred by a series of conveyors to a vibratory screen facility. Following screening and manual rock picking, the product is loaded into silos for railcar loading.

Crew and Schedule:
- The mine operates four shifts per day, three production shifts and one shift for maintenance and up keep. Shift length is six hours per day underground, exclusive of transportation time. The mine is scheduled to operate 251 days annually.

- The gate road crew includes:

  – 3 – Headers
  – 1 – Electrical Fitter
  – 1 – Supervision

- The typical LW crew includes 15 personnel per shift.

4.8.8 Novodzerzhynskaya Mine

Location:

- The Novodzerzhinskaya Mine is located approximately 2.0- 2.5 km from the north-western outskirts of Dzerzhynsk, a town located on the outskirts of Donetsk region along the Dzerzhynsk – Konstantinovka road. The mine is approximately 15 km from Konstantinovka, 27 km from Gorlovka, and 60 km for Donetsk city center.

- While the original mine initiated production in 1916, the modern mine design was originally commissioned in 1953 by the council of ministers of the USSR, with construction commencing in 1954. The mine has reportedly been in constant production, and was maintained under state control until 2010 when it became a leased entity controlled by the Coal Energy group.

- The Mine is under 100% control of Coal Energy, SA, as a leased enterprise.

Mining Methods:

- There are no fully-mechanized faces at the mine. Coal is extracted with the use of pneumatic air hammers, and face support is provided with the use of wooden props, supplemented by the use of mechanical breaking props (prop type ОКУ03-ОКУ04).

- Face haulage is facilitated by the use of either gravity flow using double flange pans, or by face conveyor conveyer (type - СК-38). A summary of production methods is as follows:

Summary of Longwall Mining Methods

Production Face	Production Seam	Coal Extraction	Face Haulage	Primary Support	Breaker Jacks
sector 65-585 m outby	k7в	Air-Hammers	double flange pans	Wood Props	ОКУ03-ОКУ04
sector 65-585 m, inby	k7в	Air-Hammers	conveyer СК-38	Wood Props	ОКУ03-ОКУ04
sector 84-585 m	l2	Air-Hammers	double flange pans	Wood Props and Chocks	-
sector 71-585 m	l5	Air-Hammers	double flange pans	Wood Props and Chocks	-
sector 71-585 m diagonal run	l5	Air-Hammers	conveyer СК-38	Wood Props	ОКУ02
sector 83-585 m	l2	Air-Hammers	conveyer СК-38	Wood Props	ОКУ03-ОКУ04
sector 84-585 m diagonal run	l2	Air-Hammers	double flange pans	Wood Props	ОКУ03-ОКУ04
sector 41-585 m	m3	Air-Hammers	double flange pans	Wood Props	-
sector 95-585 m	k8	Air-Hammers	by conveyer СК-38.	Wood Props	ОКУ04
sector 82-585 m	l3	Air-Hammers	double flange pans	Wood Props	-

- All development operations are executed by drill and blast systems with rock disposal by rock loaders (type - ППН-1С and НК-1). The main crosscut level (Level 585 m) is planned to be mined with rock loaders (Type 2ПНБ-2) with mounted drilling equipment.

Coal Transportation:

- Within the mine property, there is an in integrated railway network to allow access to the main line. The main line is controlled and operated by the State Enterprise "Dzerzhynskpogruztrans".

- Loading and off-loading tracks servicing the Novodzerzhinskaya Mine are connected with the Polevaya station on a railway spur connecting the Dzerzhynsk Concentrating mill with the Kryga station. The main line operates on the MPS Kharkov-Konstantinovka-Yasinovataya-Mariupol.

- Transportation of people from the surface to the underground levels is facilitated by two double cage lifts. Personnel travel to the underground work place on foot, where the maximum walking travel time is 24 minutes on average.

- When on surface, underground materials and supplies are loaded into mine cars (Type ВГ-1,6) or special wagons and are taken by the electric locomotive to the shaft. Once underground, materials and supplies are transferred by battery electric locomotive (Type АМ-8Д) through the mine to the work place. Shunting winches take materials in mine cars up the inclined faces.

- Final coal shipments are facilitated with an available railway connection.

Mining Conditions:

- Immediate mine roof: Typical roof conditions are stable when appropriately supported with wood props. The roof is reported to consist of fissile argillaceous slate with thickness up to 4.5 m. The immediate roof is generally reported to be stable, however, in places of increased fissility, water content, and geological faults the stability decreases and requires additional precautions during mining. "False Roof" is reported in areas where the bottom layer of immediate roof is 0.15 to 0.30 m thick, also requiring production precautions.

- Main roof: The main roof is typically composed of argillaceous slate with interlayers of sandy slate and sandstone (varying thicknesses of 10 to 20 cm). The thickness of argillaceous slate of the main roof is generally 3.0 to 4.0 m, but can be as much as 15.0 m. In the areas of tectonic faulting and increased rock jointing, stability and caving capacity of roof rock is reduced.

- Floor conditions: The floor of the production areas, typically consist of a fissile sandy slate of mild stability. Layers of inter-bedded sandstone can occur in the main floor strata. The thickness of this type of shale floor averages 6.0 m and ranges from 0.5 to 30 m.

Ventilation:

- An exhausting ventilation system is utilized, with two main ventilation facilities installed as follows:

  – The return ventilation air from ventilation of production working areas is exhausted through the "Komsomolets" ventilation facility. This facility is equipped with an electro mechanical fan (Type ВОД-21). The facility utilizes two fans, one for normal operations and a second for redundant backup.

  – The return ventilation air from separately ventilated working levels is exhausted through the skip shaft, equipped with fan system (Type ВЦП-16Б). This facility is located in the center of the mine field.

- Degasification units are not currently utilized. Ventilation parameters were reported as follows:

  – Air Volume: Komsomolets - 4,400 m^3/min
Skip Shaft - 800 m^3/min

  – Power: ВОД-21 - 500 kWt,
ВЦП-16Б - 200 kWt.

- Methane content in the air leaving the mine outlet is reported to be 0.13% CH_4 on average.

- Sprinkler systems are utilized on discharge and transfer points on the coal conveyor system for dust suppression.
- Sprinkling facilities are installed at loading, and overloading stations. Station washing and rock dusting in the headings are reportedly completed as needed.
- Bituminous coal within the limits of the mine field are not inclined to spontaneous combustion.

Processing:

- Run of Mine (ROM) coal from the underground mine is delivered to the surface using the skip shaft, and then transferred to the surface collection bunker. This surface bunker is designed for 50 tons of capacity.
- The ROM coal is then transferred from the bunker to the feeder for screening to separate over size material and rock waste. The screened rock is piled for disposal in the onsite waste dumps, with the screened coal transferred to the coal loading storage bunker. The capacity of this bunker has a capacity of 3,200 tons.
- Coal loading from the bunker is made by 4 feeders to the belt conveyer (Type B-400), where the coal is reloaded to the mobile conveyer (Type B-1200), by which it is loaded to railway cars.

