



# **Annual Report for FY2014**

**Content**

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	<b>Page</b>
<b>CEO letter</b>	<b>3</b>
<b>Business overview</b>	<b>5</b>
<b>Financial overview</b>	<b>12</b>
<b>Corporate governance</b>	<b>21</b>
<b>Management statement</b>	<b>33</b>
<b>Consolidated financial statements</b>	<b>34</b>

# COAL ENERGY S.A., ANNUAL REPORT FY2014

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## Dear Shareholders,

Herewith we are presenting our annual consolidated FY2014 financial report containing unaudited financial data.

As disclosed in the current reports no. 15/2014 dated August 28, 2014, and no. 18/2014 dated October 17, 2014, the Company postpones the annual audit procedure until the armed unrests in the region of operations are resolved and access to assets as well as to documentation is safe. The Company will duly inform the Shareholders and investment society through current reports, its web page and other available means of communications about any changes for the renewal of the audit.

The financial year 2014 was the toughest in the history of the Company. The 1H FY2014 demonstrated encouraging improvements in sales and profitability compared to the 2H FY2013 which was particularly affected by the coal market overproduction. During the 1H FY2014 the Company agreed longer-term cooperation arrangements, optimized its capital expenditure program, costs of production and output volumes to meet envisaged market demand.

Unfortunately, extremely rapid changes within the business and macro-economic environment during the 2H FY2014 caused by political tensions left no instruments and time to undertake adequate compensating actions for diversification of the Company's revenue sources in order to withstand adverse business conditions.

After the tragic events in Kiev in autumn and winter 2013/14 calendar years the country faced unrests in the South-East of Ukraine which further evolved into the continuing armed conflict. The increased risks and accumulated macroeconomic disproportions pushed regional business uncertainty, violation of production and trade links as well as fueled the macroeconomic instability.

Such adverse business environment halted realization of the Company's investment program for the new coal beneficiation facilities, acquisition of new coal waste piles, optimization and extension of the underground production – as the conflict and unrests evoked in the direct vicinity of the Company's production assets and origin of its major customers. Business of our customers also became affected by the instability and they cannot fulfill their contractual obligations towards the Company in time.

After escalation of the unrests into a military confrontation and direct threat to the employees' safety the Company was forced to minimize output, limit access to the production assets and shift them into the sustaining mode.

Similar production stoppage has been undertaken also by the overwhelming majority of private and state-owned mining companies in the region of confrontation (all responsible for approximately 80% of the country coal production) driving the whole Ukrainian market within a dramatically short period of time from oversupply of coal and sufficient coal stockpiles to coal deficit.

The deficit especially of thermal coal grades inspired growth of thermal coal prices in local currency terms in the 1Q FY2015 (starting July 2014) in anticipation of limited natural gas supply ahead of the winter heating season.

## COAL ENERGY S.A., ANNUAL REPORT FY2014

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Summarized highlights of the 4Q FY2014 and full FY2014 are presented below:

- ❖ **Mining output.** Mining output of thermal and coking coal in the 4Q FY2014 reached 66.8 thousand tonnes, or decreased by 51.7% q-o-q following the increased risks in the region as addressed above. Annual mining output in FY2014 decreased to 533.0 thousand tonnes, or by 62.6% y-o-y.
- ❖ **Coal volume sales.** In the 4Q FY2014 total coal volume sales reached 505.7 thousand tonnes generated mainly from coal trading operations, which means 104.3% increase q-o-q from 247.5 thousand tonnes. Annual coal volume sales totaled 1,654.0 thousand tonnes, or increased by 15.7% y-o-y.
- ❖ **Revenue from coal sales.** In the 4Q FY2014 generated coal sales revenue reached US\$26.2 million (increased by 59.8% q-o-q from US\$16.4 million). Annual FY2014 coal sales revenue reached US\$108.6 million (decreased by 5.6% y-o-y from US\$115.0 million).
- ❖ **EBITDA.** EBITDA comprised US\$2.6 million during the 4Q FY2014 compared to the –US\$1.4 million in the 3Q FY2014. EBITDA for the 12 months FY2014 composed US\$6.8 million (a reduction by 67.8% y-o-y from US\$21.1 million for the 12 months FY2013).

Lack of sufficient coal output volumes suspends further expansion of Group's export activities and potential gaining from the local currency devaluation. On the other side, coal deficit, existing established relations with coal consumers and significantly growing coal prices in the local market provide profitable opportunities for Company's local and imported coal trading.

Under current market conditions the Group is heavily concentrated on cost cutting, managing accounts receivable and restructuring of the existing loan facilities.

Financial liabilities restructuring is the core interest of the management. As of the date of the report publication there are no claims for early repayment from any of the existing financing institutions. The Company is negotiating and restructuring interest and principal payments under the outstanding loan facilities till the military conflict resolution and renewal of coal production.

In our opinion demand for coal, especially thermal coal, will remain high in Ukraine keeping also the prices relatively high throughout the FY2015.

Recovery of the coal market and investment attractiveness of the country might be based on soon as possible settlement of the unrests and implementation of economic reforms.

*Viktor Vyshnevetsky*

*Chairman of the Board of Directors and Chief Executive Officer*

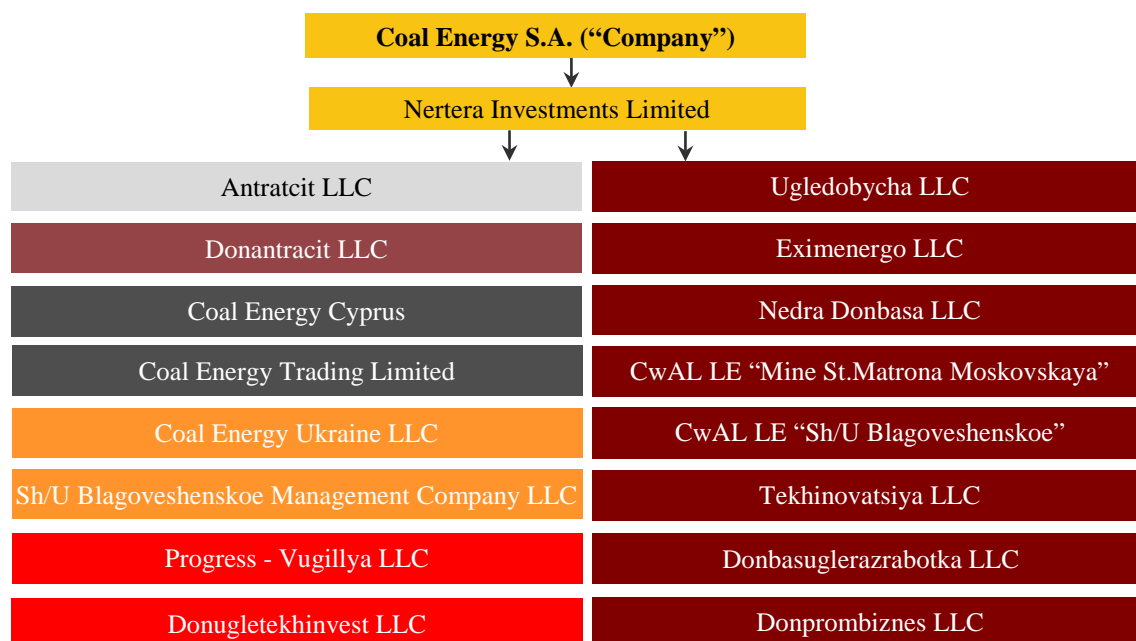
## *Business overview*

# COAL ENERGY S.A., ANNUAL REPORT FY2014

## Business overview

Coal Energy S.A. (hereinafter “Coal Energy” or “the Company” or “the Group”) incorporated in the Grand Duchy of Luxembourg is a holding company for a group of 17 companies operating in the mining industry. In July 2011 the Group placed 25% of its shares on the Warsaw Stock Exchange via initial public offering.

### Structure of the Coal Energy S.A. Group



- Asset holding company
- Waste dump processing
- Coal trading (Ukraine)
- Coal trading (export)
- Consultancy services for the companies of the Group and to third parties
- Coal beneficiation
- Coal mining

Coal Energy holds mining license through eight subsidiary companies located in Ukraine’s largest coal basin – Donbas. The Group’s principal business comprises the following segments: underground coal mining, processing of coal waste dumps, beneficiation and sale of thermal and coking coals and coal trading.

# COAL ENERGY S.A., ANNUAL REPORT FY2014

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Coal Energy's coal reserves allow producing of a wide range of coal grades, such as anthracite, low and high volatility thermal coal and coking coal.

## **Production overview**

During the FY2014 the Company was forced to decrease its production output under adverse events influencing supply and demand on the domestic market as well as increased country risks addressed in the *Letter to the Shareholders* and *Our markets* section of this report. Total thermal and coking coal output composed 648 thousand tonnes which represents 58.7% decrease as compared to 1,570 thousand tonnes of coal produced in FY2013.

As described above the ongoing conflict in the direct vicinity of the production assets of the Company forced to limit any production operations to the absolute minimum and to shift most of the assets into the sustaining mode. The decision was taken also in order to preserve the lives and health of our employees.

Under current conditions it is difficult to estimate precisely the exact amount of inflicted damage. The work is expected to be performed after guaranteed cease fire and bombing in the region. Nevertheless according to management's information the assets have incurred various levels of disruption (from destruction of surface buildings and instable or broken electricity supply to limited or absent ventilation and pumping at the mines). The risk of mine-laying as well as of unexploded ordnance is high. Given the disturbances in the region risk of equipment and coal stockpiles theft remains high. Bringing the assets back to production will depend on the time and outcomes of the conflict resolution as well as on the scope of inflicted damage to be recovered.

## **Coal mining**

In FY2014 mining output resulted in 533 thousand tonnes of coal as compared to 1,424 thousand tonnes of coal mined in FY2013, or decreased by 62.6% y-o-y.

Thermal coal output decreased from 1,202 thousand tonnes in FY2013 to 406 thousand tonnes in FY2014, or by 66.2%.

Coking and dual purpose coal output lowered from 222 thousand tonnes in FY2013 to 127 thousand tonnes in FY2014, or by 42.8% y-o-y.

## COAL ENERGY S.A., ANNUAL REPORT FY2014

The table below shows mining volumes by each legal entity that operates the Group's mines (numbers are rounded):

<i>in thousand of tonnes</i>	Coal type	FY2014	FY2013	FY2012
Donbasuglerazrobotka LLC	Thermal	2	34	39
Donprombiznes LLC	Thermal	42	288	269
Eximenergo LLC	Thermal	161	316	251
Ugledobycha LLC	Thermal	140	155	197
CwAL LE "Sh/U Blagoveshenskoe"	Thermal	61	409	573
<i>Sub-total thermal</i>		<i>406</i>	<i>1,202</i>	<i>1,329</i>
Nedra Donbasa LLC	Coking	8	16	32
Tekhinovatsiya LLC	Dual-purpose	5	30	59
CwAL LE "Mine St.Matrona Moskovskaya"	Coking	114	176	219
<i>Sub-total coking and dual-purpose</i>		<i>127</i>	<i>222</i>	<i>310</i>
<b>Total mining</b>		<b>533</b>	<b>1,424</b>	<b>1,639</b>

Depending on the escalation and development of the conflict in the region the Company will need to incur additional investments into the mines in order to renew production. Amount and timing of these investments need additional consideration after assessment of the inflicted damage at the production assets.

### Processing of coal waste dumps

Coal waste processing plant Prepodobnih Antoniia and Feodosiia of Kievo-Pechersk (LLC Antracit) is located in Snezhnoe city at one of the three coal waste piles in ownership of the Company. The city is situated directly in the zone of active military conflict. The plant ceased its production in August 2014 facing shelling and shooting in the surrounding area. The table below summarizes production results of waste processing business segment (numbers are rounded):

<i>in thousand of tonnes</i>	FY2014	FY2013	FY2012
<b>Total coal from waste processing</b>	<b>115</b>	<b>146</b>	<b>217</b>

Total production of coal concentrate in this segment decreased by 21.2% in FY2014 y-o-y.

The Company's coal waste dumps processing business is working in accordance with the Joint Implementation Project program arranged by Global Carbon B.V., and is aimed at reducing CO<sub>2</sub> emissions. Because of the low price of the emission units which did not cover fixed costs of application for compensation during the FY2014 the Company did not apply for any additional reimbursements. Additionally the ongoing unrests do not provide any opportunity for the realization of such initiative.