Crew and Schedule:

- The work schedule provides four working shifts with duration of 6 hours each. Three shifts are scheduled for coal production, with the fourth shift designed for repair and maintenance. Repair operations are conducted during the fourth shift (from 4:00 to 10.00).
- Total working days in a year for the mine are 350 days.
- Longwall coal production sectors are typically comprised of 41 to 45 workers, which include four teams of 10 to 11 workers per team.
- Gate and entry development teams are comprised of approximately 20 workers to conduct advancing development ahead of longwall production efforts.

4.9 Waste Pile Reprocessing Operations

The Donbas coal basin in southeastern Ukraine has been actively mined for nearly 200 years supplying, at times, over 80% of all coal utilized by Russia. Over this time, the various seams in production have ranged from 0.6 to 1.4 meters in thickness, many of which contain thin rock partings within the seams. Historically, as the coal was produced from these mines, non-coal material (shale and rock) was separated from the coal on the surface by either hand or mechanical separation methods. The non-saleable portion of the ROM coal was rejected. The reject material was typically discarded in to large waste piles, some as high as 50 meters (or more) at the respective mine site.

Due to technology and economics, at the time of mining, coal processing practices did not achieve maximum cleaning efficiency of the coal produced by the mines. At the same time, the governmental control over the quality of saleable coal and in particular over ash content was very strict. Due to that, in cases when it was impossible or time-consuming to process extracted ROM coal to the necessary quality specifications, ROM coal was rejected. Consequently, waste piles containing an average of 25% coal material intermixed with the waste rock, are inhomogeneous. Excavated benches are expected to have a certain low-ash content as well as some pure rock content. Current economics and environmental awareness now warrant re-processing of these piles to extract the remaining coal material. Reprocessing efforts also provide a means for reclamation of the abandoned piles, returning the barren piles into usable land for local communities.

In the case of Coal Energy, the coal produced from re-processing the piles will be used in heating and the power generation markets. Coal Energy has several piles identified for future reprocessing in addition to the current active reprocessing site.

Coal Energy's active and planned sites for reprocessing operations were visited by BOYD and included three cone-shaped waste piles located on Antracit, LLC properties in the vicinity of the city of Snizhne, in the Donetsk region of Ukraine. Pile No. 1 is located at the closed mine Podyomnaya No. 32, Pile No. 2 is located at the closed mine Severnaya No. 1, and Pile No. 3 is located at the closed mine Severnaya No. 2. These piles are referenced in Figure 1.2 at the beginning of this report.

The process technology and equipment utilized in the waste reprocessing operations reflect modern engineering practices, using a semi-steep separator. The basic technology of semi-steep separators was developed in the mid 1990's, and has been successfully applied at the number of installations in Russia and Kazakhstan. Semi-steep separators contain little to no moving parts, are simple to handle, and efficient to recover a higher ash coal product. The technology used by Coal Energy is unlikely to be replaced by other technology during the lifetime of the project. A summary of the waste reprocessing practice follows:

1. The selected waste piles are prepared for mining (extraction) with the construction of site access roads, and haul roads to the top of the pile.

2. The top of the waste pile is removed first and reduced by bench from top to bottom, by the use of bulldozers. The height of each bench is 10 m or less. Bulldozers push the rock to the "rock chute" where it gravity flows to the crusher feeder constructed at the bottom of the pile. Excavators can be used instead of the bulldozers to excavate the waste pile. When excavations are used, the benches or terraces are developed between 6 and 10 m high.

3. Reducing the waste piles can cause fugitive dust emission. Dust suppression is achieved by regularly watering dust prone areas of the operation.

4. The loading area is located at the bottom of the waste pile. Here the rock is loaded by excavators into "lorry" type trucks. These trucks transport the waste materials to the coal processing unit by either on site haul roads or by existing public roads if the processing facilities are not adjacent to the piles.

5. The processing of waste material is summarized as follows:

    - Incoming waste material is initially sized at 80 mm. Extraction of 0 to 80 mm material is completed via bin grates (rock grizzly).
    - Beneficiation of the 0 to 80 mm material is a semi-steep (also known as steeply inclined) separator KNS-138.
    - The recovered material is dewatered and screened at 1 mm and 13 mm to produce three sizes: 0 to 1 mm class, 1 to 13 mm class, and 13 to 80 mm.
    - The 13 to 80 mm size material is the final product and is transported to the storage facility without further beneficiation.
    - The 1 to 13 mm size is further processed (second stage) in a semi-steep separator KNS-60/75, dewatered and transported to product storage.
    - The 0 to 1 mm size material is isolated for intermittent product sales.
    - Reject material produced by the two stages of beneficiation undergo further beneficiation. This material is condensed and processed in cyclone separators, separation screens and de-watered, then returned to the feed material for reprocessing.
    - Water is purified and returned into the cycle, to enable a closed circuit process.

6. The oversize (plus 80 mm) and processing reject rock is loaded into the trucks and transported away from the processing facility. This rock material is taken to and disposed of at either an existing waste pile at a nearby mine, or an abandoned open pit clay mine. Disposal of the re-processed rock should not present an environmental or fire risk since virtually all of the combustible matter has been extracted.

Other aspects of Coal Energy's reprocessing efforts are summarized as follows:

- Most of the equipment utilized by the project such as trucks, excavators, and bulldozers is of a standard type used for industrial applications worldwide.
- The core elements of the coal extraction facility are the semi-steep separators. This separator is a gravity-based coal beneficiation machine used mostly for large and intermediate coal size classes.
- The project does not require extensive initial training. The required workforce can receive basic industrial training locally. Most of the required personnel such as

heavy machinery operators, truck and excavator drivers, electric and mechanical maintenance workers are available locally.

- Maintenance and repairs are covered by a combination of in-house maintenance workers and outsourced maintenance and repair subcontractors.
- The project makes provisions for training needs, and all workers are required to have a valid professional education certificate and pass periodical safety trainings and exams. Professional education can be obtained locally in the Donetsk region in all of the professional areas covered by the project.

4.9 Postnikovskaya Coal Processing Plant

Coal Energy reports control of the Postnikovskaya coal processing plant located in Shakhtersk, in the Donetsk region. This facility was not visited by the BOYD. The details of this facility and its operation are included in this report based on information provided by Coal Energy.

The Postnikovskaya coal processing plant was built in 1956 and acquired by Coal Energy in 2006. At the time of acquisition, production facilities were in poor conditions. Nominal beneficiation capacity was stated to be 120,000 tonnes of raw lean coal on an annual basis. In 2006, the plant was overhauled with equipment being partially replaced, to allow for increased capacity. After additional modifications, since 2007, the plant is able to process additional coal types and grades. As of October 2010, two spiral separators have been installed, allowing total throughput to be increased to 720,000 raw tonnes annually.