## Coal beneficiation

The Company is running its coal beneficiating business at Postnikovskaya beneficiation plant (LLC Donugletekhninvest) in the Shahtyorsk city. The plant ceased its production in August 2014 facing shelling and shooting in the surrounding area.

The table below shows coal beneficiation volumes (numbers are rounded):

<i>in thousand of tonnes</i>	FY2014	FY2013	FY2012
Beneficiation of own coal mined and bought from third parties	116	209	324
Coal beneficiation services to third parties	24	-	-
<b>Total coal beneficiation</b>	<b>140</b>	<b>209</b>	<b>324</b>

In FY2014 total coal beneficiation comprised 140 thousand tonnes, including coal beneficiation services provided to the third parties in amount of 24 thousand tonnes. Volumes of beneficiated coal following the decreased production operations and business activity decreased by 33.0% y-o-y.

Previously the Company considered expansion of beneficiation business at St. Matrona Moskovskaya mine by building the new plant specialized in beneficiation of coking coal mainly from St. Matrona Moskovskaya mine and potentially from the third parties. However, in FY2014 due to the unstable business environment and prospects for future development such investments are currently halted.

## Our markets (based on available statistical information)

Coal industry is an important basic material industry for Ukraine. On the one hand, it is the fuel for thermal power plants accounting for approximately 45%-48% in the electricity balance of the country in 2012-2013 calendar years being also the source of increasing electricity exports. On the other hand, coking coal is vital for the metallurgic sector which historically kept Ukraine among the top 10 world steel producing nations and accounted for approximately 27% of the country's export proceeds in 2013 calendar year.

Since the beginning 2014 calendar year the core markets of the Company are under the adverse affect of the macroeconomic and political factors. External factors which added to the destabilization of the macroeconomic situation are the separation of the Crimea peninsula and armed unrest in the South-East of Ukraine which significantly reformatted economic ties within the country.

The region affected by the military conflict belongs to the most industrialized, populated region which accounts for the most of the coal and metal production in Ukraine. Diminishing of economic activity hence will be clearly reflected in the country's macroeconomic indices.

Recently the International Monetary Fund decreased its expectations of the Ukrainian gross domestic product dynamics from -6.5% to -7.25% for the 2014 calendar year.

During the 8 months 2014 calendar year the Ukrainian industrial output decreased by 7.8% y-o-y mainly as a consequence of the ongoing military conflict in the South-East region (9 months statistics demonstrates decrease of 8.6% y-o-y).

## COAL ENERGY S.A., ANNUAL REPORT FY2014

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Worsening of the political and hence trade relations with Russian Federation, being one of the largest trading partners in the previous periods, lack of substituting demand and trading volumes from other destinations added to the industrial output decrease during the 8 months 2014 calendar year. In August 2014 industrial output decreased by 12.7% m-o-m and by 21,4% y-o-y.

Further decrease of industrial output and gross domestic product are expected to continue throughout the FY2015.

The coal industry especially in the segment of the state owned mines may undergo heavy reforms in FY2015, further resulting from the necessity to invest significant amounts to restore potential damage caused by the active military counter-stand in the coal basin. As a result ineffective mines or those with reserves of oversupplied coal grades may be closed or conserved. Such process may also last over the FY2015 depending also on the social stability of the region and ability to change the specialty of the existing miners. If realized the changes may limit local supply and provide perspectives for the imported coking and thermal coal grades.

### *Ukrainian thermal coal market.*

Coal production in the Donbas basin and hence in Ukraine is decreasing in the environment of numerous threats, mainly stemming from the armed unrests in the region.

During the eight months 2014 thermal coal production decreased by 6.3% y-o-y. In August 2014 thermal coal output decreased by 35.3% m-o-m and by 43.0% y-o-y.

As a result of decreasing industrial output electricity production level during the 8 months 2014 was lower by 3.6% y-o-y. Electricity consumption level (netto) decreased by 3.6% y-o-y.

Limited supply of domestic coal supply forced coal heating and power plants to burn available coal on stocks which decreased to 2.8 million tonnes as of 01.08.2014, or by 39.0% y-o-y (or by 14.8% m-o-m from 01.07.2014). Coal export and import statistics confirms the deficit of thermal coal grades in the market. Export of thermal coal grades during the 6 months 2014 calendar year increased by 6.2% y-o-y, while July and August export statistics evidence a decrease of 34.8% y-o-y, respectively all resulting in 5.1% decrease for the 8 months 2014 y-o-y.

In the middle of 2014 calendar year Ukraine started to increasingly import thermal coal and the trend is expected to continue at growing pace. Import volumes for the 8 months 2014 grew to 225.9 thousand tonnes y-o-y (from 47.7 thousand tonnes).

In order to cover disproportion between supply and demand the Ukrainian government has initiated seaborne delivery of 1 million tonnes of thermal coal from South-African Republic till the end of 2014 calendar year.

### *Ukrainian coking coal market.*

Since the beginning of the 2014 calendar year country's steel production was volume wise steadily underperforming the numbers of the 2013 calendar year.

During the 8 months of 2014 calendar year the Ukrainian steel production decreased in volumes of production by 11.4% y-o-y on the grounds of poor expectations by the off-takers in the 1H

# COAL ENERGY S.A., ANNUAL REPORT FY2014

2014 calendar year about capacity of the Ukrainian producers to perform under the existing off-takers' agreements as the military conflict in the South-East evolved and intensified.

Respectively country coking coal production decreased during the 8 months 2014 by 14.3% y-o-y. In August 2014 coking coal output decreased by 29.2% m-o-m and by 44.8% y-o-y. Finding lower demand from the steel producers and following sharp local currency depreciation export volumes of coking coal increased by 2.64x during the 8 months 2014.

The coking coal market was and will be further closely correlated with the steel production and perspectives of the Ukrainian metal industry.

## People

In FY2014 the Group employed 3,705 employees (weighted average headcount) representing a decrease by 42.0% y-o-y. Unfortunately dramatic events of military conflict forced a lot of people to leave their ordinary places of living and their work. Besides, the Company had to incur reduction of personnel as part of cost saving measures.

Additional information concerning the average number of the Group's employees by category for FY2014, FY2013 and FY2012 is set forth in the table below:

	FY2014	FY2013	FY2012
Mining	1,383	2,930	3,367
Support production	1,686	2,559	2,892
Administrative and sales personnel	636	898	759
<b>Total</b>	<b>3,705</b>	<b>6,387</b>	<b>7,018</b>

## Summary of payments to the Ukrainian authorities

The following information (numbers are rounded) is provided as part of the initiative Publish What You Pay, a global civil society coalition, to achieve transparency of the Company's payments to agencies and representative of governments as a step towards a more accountable system for the management of natural resources and with the mission that mining revenues improve the lives of women, men and youth in resource-rich countries (<http://www.publishwhatyoupay.org/about>).

<i>in million of US\$</i>	FY2014	FY2013	FY2012
Social Insurance Funds employer	8.4	15.6	16.0
Social Insurance Funds individual	1.6	3.0	3.0
Concession fee	1.6	2.0	2.1
Income tax	0.3	1.6	4.8
Natural resources payment	0.7	1.1	0.8
VAT	0.1	0.9	3.0
Environmental tax payments	0.2	0.2	0.1
Fee for licenses area extension	0.4	-	0.7
<b>Total</b>	<b>13.3</b>	<b>24.4</b>	<b>30.5</b>

## *Financial overview*

# COAL ENERGY S.A., ANNUAL REPORT FY2014

## Overview

Adverse political and economic environment misbalanced and significantly affected business activity and hence performance of the Company. Increased country risks and risk of damage of production assets due to the military confrontation and active shooting and bombing in the South-East region forced the Company first to limit coal production and then almost stop it in order to avoid human casualties.

As of the date of report publication the management given the ongoing military conflict has limited possibilities to estimate inventory damage and theft probability as well as to estimate impairment of property, plant and equipment considering uncertainties of their future economic benefits.

In FY2014 the Company reported total revenue of US\$111.9 million, representing 11.1% decline y-o-y. The decline resulted mainly from decreased sales prices which partially off-set increased sales volumes. Sales prices decrease incorporated the local currency devaluation effect versus US dollars (currency of the report). The profitability ratios decreased substantially given the operating and financial leverage of the Company.

The following table summarizes the Group's key margins and ratios for FY2014 and FY2013 (numbers are rounded):

<i>in million of US\$</i>	FY2014	FY2013	Relative change y-o-y
Revenue	111.9	126.0	(11.2%)
Gross profit	20.9	25.3	(17.4%)
EBIT	(4.3)	9.7	n/a
EBITDA	6.8	21.1	(67.8%)
Net loss/profit	(38.9)	(16.9)	n/a
<i>as a percentage of revenue</i>	<b>Δ percentage points</b>		
Gross margin %	18.7%	20.1%	(1.4)
EBIT %	(3.8%)	7.7%	(11.5)
EBITDA %	6.1%	16.7%	(10.6)
Net earnings %	(34.8%)	(13.4%)	(21.4)
<b>Ratios:</b>			
EBITDA/Finance costs	0.2	1.1	
Debt*/EBITDA	12.0	3.7	
Net debt/EBITDA	11.8	3.5	

\*-Debt and Net debt include loans and finance lease liabilities (discounted future finance charges denominated in UAH for lease of two state-property integral complexes owned by CwAL LE "Sh/U Blagoveshenskoe" and CwAL LE "Mine St.Matrona Moskovskaya") in amount of US\$7.821 million in FY2013 and US\$5.303 million in FY2014 - reduction mainly incorporates the local currency devaluation effect. Calculation of Debt excludes the amount of US\$20.0 million (non-current deposit) which is securing obligations under a loan with a Ukrainian bank.

## Revenue

During the FY2014 the Company sold a wide portfolio of coal grades to different types of customers both in Ukraine and abroad:

## COAL ENERGY S.A., ANNUAL REPORT FY2014

- ❖ 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 households 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 where it is blended with coking fat coal (grade Zh) or other coking coal grades during coke production process.

Revenues in FY2014 were predominantly affected by the increasing coal sales from trading activity as well as lower sales from own coal mining and coal waste processing:

<i>in thousand of US\$, except percentages</i>	FY2014	FY2013	change in %
<b>Revenue</b>			
Coal from own mining and waste processing	65,168	110,372	(41.0%)
Trade activity	46,280	14,950	209.6%
Other activity	501	647	(22.6%)
<b>Total revenue</b>	<b>111,949</b>	<b>125,969</b>	<b>(11.1%)</b>

Revenue from export sales composed 5.4% in FY2014 in total revenue compared to 9.0% in FY2013. Export revenues declined due to the lower output possibilities. Export coal grades were produced mainly from the segment of coal waste processing.

<i>in thousand of US\$, except percentages</i>	FY2014	FY2013	change in %
Ukraine	105,913	114,598	(7.6%)
Export	6,036	11,371	(46.9%)
<b>Total</b>	<b>111,949</b>	<b>125,969</b>	<b>(11.1%)</b>

Structure of coal sales demonstrated predominance of thermal coal grades. Thermal coal sales comprised 81.9% of total coal sales volumes in the reporting year versus 84.3% in the FY2013, however coking coal sales demonstrated reasonable growth y-o-y (numbers are rounded). Most of the coking coal sales increase occurred in the 2Q FY2014 (based on seasonal expectations of the metallurgic producers, lower priced and hence higher demand) and in the 4Q FY2014 (based on lower coking coal supply options and availability of coking coal on stock of the Company).

<i>in thousand tonnes</i>	FY2014	FY2013	change in %
Thermal	1,354	1,205	12.4%
Coking	300	224	33.9%
<b>Total</b>	<b>1,654</b>	<b>1,429</b>	<b>15.7%</b>

### *Sales prices*

Declining sales prices during FY2014 incorporate the local currency devaluation starting the 2H FY2014. The sales prices for domestic sales demonstrated slight increase in local currency terms in the 4Q FY2014 reflecting narrowing supply in the market.

## COAL ENERGY S.A., ANNUAL REPORT FY2014

FY2014 versus FY2013 weighted average prices comparison (rounded to whole numbers) reveals the following dynamics:

- ❖ thermal coal price for export increased to US\$77 per tonne, or by 2.7%,
- ❖ thermal coal price for domestic sales declined to US\$57 per tonne, or by 24.0%,
- ❖ coking coal price (including dual-purpose coal) for domestic sales declined to US\$101 per tonne, or by 9.8%.