The plant is able to process various grades of Coal Energy thermal and coking coal extracted in the region, however, the current technology does not allow the plant to process two different grades of coal simultaneously.

The plant capacity currently meets Coal Energy's needs, however, it is not fully utilized as the Group continues to modernize the plant. This modernization would reportedly allow Coal Energy to increase the throughput capacity to approximately 1.08 million tonnes annually and beneficiate different grades simultaneously by the end of 2011-FY.

Currently, coal is transported to and from the plant via direct railway connection. The capacity of the coal storage area is currently reported to be 120,000 tonnes of storage.

4.10 Safety

Based on BOYD's observations during site visits, the mines appeared to be operating in a safe manner and following generally accepted safety standards. On the LW faces visited by BOYD, all crew leaders were equipped with hand-held methane monitors, which indicated relatively low or non-detectable levels of methane on the LW faces. Other customary safety practices include coal dust suppression and the use of steel arch supports in high value locations. General health and safety practices include respirable dust masks, safety glasses, and self-contained self rescuers carried by all workers.

Coal Energy has implemented safety training programs, including proper work procedures and work practices at all of their operations to provide for worker safety and has established a basis for its safety systems to support expanded future mine operations. According to Coal Energy, their coal mines are frequently monitored by several levels of governmental regulators.

The Following is a summary of historic safety statistics as provided by Coal Energy:

Summary of Total Injuries (accidents / total injuties)

Operating Group	2008	2009	2010
Eximenergo LLC	0 / 0	1 / 1	3 / 3
Ugledobycha LLC	2 / 2	4 / 4	1 / 1
Donprombiznes LLC	2 / 2	1 / 4	1 / 1
Nedra Donbasa LLC	0 / 0	0 / 0	0 / 0
Tekhinnovatsiya LLC	0 / 0	0 / 0	0 / 0
Donbasuglerazrabotka LLC	0 / 0	1 / 1	1 / 1
CwAL LE Sh/U Chapaeva	n.a.	n.a.	9 / 9
CwAL LE Novodzerzhynskaya Mine	n.a.	n.a.	0 / 0
Total - Coal Energy	4 / 4	7 / 10	15 / 15
Total accidents in Ukrainian coal mining industry	5873	5,251	4,888

Summary of Fatal Injuries

Operating Group	2007	2008	2009
Eximenergo LLC	0 / 0	1 / 1	1 / 1
Ugledobycha LLC	2 / 2	0 / 0	0 / 0
Donprombiznes LLC	1 / 1	0 / 0	1 / 1
Nedra Donbasa LLC	0 / 0	0 / 0	0 / 0
Tekhinnovatsiya LLC	0 / 0	0 / 0	0 / 0
Donbasuglerazrabotka LLC	0 / 0	1 / 1	1 / 1
CwAL LE Sh/U Chapaeva	n.a.	n.a.	3 / 3
CwAL LE Novodzerzhynskaya Mine	n.a.	n.a.	0 / 0
Total - Coal Energy	3 / 3	2 / 2	6 / 6
Total fatal injuries in Ukrainian coal mining industry	174	151	131

5.0 ECONOMIC ANALYSIS

5.1 Introduction

This section evaluates the likely economic performance of the Coal Energy mining operations as the company operations transform to a more streamlined mining conglomerate with the infusion of capital improvement programs to increase production and profitability. We have developed our general evaluation of Coal Energy operations based on independent review of available source data, our independent assessment of available coal resources, observations and management discussions during BOYD's various site visits and mine tours, and our experience in the international and European coal industries. This work is intended to confirm if the Coal Energy mine plans for ten active mining operations, have a reasonable expectation to be profitable (i.e., to validate the reported reserves have reasonable probability to be economically mineable). Our analysis considers input from Coal Energy but relies on our independent assessment of the economic viability of Coal Energy plans and projections.

The most reliable procedure to estimate mining economics is to prepare a site-specific (mine by mine) line-by-line cost model based on geological data, mining plans, and other pertinent operational and financial aspects associated with the unique features of each mine. BOYD has taken this approach on a formulistic basis and focused on the key drivers of cash operating costs, while relying on our knowledge of the Coal Energy operations. Our model is based on historical factual data provided by Coal Energy and on BOYD's own assumptions about future costs, prices, and production volumes. Results of our model were compared against Coal Energy's most recent internally prepared projections as of May 2011.

The May 2011 projections include operational and financial modifications developed by the Coal Energy management team since BOYD's onsite observations were conducted. These Coal Energy projections ultimately reflect the current business and mining plans based on recent mining activities. The most recent Coal Energy projections reflect the current business and mining plans based on recent mining activities and have been adjusted to incorporate representative trends and assumptions as developed in BOYD's independent projections.

The active Coal Energy mines are segregated into logical mining units and/or mines based on current operating structure, as summarized in Chapter 4 of this report. Historical operating cost data provided by Coal Energy were assembled and compiled. We compared the BOYD indicative cost model comprising primary cash cost categories to Coal Energy's plans according to the following considerations:

- Long-range life-of-mine plans for all seams as developed by Coal Energy.
- Near-term mining plans and projections.
- Historical operating experience.
- Near-term capital projections.
- Observations and discussions during the BOYD site visits.
- Analysis of fixed and variable costs for the major cost line items.

Our analysis recognizes the significant difference in operating cost structure at each mine. Due to that, cash operating costs at each mine are driven by different primary factors that need to be reviewed separately. These factors include: labor, materials and supplies, power, maintenance, and capital expenditures. The labor component of each mine is substantial and evaluated accordingly.

Labor costs are defined as all labor-related components associated with employment at the mine site. Major labor cost categories include wages, salaries, and vacation/holiday pay. Also included in labor costs are major social costs, which include benefits, government-related worker fees, retirement costs, etc.

The mines are to some extent regionalized around Donetsk. The mines are in a transition stage and are generally considered to be in development mode. As capital improvements are implemented and total output is increased, we believe that the staffing and their compensation rates will normalize, and enhanced productivity will be realized.

Coal Energy has developed a detailed projection for capital expenditures which are expected to provide positive effect on production and productivity. The planned new equipment complement is expected to require less upkeep than the existing faces and can be operated with fewer people. However, the higher mechanization levels will require a requisite increase in workforce skills for modern equipment operation and maintenance. Coal Energy is expected to see an increase in the need for skilled labor in the next several years in order to appropriately support the proposed production levels. Because of current economic conditions in the Donbas Region and the low level of industrial utilization, the ability to find and retain employees with the necessary skills is not expected to be an issue.