### *Cost of sales and cash cost of production*

The following table links cost of sales to total cash cost of production in each business segment of the Group in FY2014 and FY2013:

<i>in thousand of US\$</i>	FY2014	FY2013
<b>Cost of sales</b>	<b>91,087</b>	<b>100,654</b>
Less:		
Cost of merchandising inventory	35,796	14,513
Change in inventories	11,263	(9,428)
Cost of other services	230	386
Depreciation and amortization	4,985	10,757
<b>Total cash cost of production</b>	<b>38,813</b>	<b>84,426</b>
<i>Including:</i>		
<i>Total cash cost of mining</i>	<i>34,741</i>	<i>77,450</i>
<i>Total cash cost of beneficiation</i>	<i>1,511</i>	<i>3,059</i>
<i>Total cash cost of waste dumps processing</i>	<i>2,561</i>	<i>3,917</i>
<i>in US\$ per tonne</i>		
<i>Cash cost of mining per 1 tonne of ROM coal</i>	65.2	54.4
<i>Cash cost of beneficiation per 1 tonne of ROM coal</i>	10.8	14.7
<i>Cash cost of waste processing per 1 tonne of saleable coal from waste dumps</i>	22.3	26.9

Significant decline in production together with expenses of conditionally fixed nature (wages, energy, etc.) caused growth in cash cost of mining to US\$65.2 per 1 tonne, particularly by 19.9% y-o-y.

Cash cost of beneficiation to US\$10.8 per 1 tonne, declined by 26.5% y-o-y mainly due to devaluation effect.

Cash cost of coal waste processing in the reporting period decreased compared to FY2013 to US\$22.3 per 1 tonne, or by 17.1% due more efficient technology of coal waste processing (beginning FY2013 coal waste processing has been conducted at an old plant) and significant cost reduction measures attributable to this segment as well as higher attributable installation costs for the new coal waste processing plant.

## ***Gross profit***

Gross profit decreased from US\$25.3 million in FY2013 to US\$20.9 million in FY2014, thus dropped by 17.4% y-o-y.

## ***Operating expenses***

### ***General and administrative expenses***

General and administrative expenses decreased from US\$7.2 million in FY2013 to US\$5.0 million in FY2014, or by 30.6%. The expenses decreased mostly within component of wages and salaries of administrative personnel from US\$4.9 million in FY2013 to US\$3.4 million in FY2014, or by 30.6% resulting from headcount reduction of the administrative personnel and local currency devaluation effect.

### ***Selling and distribution expenses***

Selling and distribution expenses decreased from US\$7.3 million in FY2013 to US\$4.3 million in FY2014, revealing a 41.1% decline. The decline was caused mainly by lower (by US\$2.8 million) delivery costs down to US\$3.3 million partially incorporating the local currency devaluation effect.

### ***Other operating expenses/income***

Other operating expenses grew up to US\$2.7 million in FY2014 compared US\$0.09 million in FY2013. This was caused by increased expenses for writing-off doubtful trade receivables in amount of US\$2.3 million in FY2014 versus US\$0.1 million in FY2013.

### ***Idle capacity expenses***

Substantial curtailment of production in FY2014 resulted in the increase of idle capacity item from US\$1.1 million in FY2013 up to US\$13.1 million in FY2014.

## ***Operating loss/profit***

The Company recorded operating loss of US\$4.3 million in FY2014 as compared to operating profit US\$9.7 million in FY2013.

## ***Financial income***

In FY2014 financial income remained flat y-o-y composing US\$3.1 million versus US\$3.2 million in FY2014. Most of the financial income in amount of US\$2.3 million was generated from the deposits placed with the banks.

## ***Financial costs***

Financial costs increased considerably from US\$18.6 million in FY2013 to US\$35.0 million, mostly due increase in items such as interest expenses (in amount of US\$12.7 million in



## COAL ENERGY S.A., ANNUAL REPORT FY2014

FY2014) and loss from non-operational exchange differences (in amount of US\$12.3 million in FY2014 resulting from the local currency devaluation). Impairment loss of loans issued (interest-free loans) prior to FY2011 (Note 17 of the Consolidated Financial Statements for the Year Ended June 30, 2014, describes the voluntary 100% special allowance on the loans generally issued to the related parties. The decision has been taken by the management to keep the conservative approach in the accounting of the financial assets) incorporates the effect of devaluation of the local currency.

### *Loss before tax*

Loss before tax comprised US\$36.9 million in FY2014 as compared to US\$12.4 million loss before tax in FY2013.

### *Income tax expenses*

Income tax expenses declined to US\$2.0 million in FY2014 from US\$4.5 million in FY2013.

### *Net loss*

Net loss for the reporting period comprised US\$38.9 million as compared to US\$16.9 million of net loss in FY2013.

### *Cash and cash equivalents*

Cash and cash equivalents decreased y-o-y to US\$1.6 million from US\$3.3 million.

### *Cash Flow*

The following table summarizes the Group's statement of cash flow for the financial years ended June 30, 2014 and 2013, respectively:

<i>in thousand of US\$</i>	<b>FY2014</b>	<b>FY2013</b>
Net cash flow from operating activity	6,641	2,784
Net cash flow from investing activity	(7,420)	(79,328)
Net cash flow from financial activity	176	74,593
<b>Net cash flows</b>	<b>(603)</b>	<b>(1,951)</b>

### *Net cash flow from operating activity*

Net cash-flow from operating activity increased from US\$2.8 million in FY2013 to US\$6.6 million in FY2014.

### *Net cash flow from investing activity*

Net cash outflow from investing activity of the Group amounted US\$7.4 million in FY2014 versus US\$79.3 million in FY2013, as the Company significantly reduced its investing program facing weak coal markets due to increased political and macroeconomic risks.

## *Net cash flow from financial activity*

Net cash flow from financial activity comprised US\$0.2 million in FY2014 as opposed to US\$74.6 million in FY2013. The Company was negotiating extending principal maturities and interest payments as well as rolling over the existing credit facilities.

## *Risks and uncertainties*

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

The Company'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. Though Ukrainian coal market is a bit isolated, still global financial and economic crises may influence the Ukrainian coal prices.

To mitigate the price risk and risk of lowering demand, the Company endeavours to diversify its customer base both on local and export markets and aims to sign long-term framework contracts for coal supply.

While prices are beyond control of the Company we constantly strive to lower and maintain low cost of production with the same level of operations quality.

*The Company is subject to particular demands from customers which vary from customer to customer from product to product and from time to time*

As the customer may require coal with higher efficiency characteristics the increased demand for higher grade coal may reduce demand and contract prices for coal with reduced energy efficiency.

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

The Company's main production expenses are energy costs, 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 Company's control.

Cost of mining operations per tonne as conditionally fixed (energy, water drainage, ventilation system, etc.) can not be reduced proportionally with the reduction of coal sales as the case may be. These costs need to be incurred in order to maintain certain safety of operations and to secure the Company's ability to increase production after the market revival. If sales for some particular coal grades from a particular asset are not expected to regain back their volume and price the Company may take decision to postpone mining operations on that asset and incur repairing and supportive works. Returning to the previous production levels may require additional capital investments. Having long history of relations with the customers we aim to secure demand for all of our coal grades.

*The Company's activity may be impacted by limited banking financing for its projects and operating activity as well as local currency devaluation*

## COAL ENERGY S.A., ANNUAL REPORT FY2014

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In order to continue investment program at the levels which would allow reaching the expected targets the Company needs external financing. Macroeconomic and political instability in the country make the banks reassess their country risk policies and they may either stop providing new financing to customers or even lower their credit exposures.

Macroeconomic instability could also push the population to transfer their savings into US\$ (creating devaluating pressure on the local currency) and/or even to take their savings away from the banking system which may additionally squeeze the banking system's liquidity.

During the last years foreign currency loans had a more attractive interest rate, had longer tenors of financing and were easier available than local currency (hryvnia) loans, hence foreign currency loans may be more attractive in general.

Nevertheless foreign currency loans expose to the exchange rate risks which may inflate liabilities denominated in the foreign currencies in case of local currency devaluation. In order to fulfil obligations under the conditions of limited export proceeds restructuring may be needed with the goal of extending maturities and postponing interest payments until the markets rebound and sufficient resources are accumulated to cover the realized risk.

The Company can not exclude the risk of further devaluation of hryvnia.

*The Company's activity may be influenced by political instability and/or uncertainty and/or separatism intentions and escalation of military conflict in Ukraine*

Failure to achieve political consensus necessary to support and implement reforms and any resulting instability could adversely affect the country's macroeconomic indices, economic growth, business climate, social and living standards, postpone business decisions by customer and major industrial groups. Such increased uncertainties will definitely affect the industrial output level in the country, electricity, heat and steel production and consumption as well as construction plans and metallurgic industry performance (being directly or indirectly the core consumers for the Company's products), tax payments to the state budget.

The military conflict in the region of the Company's assets allocation may lead to damages to assets and inventories. Furthermore, depending on the severity of the conflict the assets/inventories may be damaged in scope which will make it impossible or economically not viable to restore them.

The realization of the risk is considered to be high. Mitigation of the risk is mainly outside of control of the Company on macro level.

*Any unfavourable changes in Ukraine's regional relationships, especially with the Russian Federation, may adversely affect the Ukrainian economy and hence business environment*

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

If bilateral trade relations between Russian Federation and Ukraine are to deteriorate, this may have negative impact on the Ukrainian economy as a whole and thus on the Company's business,

results of operations, financial conditions and prospects as industrial output in the country may shrink. Respectively demand for energy and consequently demand for thermal and coking coal may decrease.

Considerable dependence of the Ukrainian economy on Russian energy exports together with increase in natural gas price by Russian Federation 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, modernization of production facilities as well as establishing diversified sources gas supply. While defending its geopolitical interests Russian Federation may execute economic pressure either through trade wars or prices for energy resources imported by Ukraine. If escalation of interests clashes proceeds this may ruin and demoralize the existing industrial and supply chains putting development and prospects of any business sector in question and hence affect energy demand.

The realization of the risk is considered to be high. The Company does not possess resources to mitigate the described risk on macro level.

### *Liquidity risk*

As one of the major consequences of decreasing prices and lowering demand for coal is that the Company may need additional means to promote sales, i.e. providing customers with favourable trade credit terms, hence increasing working capital tied up mostly in the trade account receivables. If financial resources from lending institutions are available these additional working capital amounts could be financed respectively. The Company is in constant dialogue with its current financing banks in order to secure timely rolling over and extending of the credit facilities. Nevertheless the ability of banking institutions to lend depends highly on country risks of Ukraine and there own liquidity (UAH liquidity is formed mainly from the deposits of the local individuals and enterprises) which diminishes dramatically in the times of macroeconomic and political instability. In the situation of absence of bank financing to cover the increased trade credit conditions the Company will be forced to decrease sales.

The Company is cooperating with a number of private commercial banks which are subject to the regulations of the Ukrainian authorities. Banks' ability to perform in accordance with such regulations is out of control of the Company. Nevertheless if banks fail to comply with the Ukrainian legislation the regulator may impose various sanctions against them which may influence the ability of such banks to provide financing resources or might force the banks to draw back the financial resources provided to the Company if the Company does not fulfil obligations according to the loan agreements.

The Company can not mitigate the risk that the banks may demand early repayment and the Company will not be able to fund refinancing for such funds.

## *Corporate Governance Report*

## COAL ENERGY S.A., ANNUAL REPORT FY2014

The Company has decided to observe the majority of the WSE Corporate Governance Rules included in the Code of Best Practice for WSE Listed Companies to the form and extent determined by the Resolution No. 19/1307/2012 of the Exchange Supervisory Board dated November 21, 2012. However, certain principles apply to the Company accordingly, with due observance of Luxembourg corporate law and the Company's corporate structure, especially the single board structure as opposed to the two-tier system that the WSE Corporate Governance Rules assume. The Company does not have two separate governing bodies (supervisory board and management board) which are obligatory in Polish joint stock companies. Instead, the Board of Directors of the Company performs both the management and supervisory functions. As a result, the Company applies those principles of the WSE Corporate Governance Rules which refer to relations between supervisory board and management board not directly, but accordingly. In all cases, the Company endeavours to create procedures maintaining the spirit of all rules applied accordingly. Therefore, the Company is of an opinion that it complies with the rules that refer to relations between supervisory board and management board or to the functioning of those bodies.