5.2 Coal Production

Coal Energy's projected saleable coal output is summarized as follows:

Saleable Production (000's tonnes)

Production Unit	2011-FY Yr-1	2012-FY Yr-2	2013-FY Yr-3	2014-FY Yr-4	2015-FY Yr-5	2016-FY Yr-6
Donprombiznes LLC	102.3	248.4	299.9	731.4	878.4	907.2
Ugledobycha LLC	87.3	190.8	297.6	475.7	516.6	575.6
CwAL LE Sh/U Chapaeva	358.4	666.0	1,109.9	1,334.9	1,422.4	1,569.2
Eximenergo LLC	159.4	327.6	394.5	394.3	398.2	401.4
Tekhinnovatsiya LLC	59.3	92.6	134.2	283.4	366.9	410.1
Donbasuglerazrabotka LLC	32.7	105.1	171.9	327.4	399.2	399.6
Nedra Donbasa LLC	40.2	90.7	103.7	146.6	183.0	220.1
CwAL LE Novodzerzhynskaya Mine	140.5	249.1	261.5	272.3	273.7	287.3
Total	980.1	1,970.4	2,773.2	3,966.2	4,438.4	4,770.6

Assuming that no additional exploration is completed, and mine production and/or productivity is held constant in future operating years; we have concluded Coal Energy reserves are estimated to support production for approximately 32 years on an aggregated basis beginning March 1, 2011. While reserve life for each operating entity varies based on the current level of exploration, mining licenses control, and reserve identification Coal Energy has the internal opportunity to reallocate production staff and equipment or acquire additional licenses form the state to sustain constant production levels in the future. Based on the projected saleable coal output above, the expected term of production for each operating entity is summarized below:

Summary of Reserve Life

Production Unit	Proven and Probable (Mt) Recoverable Reserves	Expected Years of Operation *
Donprombiznes LLC	35.28	41
Ugledobycha LLC	9.08	18
CwAL LE Sh/U Chapaeva	43.75	30
Eximenergo LLC	5.20	14
Tekhinnovatsiya LLC	26.81	68
Donbasuglerazrabotka LLC	1.28	6
Nedra Donbasa LLC	2.35	13
CwAL LE Novodzerzhynskaya Mine	20.25	71
Total	144.00	32

* Note: Includes production rampup in the first six years

5.3 Coal Pricing/Revenue

Coal Energy's projected sales price (stated in US$ per tonne) is summarized as follows:

Sales Price ($US/tonne)						
Production Unit	2011-FY Yr-1	2012-FY Yr-2	2013-FY Yr-3	2014-FY Yr-4	2015-FY Yr-5	2016-FY Yr-6
Donprombiznes LLC	76.92	77.41	82.33	87.80	92.13	94.90
Ugledobycha LLC	80.71	81.22	86.38	92.11	96.66	99.56
CwAL LE Sh/U Chapaeva	77.25	77.75	82.69	88.18	92.53	95.31
Eximenergo LLC	80.08	80.58	85.70	91.39	95.91	98.79
Tekhinnovatsiya LLC	132.59	133.43	141.91	151.33	158.80	163.56
Donbasuglerazrabotka LLC	90.26	90.83	96.60	103.01	108.10	111.34
Nedra Donbasa LLC	171.47	172.56	183.53	195.71	205.37	211.54
CwAL LE Novodzerzhynskaya Mine *	191.26	192.47	204.70	218.29	229.07	235.94
Wt. Average	101.98	100.70	102.48	107.54	113.19	117.08

* Note: Coal form these mines is processed at the plant of the Group. Prices for the coal from these mines are provide as price for coal concentrate after benefitiation. Price projections were developed by the Coal Energy. Underlying processing assumptions were not independently reviewed by BOYD.

5.4 Operating Costs

We reviewed operating cost projections for the Coal Energy mining operations on the basis of our site visits, discussions with Coal Energy and mine management groups, review of historical costs, and our experience with similar mines. Operating cost projections reflect the implementation of the capital spending and output expansion plans. Projected cash operating costs, including labor, are summarized as follows:

Cash Costs ($US/tonne - excluding other costs)						
Production Unit	2011-FY Yr-1	2012-FY Yr-2	2013-FY Yr-3	2014-FY Yr-4	2015-FY Yr-5	2016-FY Yr-6
Donprombiznes LLC	46.94	45.46	47.07	32.70	31.51	34.25
Ugledobycha LLC	45.78	45.38	46.41	39.99	41.64	45.35
CwAL LE Sh/U Chapaeva	55.04	51.98	42.13	40.89	43.88	45.80
Eximenergo LLC	48.14	47.42	49.60	56.00	62.23	67.97
Tekhinnovatsiya LLC	79.87	72.23	65.79	44.25	41.58	42.24
Donbasuglerazrabotka LLC	44.26	40.64	35.00	28.65	28.92	31.64
Nedra Donbasa LLC	75.28	55.73	58.50	54.19	53.64	53.86
CwAL LE Novodzerzhynskaya Mine	84.57	67.97	76.59	84.90	94.84	101.82
Total	59.35	52.87	49.50	44.18	45.46	48.27

* Other costs include Administrative, Sales, and Distribution.

Coal Energy's operating unit (US$/tonne) costs are projected to decline as output increases, until normalized operations are achieve in 2014. Beginning in 2014, limited real cost increases are projected. As full output capacity is attained at approximately 5.0 Mtpa in 2016-FY, Coal Energy's cash operating costs on an aggregate basis are estimated to be US$48.27 per ROM tonne.

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Operating cost projections include: Labor, Materials, Power, Sales, Outside Services, Taxes/Charges, Other, and Maintenance and Repairs. A breakdown of projected costs by category is summarized as follows:

Production Cost by Cost Center ($US 000's)

Production Unit	2011-FY Yr-1	2012-FY Yr-2	2013-FY Yr-3	2014-FY Yr-4	2015-FY Yr-5	2016-FY Yr-6
Cash Cost						
Salaries	20,828	49,109	64,490	82,121	95,530	110,797
Social deductions	10,182	23,154	31,084	39,582	46,046	53,404
Raw materials	17,563	17,834	23,886	30,581	34,663	39,212
Electricity	7,679	11,112	13,637	17,517	19,989	21,858
Repairs and maintenance	1,276	2,729	3,201	3,983	4,540	4,952
Other services	2,090	3,211	3,901	5,215	5,995	6,541
Other expenses	78	1,433	1,583	1,739	1,890	2,017
Taxes	668	810	1,113	1,552	1,751	1,874
Sub-Total	60,363	109,392	142,894	182,290	210,403	240,655
Other Costs						
Administrative	2,744	3,570	4,127	4,739	5,383	6,003
Sales and Distribution	6,193	14,029	22,461	36,610	45,115	52,140
Sub-Total	8,936	17,599	26,589	41,349	50,499	58,142
Total Production Costs	69,299	126,991	169,483	223,639	260,902	298,797

5.5 Capital Spending

Coal Energy is proposing to undertake a major recapitalization program to upgrade its underground production and infrastructure equipment. The purpose of this program is to enhance the productive capabilities and annual output of the mining operations and to enable the efficient recovery of coal reserves. The most visible component of the program is focused on upgrading the level of mechanization in most of the Company's LW faces and upgrading the infrastructure needed to move coal production to the surface. Capital spending projects, which are planned at all of the Coal Energy mines, are based on site-specific conditions and situations. The proposed production equipment will replace the aging equipment currently in use.