RULE	STATUS IN THE COMPANY
<b>I. Recommendations for Best Practice for Listed Companies</b>	
<p>1. A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular:</p> <ul style="list-style-type: none"> <li>- maintain a company website whose scope and method of presentation should be based on the model investor relations service available at <a href="http://naszmodel.gpw.pl/">http://naszmodel.gpw.pl/</a>;</li> <li>- ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication.</li> </ul>	<p>The Company made the broad use of both traditional and modern methods /i.e. Internet tools/ to ensure effective communication and access to information for shareholders, analysts and investors.</p> <p>The Company's website is not identical with the scope and method of presentation specified by <a href="http://naszmodel.gpw.pl/">naszmodel.gpw.pl</a>, however the Company has launched new website which in Company's opinion meets the requirements for fast and secure communication with stakeholders and is designed to pursue effective information policy.</p>
<p>3. A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting</p>	Complies
<p>4. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that</p>	Not applicable, the Company's securities are listed and traded on the WSE only

## COAL ENERGY S.A., ANNUAL REPORT FY2014

<p>corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded</p>	
<p>5. A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.</p>	<p>Currently, the Company does not have a remuneration policy adopted. The Company does not exclude that the remuneration policy will be adopted by the General Meeting in the future</p>
<p>6. A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>7. Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular:</p> <ul style="list-style-type: none"> <li>- refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments;</li> <li>- raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the company.</li> </ul>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>8. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities</p>	<p>Complies</p>

## COAL ENERGY S.A., ANNUAL REPORT FY2014

<p>9. The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business</p>	<p>Currently, the Company does not comply with this recommendation. The Company supports this recommendation however the members of the Board of Directors are appointed by the General Meeting of Shareholders and therefore the compliance with this recommendation depends on the shareholders' future decisions</p>
<p>10. If a company supports different forms or artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, it is good practice to publish, in a mode adopted by the company, the rules of its activity in this area.</p>	<p>Complies</p>
<p>11. As part of a listed company's due care for the adequate quality of reporting practice, the company should take a position, expressed in a communication published on its website, unless the company considers other measures to be more adequate, wherever with regard to the company:</p> <ul style="list-style-type: none"> <li>- published information is untrue or partly untrue from the beginning or at a later time;</li> <li>- publicly expressed opinions are not based on material objective grounds from the beginning or as a result of later circumstances.</li> </ul> <p>This rule concerns opinions and information expressed publicly by company representatives in the broad sense or by other persons whose statements may have an opinion-making effect, whether such information or opinions contain suggestions advantageous or disadvantageous to the company</p>	<p>Complies</p>
<p>A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.</p>	<p>Currently, the Company complies with this recommendation partially. Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling electronic communication. The Company however supports its shareholders to exercise their voting rights by authorizing the</p>



	<p>proxies who are bound by instruction or a third party. The Company does not preclude the possibility of providing shareholders with electronic communication tools during General Meetings in the future.</p>
<p><b>II. Best Practice for Management Boards of Listed Companies</b></p>	
<p>1. A company should operate a corporate website and publish on it, in addition to information required by legal regulations:</p> <p>1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;</p> <p>2) professional CVs of the members of its governing bodies;</p> <p>2a) on an annual basis, in the fourth quarter – information about the participation of women and men respectively in the Management Board and in the Supervisory Board of the company in the last two years;</p> <p>3) current and periodic reports;</p> <p>4) <i>deleted</i></p> <p>5) where members of the company’s governing body are elected by the General Meeting – the basis for proposed candidates for the company’s Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;</p> <p>6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the internal control system and the significant risk management system submitted by the Supervisory Board;</p> <p>7) shareholders’ questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;</p> <p>8) information about the reasons for</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p> <p>Currently, the Company has not adopted rules of changing the company authorized to audit financial statements - rule II.1.14). The Company does not exclude that the rules will be adopted in the future.</p> <p>The Company has not implemented registration of General Meetings in audio or video format, nonetheless the Company does not exclude that such rule will be adopted in the future.</p>

<p>cancellation of a General Meeting, change of its date or agenda together with grounds;</p> <p>9) information about breaks in a General Meetings and the grounds of those breaks;</p> <p>9a) a record of the General Meeting in audio or video format;</p> <p>10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;</p> <p>11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;</p> <p>12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from its introduction;</p> <p>13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;</p> <p>14) information about the content of the company's internal rule of changing the company authorized to audit financial statements or information about the absence of such rule.</p>	
<p>2. A company should ensure that its website is also available in English, at least to the extent described in section II.1.</p>	<p>Complies</p>
<p>3. Before a company executes a significant agreement with a related entity, its Management Board shall request the approval</p>	<p>Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company.</p>

## COAL ENERGY S.A., ANNUAL REPORT FY2014

<p>of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake.</p>	
<p>4. A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company. The Articles of Association address the conflict of interest issue in article 14.</p>
<p>6. A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>7. A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.</p>	<p>Complies</p>
<p>8. If a company's Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2-4 of the Code of Commercial Partnerships and Companies, the company's Management Board shall immediately perform the actions it is required to take in connection with organizing and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorization given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies.</p>	<p>Complies with the reservation that the Code of Commercial Partnerships and Companies is not applicable to the Luxembourg based companies and according to the Luxembourg corporate law there is a single board structure in the Company. Nonetheless the Articles of Association in article 15.3. states that shareholders representing one tenth of the subscribed share capital may, in compliance with the law of 10 August, as amended, on commercial companies, request the Board of Directors to call a General Meeting of shareholders.</p>
<p><b>III. Best Practice for Supervisory Board Members</b></p>	
<p>1. In addition to its responsibilities laid down in legal provisions the Supervisory Board should:</p> <p>1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system;</p> <p>2) <i>deleted</i></p>	<p>Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company. The Board of Directors reports are available together with the auditor report and the annual accounts prior to the Annual General Meeting.</p>

## COAL ENERGY S.A., ANNUAL REPORT FY2014

<p>3) review and present opinions on issues subject to resolutions of the General Meeting.</p>	
<p>2. A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.</p>	<p>Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>3. A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.</p>	<p>Complies</p>
<p>4. A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company. The Articles of Association address the conflict of interest issue in article 14.</p>
<p>5. A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>6. At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the <i>Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board</i>. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company. 3 members of the Board of Directors are independent.</p>