Coal Energy provided capital spending projections for its mines. We evaluated Coal Energy's May 2011 projections for reasonableness and compared to BOYD's independent projections. The Company has included sustaining capital requirements totaling approximately US$1.3 million annually for the enterprise. The projected total capital spending through 2016 is expected to exceed US$290 million, on a cumulative basis.

Capital spending is categorized as: Equipment, Construction, and Buildings. Through 2016, the breakdown of capital spending by category is as follows:

Capital Expenditure by Type ($US 000's - Except Maintenance)

Capital Type	2012-FY Yr-2	2013-FY Yr-3	2014-FY Yr-4	2015-FY Yr-5	2016-FY Yr-6
Mining equipment	34,956	53,071	50,501	44,541	33,475
Underground construction	14,124	11,781	9,617	6,567	3,032
Buildings	5,670	1,755	251	-	-
Total	54,750	66,606	60,369	51,108	36,508
Cumulative	54,750	121,356	181,726	232,834	269,342

Capital Expenditure by type (percent basis)

Mining equipment	63.8	79.7	83.7	87.2	91.7
Underground construction	25.8	17.7	15.9	12.8	8.3
Buildings	10.4	2.6	0.4	-	-
Total	100.0	100.0	100.0	100.0	100.0

Most of the equipment at the Coal Energy mines has been in use for many years, and there is minimal opportunity to enhance productivity from the existing equipment. The planned LW face equipment upgrades includes hydraulic face supports (jacks and individual props), cutting equipment such as shearers and ploughs, and higher capacity face haulage (increased utilization of chain conveyor and additional mechanical face haulage). A summary of capital spending by mine is summarized as follows:

Capital Expenditure by Mine ($US 000's - Except Maintenance)

Production Unit	2012-FY Yr-2	2013-FY Yr-3	2014-FY Yr-4	2015-FY Yr-5	2016-FY Yr-6
Donprombiznes LLC	9,680	21,561	4,195	10,753	5,753
Ugledobycha LLC	6,999	7,303	9,842	8,427	3,387
CwAL LE Sh/U Chapaeva	5,698	8,413	21,900	11,008	19,503
Eximenergo LLC	5,076	3,561	1,082	860	175
Tekhinnovatsiya LLC	7,805	15,703	19,103	2,130	1,951
Donbasuglerazrabotka LLC	10,546	7,187	-	5,941	1,371
Nedra Donbasa LLC	5,076	1,845	2,467	10,403	3,589
CwAL LE Novodzerzhynskaya Mine	3,871	1,032	1,781	1,586	780
Total	54,750	66,606	60,369	51,108	36,508

We consider this level of planned capital investment to be generally adequate for the proposed program. BOYD recommends that a contingency of 10% to 15% be added to account for unforeseen project spending needs.

5.6 Conclusion

The updated consolidated five-year Coal Energy internally prepared mine plan and financial project is shown below:

Summary of Economic Analysis ($US/tonne)

Production Unit	2011-FY Yr-1	2012-FY Yr-2	2013-FY Yr-3	2014-FY Yr-4	2015-FY Yr-5	2016-FY Yr-6
ROM Production (000's tonnes)	1,017	2,069	2,887	4,126	4,628	4,985
Sales Production (000's tonnes)	980	1,970	2,773	3,966	4,438	4,771
Total Revenue	99,951	198,406	284,188	426,542	502,363	558,524
Cash Costs	60,363	109,392	142,894	182,290	210,403	240,655
Other Costs	8,936	17,599	26,589	41,349	50,499	58,142
Toal Costs	69,299	126,991	169,483	223,639	260,902	298,797
Gross Pre Tax Cash Flow	30,652	71,415	114,705	202,902	241,461	259,727
Less Capital Expenditure	-	54,750	66,606	60,369	51,108	36,508
Free Cash Flow	30,652	16,665	48,099	142,533	190,353	223,220

Coal Energy is proposing to expand coal production, as the result of implementing its proposed capital projects. These proposed capital programs are consistent with improvements discussed with Coal Energy management during our site visits, and are considered necessary to maintain current production as well as facilitate additional production to achieve proposed targets.

The Coal Energy cost structure in the near term is expected to be representative of mines that are in transition mode. Recognizing that this operational transition is incomplete, the Coal Energy operations are expected to be in transition mode for the next three to four years. During this period, operating costs, planned capital spending, and revenue projections will need to be carefully managed by the Coal Energy economic team.

The first five years of the plan (2011 to 2016) are projected to have realizations on a per tonne basis ranging from US$76.92 to US$235.94. These realization rates vary by coal product quality among the mines. On an aggregate basis (all mines and all products), the annual weighted average realization ranges from US$100.70 to US$117.08 per saleable tonne.

Revenue estimates are primarily based on Coal Energy's internal market projections. While a coal market assessment is not included in our work, the pricing levels on a unit sales basis appear reasonable based on our experience in the region. BOYD has reviewed the Coal Energy internal projections and made adjustments where warranted in our opinion. Detailed projections regarding staffing levels have not been provided. BOYD modifications have been made using a formulistic approach.

We have prepared independent financial forecasts based on Coal Energy plans and applied our professional judgment to verify that the reserves in the mining plan demonstrate positive economic performance and can therefore be classified as reserves. These independently prepared projections were developed in order to validate the associated reserves as economic.

Our assessment of ten consolidated mining operations in terms of production, revenue, operating costs, and capital spending indicates a positive cash flow for the Coal Energy enterprise through the 2016 projection term. Based on our analysis, BOYD concludes that there is reasonable expectation that the Coal Energy estimated coal reserves are economically mineable.

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6.0 BACKGROUND AND QUALIFICATIONS

6.1 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. We have provided services on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations
- Fuel and energy supply planning
- Permitting and environmental analysis
- Contract negotiations
- Market and transport analyses
- Economic feasibility studies and valuations
- Assessment of existing operations
- Strategic business planning
- Transport issues
- Asset appraisals
- Minerals industry restructuring
- Privatization studies
- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Reserve and geotechnical studies
- Technical assistance in legal matters
- Monitoring of operating companies
- Financial analysis

BOYD also possesses extensive computer and software systems to estimate reserves and complete mine plans. These include Vulcan, MINCOM, SurvCADD, and others.

Our headquarters office is located in the Pittsburgh, Pennsylvania, region in the United States. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, the People's Republic of China. Please visit our website, www.jtboyd.com, for additional details.

BOYD has extensive experience in preparing Competent Persons and Independent Financial and Technical Review reports for international financing purposes and for public stock exchange filings. We are knowledgeable of listing requirements of the SEHK, London Stock Exchange, and NI 43-101 (Canadian requirements), JORC Code, U.S. Securities and Exchange (SEC) Rules, etc. We are familiar with the level of independent reporting required by international investors and financial institutions. We have worked extensively in CIS and Eastern European countries, including the following countries:

- Bulgaria
- Croatia
- Czech Republic
- Estonia
- Former East Germany
- Greece
- Kazakhstan
- Macedonia
- Poland
- Romania
- Russia
- Ukraine

BOYD has an unparalleled background in evaluating mining companies, identifying their competitive strengths and weaknesses, and assessing future outcomes. This includes technical and financial assessment of coal mines and markets in Russia, Poland, the Czech Republic, and the Ukraine. We have an established track record in providing assistance to companies that are seeking financial support or considering public offerings. BOYD is a recognized consultancy having worldwide stature. A selection of representative projects involving public transactions and/or stock offerings include the following:

1. Former British Coal Corporation – Served as mining advisor to the United Kingdom Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation. Completed a detailed reserve, mining, and valuation study of all underground and opencast operations. The coal operations were successfully privatized for a total purchase price of US$1.4 billion equivalent, and the entity is now traded on the London Stock Exchange as UK Coal. We were selected over numerous other UK-based consultants to complete this assignment.
2. Shenhua Coal Co. (China) IPO – This firm listed on the Hong Kong and Shanghai Exchanges and was among the world's largest IPOs of 2005. BOYD completed all work related to reserves and mine planning, and our staff met with appropriate agencies to support our findings.
3. Foundation Coal Company IPO – Completed an independent estimate of select reserves for inclusion in listing documents. Reserve estimates were calculated based on SEC requirements. Foundation Coal Company successfully listed on the New York Stock Exchange (NYSE).
4. Arch Mineral Corp./Ashland Coal Co. – Retained by the independent directors to complete a reserve estimate and determine comparable values of the companies. Our work led to successful consolidation of the two companies and subsequent formation of a new company, Arch Coal, Inc., which is currently listed on the NYSE.
5. Peabody Coal Co. – Retained by Peabody Coal Co., the largest US coal producer, to prepare reserve estimates for SEC filing purposes. The firm is listed on the NYSE.

We have completed over 2,000 resource and reserve audits. BOYD's reserve statements have been used by client companies, including some of the largest US coal producers. We have worked with and for virtually all of the major international banks. Numerous financial agencies have used our services to opine on property/ mine operations. We have the proven ability to prepare a bankable document that is accepted and used with confidence by major financial institutions and other investors around the world.

BOYD's findings and opinions are intended to provide a direct and straightforward assessment that supplements other documentation used to evaluate Coal Energy's coal holdings.

6.2 Statement of Interests

BOYD is a privately owned consultancy firm with headquarters in the United States. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation. BOYD has no ownership or shareholder interest in Coal Energy or its related assets, nor do we have any claims outstanding. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by Coal Energy. BOYD has completed its work in accordance with US and international ethical standards for professional engineering.

6.3 Forward-Looking Statements

Estimates of resources and reserves are inherently forward-looking statements. Actual results may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to: inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in market prices, variances in the execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional, and/or local government policies could affect future coal production and reserve recovery.

BOYD did not perform either a risk assessment or an environmental assessment of the Coal Energy operations and the associated processing facilities, although we did review the mines and facilities to determine long-term viability. We believe the Coal Energy mining operations are appropriately equipped and operated, and except for geologic, operational, and other risks normally associated with underground coal mining in the Ukraine, BOYD has not identified any concerns and/or risk which we consider extraordinary. Management of each mine is a critical element in achieving both production plans and a high degree of safety.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this report was provided by Coal Energy, we independently evaluated the reasonableness of the data provided within the context of our professional and technical expertise and our broad eastern European mining experience. To confirm our interpretation of the data, discussions were conducted with mine site management during our visits. Additional information was requested and collected as necessary.

6.4 Closing

In preparing this report, we have relied on reserve, operating, and other data as provided by Coal Energy. We have exercised reasonable care in reviewing the information provided, but assumed all data have been accurately reported, prepared, and/or approved by competent professionals and Coal Energy management. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. Our reserve analysis has been completed in accordance with generally accepted standards and practices employed in the international mining industry. The accuracy of the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have made no attempt to verify the technical and geological information presented in the reference material documents and assume it has been prepared by competent engineers and geologists. Our expertise is in technical mining issues, and BOYD is not qualified to offer, nor do we represent that any of our findings include, matters of a legal or accounting nature. We have relied on information provided by Coal Energy regarding land tenure, legal rights held, and ownership. We have not independently researched land and/or coal certificate rights, nor have we reviewed or verified the ownership or structure of the various entities with interests in Coal Energy. While this report addresses technical (e.g., reserve, mining, etc.) issues, qualified legal expertise is required to verify existing exploration and mining rights to the various areas. BOYD is not qualified to assess Ukrainian legal matters and does not purport to offer a legal opinion on the status of ownership/control and/or the right to mine. BOYD's independent analyses of the available data have been developed in a manner consistent with industry standards and engineering practices. We believe our conclusions are reasonable assessments of the information provided.

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ANNEX IV
LIST OF PLACES ACCEPTING SUBSCRIPTIONS FOR OFFER SHARES FROM RETAIL INVESTORS

The list of Points of Sale of the BZ WBK Brokerage House (Dom Maklerski BZ WBK S.A.)			
No.	**City**	**Address**	**Postal code**
1	Bolesławiec	ul. Sądowa 6	59-700
2	Bydgoszcz	ul. Gdańska 128	85-021
3	Chorzów	ul. Katowicka 72	41-500
4	Dzierżoniów	ul. Mickiewicza 4	58-200
5	Gdynia	ul. 10 Lutego 11	81-366
6	Głogów	ul. Obrońców Pokoju 12	67-200
7	Gniezno	ul. Sienkiewicza 17	62-200
8	Gorzów Wielkopolski	ul. Gen. Wł. Sikorskiego 24	66-400
9	Inowrocław	ul. Grodzka 5/7	88-100
10	Jelenia Góra	ul. Jasna 14	58-500
11	Kalisz	ul. Parczewskiego 9A	62-800
12	Katowice	ul. Katowicka 61	40-174
13	Kędzierzyn-Koźle	pl. Wolności 1a	47-220
14	Kępno	ul. Kościuszki 6	63-300
15	Kielce	ul. Wspólna 2	25-950
16	Kłodzko	ul. Kościuszki 7	57-300
17	Konin	ul. Energetyka 6A	62-510
18	Kraków	ul. Karmelicka 9	31-133
19	Legnica	ul. Gwarna 4A	59-220
20	Leszno	ul. Słowiańska 33	64-100
21	Lubin	ul. Odrodzenia 5	59-300
22	Łodź	al. Piłsudskiego 3	90-368
23	Nowy Tomyśl	ul. Poznańska 13	64-300
24	Opole	ul. Ozimska 6	45-057
25	Ostrów Wielkopolski	pl. Bankowy 1	63-400
26	Piła	ul. Sikorskiego 81	64-920
27	Płock	ul. Kolegialna 21	09-402
28	Poznań	pl. Wolności 16	60-967
29	Poznań	ul. Św. Marcin 81	60-967
30	Poznań	ul. Szkolna 5	61-832
31	Sopot	ul. Chopina 6	81-752
32	Toruń	ul. Krasińskiego 2	87-100
33	Wałbrzych	ul. Chrobrego 7	58-300
34	Warszawa	ul. Kasprowicza 119a	01-949
35	Warszawa	ul. Jana Pawła II 23	00-854
36	Warszawa	ul. Rzymowskiego 34	02-697
37	Wrocław	Rynek 9/11	50-950
38	Wrocław	pl. Kościuszki 7/8	50-950
39	Zgorzelec	ul. Wolności 11	59-900
40	Zielona Góra	ul. Bankowa 5	65-950
41	Private Brokerage Team		

The list of Points of Sale of the BZ WBK Brokerage House's (Dom Maklerski BZ WBK S.A.) Agent, i.e. Bank Zachodni WBK S.A.			
No.	**City**	**Address**	**Post code**
1	Aleksandrów Łódzki	ul.Wojska Polskiego 69	95-070
2	Białogard	ul. 1 Maja 7a	78-200
3	Białystok	ul. M.Skłodowskiej - Curie 2	15-097
4	Białystok	ul.Świętojańska 16	15-277
5	Białystok	ul.Pałacowa 1a	15-042
6	Bielsko-Biała	ul. Partyzantów 22	43-300
7	Bogatynia	ul. Daszyńskiego 4abc	59-920
8	Bolesławiec	ul. Bankowa 12	59-700
9	Bolesławiec	ul. Sądowa 6	59-700
10	Brzeg	ul. Powstańców Śląskich 6	49-300
11	Brzeg Dolny	ul. 1 Maja 10a	56-120
12	Bydgoszcz	ul. Królowej Jadwigi 18	85-231
13	Bydgoszcz	ul. Powstańców Wlkp. 26	85-090
14	Bydgoszcz	ul. Szubińska 83	85-312
15	Bydgoszcz	ul. Gdańska 30	85-006
16	Bystrzyca Kłodzka	ul. Mickiewicza 8	57-500
17	Bytom	ul. Dworcowa 4	41-902
18	Chełm	ul. Lubelska 73	22-100
19	Chodzież	ul. Ks.Prymasa St. Wyszyńskiego 4	64-800
20	Chojnów	ul. Dąbrowskiego 12	59-225
21	Ciechanów	ul. Pułtuska 4/6	06-400
22	Częstochowa	ul. Krótka 46/48	42-200
23	Elbląg	ul. Pułkownika Dąbka 8-12	82-300
24	Gdańsk	ul. 3 Maja 3	80-958
25	Gdańsk	ul.Fieldorfa 2	80-041
26	Gdańsk	ul. Długie Ogrody 10	80-765
27	Gdańsk	ul.Miszewskiego 12/14	80-239
28	Gdańsk	ul. Kołobrzeska 28	80-394
29	Gdańsk	ul.Kaprów 19c	80-316
30	Gdańsk	ul.Heweliusza 21	80-890
31	Gdynia	ul. 10 Lutego 11	81-366
32	Gdynia	ul. Paprykowa 9	81-591
33	Gdynia	ul. Starowiejska 25	81-363
34	Gdynia	ul.Chylońska 116	81-007
35	Gdynia	ul. Świętojańska 89	81-381
36	Gliwice	ul. Dolnych Wałów 1	44-100
37	Głogów	ul. Słowiańska 12	67-200
38	Głogów	ul. Galileusza 18	67-200
39	Głuchołazy	ul. M. Skłodowskiej-Curie 22	48-340
40	Głuszyca	ul. Grunwaldzka 10	58-340
41	Gorzów Wielkopolski	ul. Kombatantów 2	66-414
42	Gorzów Wielkopolski	ul. Pionierów 8	66-400
43	Gostyń	ul. Bojanowskiego 22	63-800
44	Grodzisk Wlkp.	ul. 3 Maja 8	62-065
45	Grudziądz	al. 23 Stycznia 42	86-300
46	Grudziądz	ul.Chełmińska 68	86-300
47	Gryfice	ul.Niepodległości 42	72-300
48	Gubin	ul. Piastowska 4	66-620

49	Inowrocław	ul. Grodzka 5/7	88-100
50	Jarocin	ul. Kilińskiego 2a	63-200
51	Jelenia Góra	pl. Niepodległości 4	58-500
52	Jelenia Góra	pl. Piastowski 1A	58-560
53	Jelenia Góra	ul. Jasna 14	58-500
54	Kalisz	ul. Parczewskiego 9a	62-800
55	Kalisz	ul. Podmiejska 32	62-800
56	Kamienna Góra	ul. Parkowa 1	58-400
57	Kartuzy	ul.Dworcowa 5	83-300
58	Katowice	ul. Wita Stwosza 2	40-036
59	Katowice	al.. Korfantego 5	40-005
60	Katowice	ul. Katowicka 61	40-174
61	Katowice	ul.Staromiejska 12	40-013
62	Kępno	ul. Kościuszki 6	63-600
63	Kłodzko	ul. Kościuszki 7	57-300
64	Koło	ul. Zielona 2	62-600
65	Kołobrzeg	ul. Gierczak 44/45	78-100
66	Komorniki	ul. Poznańska 17	62-052
67	Kostrzyn n/Odrą	ul. Sikorskiego 10	66-470
68	Koszalin	ul. 1 Maja 12	75-800
69	Kościan	al. Kościuszki 2	64-000
70	Kożuchów	ul. Rynek 20	67-120
71	Kraków	ul. Karmelicka 9	31-133
72	Kraków	ul.Kijowska 22/24	30-079
73	Kraków	ul.Lubicz 23a	31-503
74	Kraków	ul.Kalwaryjska 17	30-504
75	Kraków	Rynek Główny 30	31-010
76	Kraków	ul. Westerplatte 15/16	31-033
77	Kraków	ul. Wielicka 72	30-552
78	Kraków	ul. Halszki 1a	30-611
79	Kraków	ul. Wadowicka 6	30-415
80	Kraków	ul.Krowoderskich Zuchów 12	31-272
81	Krosno Odrz.	ul. Poznańska 21	66-600
82	Krotoszyn	ul. Sienkiewicza 12a	63-700
83	Kutno	ul. Grunwaldzka 5	99-300
84	Legnica	ul. Gwarna 4a	59-220
85	Lubsko	ul. XX-Lecia 10	68-300
86	Łódź	al. Piłsudskiego 3	90-368
87	Łódź	al.Piłsudskiego 76	90-330
88	Łódź	ul. Sienkiewicza 24	90-114
89	Łódź	ul. Adwokacka 2	91-305
90	Mielec	al.Niepodległości 14	39-300
91	Międzyrzecz	Os. Centrum 4	66-300
92	Namysłów	ul. Dubois 5	46-100
93	Nowa Ruda	ul. Armii Krajowej 4	57-400
94	Nowa Sól	ul. Moniuszki 9	67-100
95	Nowogrodziec	ul. Kościelna 17	59-730
96	Nowy Sącz	ul.Szwedzka 4-6	33-300
97	Nowy Tomyśl	ul. Poznańska 13	64-300
98	Oborniki Śląskie	ul. Dworcowa 33	55-120
99	Oleśnica	Rynek-Ratusz	56-400
100	Olsztyn	pl.Bema 1	10-516

101	Oława	ul. 3 Maja 2a	55-200
102	Opole	ul. Ozimska 6	45-057
103	Ostrzeszów	ul. Zamkowa 20	63-500
104	Piła	ul. Sikorskiego 81	64-920
105	Piotrków Trybunalski	ul.Armii Krajowej 22 b	97-300
106	Polkowice	Rynek 13/14	59-100
107	Poznań	pl. Wolności 16	60-967
108	Poznań	ul. Fredry 12	61-701
109	Poznań	ul. Górecka 30	60-201
110	Poznań	ul. Jugosłowiańska 10	60-301
111	Poznań	ul.Przemysłowa 66	61-541
112	Poznań	ul. Św. Marcin 81	61-808
113	Poznań	ul. Powstańców Wlkp.16	61-895
114	Poznań	Plac Wolności 15	60-967
115	Poznań	ul. Gronowa 22	61-680
116	Poznań	Plac Andersa 5	61-894
117	Prudnik	ul. Piastowska 18	48-200
118	Pruszcz Gdański	ul.Wita Stwosza 3	83-000
119	Przemyśl	ul. Okrzei 1	37-700
120	Puławy	ul.Piłsudskiego 58	24-100
121	Radom	ul.Żeromskiego 9	26-610
122	Radom	ul.Bolesława Chrobrego 41	26-605
123	Rawicz	Rynek 18	63-900
124	Rogoźno	ul. Wielka Poznańska 24	64-610
125	Rzeszów	al.Józefa Piłsudskiego 32	35-001
126	Skawina	ul.Konopnickiej 3a	32-050
127	Słubice	ul. Kościuszki 2	69-100
128	Słupca	ul. Poznańska 14	62-400
129	Słupsk	pl. Dąbrowskiego 3a	76-200
130	Sopot	ul. Chopina 6	81-752
131	Sosnowiec	ul.Modrzejowska 17	41-200
132	Stalowa Wola	ul.Okulickiego 16b	37-450
133	Starogard Gdański	ul. Hallera 16	83-200
134	Strzegom	ul. T. Kościuszki 14	58-150
135	Strzelce Opolskie	ul. Zamkowa 1	47-100
136	Strzelin	ul. Książąt Brzeskich 7	57-100
137	Suchy Las	ul. Szkolna 20	62-002
138	Sulechów	al. Niepodległości 5	66-100
139	Sulęcin	Plac Czarnieckiego 16	69-200
140	Szamotuły	ul. Dworcowa 27	64-500
141	Szczecin	ul. Matejki 22	70-530
142	Szczecin	ul. Jagiellońska 37a	70-382
143	Szczecin	ul. Śląska 43a	70-952
144	Szczecinek	pl. Wolności 11	78-400
145	Szklarska Poręba	ul. Jedności Narodowej 16	58-580
146	Szprotawa	Rynek 12	67-300
147	Środa Śląska	ul. Wrocławska 11a	55-300
148	Świdnica	pl. 1000-lecia Państwa Polskiego 1	58-100
149	Świebodzice	al. Lipowe 5	58-160
150	Świebodzin	ul. Głogowska 8	66-200
151	Świnoujście	ul. Grunwaldzka 21	72-600
152	Tarnowskie Góry	ul. Oświęcimska 1	42-600

153	Tarnów	ul. Bitwy o Wał Pomorski 6	33-100
154	Tarnów	ul. Kaczkowskiego 1	33-100
155	Toruń	ul. Krasińskiego 2	87-100
156	Trzebnica	ul. Ks. Dziekana Wawrzyńca Bochenka 71	55-100
157	Tychy	ul. Bałuckiego 4	43-100
158	Wałbrzych	ul. Chrobrego 7	58-300
159	Wałbrzych	ul. Słowackiego 20 b	58-300
160	Warszawa	ul. Kasprowicza 119a	01-949
161	Warszawa	ul. Sobieskiego 60	02-930
162	Warszawa	ul. Belgradzka 4	02-793
163	Warszawa	ul. Powstańców Śląskich 49	01-355
164	Warszawa	ul. Grójecka 70	02-359
165	Warszawa	Aleja Jana Pawła II 35	00-899
166	Warszawa	ul. Zwycięzców 28	03-944
167	Warszawa	ul. Marszałkowska 142	00-061
168	Warszawa	ul. Jana Pawła II 23	00-854
169	Warszawa	Aleje Jerozolimskie 53	00-697
170	Warszawa	ul.Puławska 62/64	02-603
171	Warszawa	ul.Puławska 182	02-670
172	Warszawa	ul. Tarnowiecka 13	04-174
173	Warszawa	ul. Domaniewska 37	02-672
174	Wągrowiec	ul. Jeżyka 2C	62-100
175	Wieliczka	ul.Limanowskiego 1a	32-020
176	Włocławek	ul. Kościuszki 6	87-810
177	Wolsztyn	Rynek 7	64-200
178	Wołów	ul. Rynek 1-4	56-100
179	Wrocław	Rynek 9/11	50-950
180	Wrocław	ul. Kamienna 145	50-503
181	Wrocław	pl. Powstańców Śląskich 17/115	53-314
182	Wrocław	ul. Legnicka 51 - 53	54-203
183	Wrocław	ul. Kuźnicza 17-19	50-950
184	Wrocław	Plac Kościuszki 7/8	50-950
185	Września	ul. Warszawska 17	62-300
186	Wschowa	ul. Niepodległości 3a	67-400
187	Zabrze	pl.Wolności 299	41-800
188	Ząbkowice Śląskie	ul. Legnicka 3	57-200
189	Zduńska Wola	ul.Łaska 49/51	98-220
190	Zgorzelec	ul. Wolności 11	59-900
191	Zielona Góra	ul. Bankowa 5	65-950
192	Zielona Góra	ul. Boh. Westerplatte 23a	65-001
193	Złotoryja	Rynek 5	59-500
194	Żagań	pl. Wolności 6	68-100
195	Żary	ul. Wrocławska 12	68-200
196	Żary	Rynek 6-7	68-200
197	Żory	Rynek 25	44-240
198	Żywiec	ul.Kościuszki 33a	34-300
199	Private Banking Departament of Bank Zachodni WBK S.A.		
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1	Warszawa	ul. Grzybowska 5a, 4th floor	00-132

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