## COAL ENERGY S.A., ANNUAL REPORT FY2014

member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	
8. Annex I to the <i>Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors...</i> should apply to the tasks and the operation of the committees of the Supervisory Board.	Complies partially. The Board of Directors established from among its members the Audit Committee. The Company did not establish the Remuneration Committee. The tasks and duties contemplated by a remuneration committee and selection and appointment committee were performed by the entire Board of Directors
9. Execution by the company of an agreement/ transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company.
<b>IV. Best Practices of Shareholders</b>	
1. Presence of representatives of the media should be allowed at General Meetings.	Complies
2. The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.	Complies
4. A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.	Complies
5. Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	Complies
6. The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between	Complies

## COAL ENERGY S.A., ANNUAL REPORT FY2014

these dates requires detailed grounds.	
7. A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfillment must take place before the date of setting the right to dividend.	Complies
9. A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.	Complies
10. A company should enable its shareholders to participate in a General Meeting using electronic communication means through: 1) real-life broadcast of General Meetings;  2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.	Currently, the Company complies with this recommendation partially. Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling real-life broadcasting or real-time bilateral communication. The Company however supports its shareholders to exercise their voting rights by authorizing the proxies who are bound by instruction or a third party. The company does not preclude the possibility of providing shareholders with real-time bilateral communication during General Meetings in the future.

### Board of Directors

The Company has a one-tier corporate governance structure and is administered and managed by the Board of Directors.

In FY2014 Company's Board of Directors was composed of 6 directors. The information below sets forth the names, positions, election date, and terms of office of the members of the Board of Directors, discharging their responsibilities as for reporting date of 30th June 2014.

<b>Name</b>	<b>Position/ Function</b>	<b>Class</b>
Viktor Vyshnevetskyy	Chairman of the Board of directors, executive director	Class A director
Roman Kovalkov	Executive director	Class A director
Oleksandr Rezyk	Executive director	Class A director
Arthur David Johnson	Non-executive director	Class A director
Gwenaëlle Bernadette Andr�e	Non-executive director	Class B director

## COAL ENERGY S.A., ANNUAL REPORT FY2014

Dominique Cousin		
Jacob Mudde	Non-executive director	Class B director

As of 22<sup>nd</sup> August 2013 Mr. Mykhailo Zolotarov submitted his resignation due to personal reasons and subsequently Mr. Roman Kovalkov was appointed by the Board of Directors as a Director A and Chief Operating Officer after Mr. Mykhailo Zolotarov, previously holding this position, submitted his resignation. Further Mr. Kovalkov was approved and appointed by the Annual General meeting hold 12<sup>th</sup> December 2013 Mr. Kovalkov was appointed as Director A and Chief Operating Officer.

The business address of Messrs. Vyshnevetsky, Kovalkov, Rezyk, 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*

In FY2011, the Board of Directors has established from among its members the Audit Committee. The Company did not establish the Remuneration Committee. The tasks and duties contemplated by a remuneration committee and selection and appointment committee were performed by the entire Board of Directors.

### **General Meeting of Shareholders**

The General Meeting of Shareholders has the powers conferred upon it by the Luxembourg act dated 10 August 1915 on commercial companies as amended.

The General Meeting of Shareholders shall meet in Luxembourg upon call by the Board of Directors or the Sole Director, as the case may be. Shareholders representing one tenth of the share capital may, in compliance with the law of 10 August 1915, as amended, on commercial companies, request the Board of Directors to call General Meeting of Shareholders.

The Annual General Meeting shall be held in Luxembourg in accordance with Luxembourg law at registered office of the Company or at such other place as specified in the notice of the meeting, on the 12<sup>th</sup> day of December, at 11 a.m. If such day is a legal or a bank holiday in Luxembourg, the Annual General Meeting shall be held on the following business day in Luxembourg.

As long as all or part of the shares is admitted to trading on a regulated market General Meetings of Shareholders shall be convened pursuant to the Luxembourg and Polish legislation and in accordance with Company Statute.

If all shareholders are present or represented and consider themselves as being duly convened and informed of the agenda, the General Meeting may take place without notice of meeting. The General Meeting of shareholders shall appoint a chairman and be chaired by the chairman who shall preside over the meeting. The General Meeting shall also appoint a secretary who shall be charged with keeping minutes of the meeting and a scrutineer. All General Meetings of shareholders shall be conducted in English. The shareholders may not decide on subjects that were not listed on the agenda (which shall include all matters required by law) and business incidental to such matters, unless all shareholders are present or represented at the meeting.

## COAL ENERGY S.A., ANNUAL REPORT FY2014

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Each share is entitled to one vote at all General Meetings of shareholders. Blank votes are considered null and void. A shareholder may act at any General Meeting of shareholders by giving a written proxy to another person, who need not be a shareholder. Unless otherwise provided by law resolutions of the General Meeting are passed by a majority of more than one-half of all voting rights present or represented.

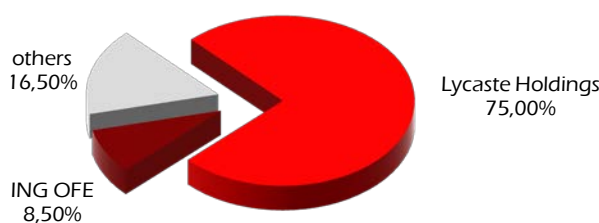
### **Equity and ownership structure of the parent company**

As at the report's publication date and on the June 30, 2014, share capital of Coal Energy S.A. comprised 45,011,120 shares.

The following changes in the ownership structure occurred during FY2014:

- on September 19, 2013, the Company received a notification from Generali Otwarty Fundusz Emerytalny that as a result of the transaction settled on September 12, 2013, the Generali OFE has reduced its shareholding stake below the threshold of 5.0% in the share capital and voting rights at the General Meeting of the Company. Prior to the transaction the Generali OFE held 2,280,870 (two million two hundred eighty thousand eight hundred seventy) shares which represented 5.07% share in capital and votes at the General Meeting of the Company. After the transaction the Fund holds 2,239,835 (two million two hundred thirty nine thousand eight hundred thirty five) shares which represents 4.98% share in capital and votes at the General Meeting of the Company.

Ownership structure of significant blocks of shares (at least 5% of the total number of votes at the Shareholder Meeting of Coal Energy S.A.) as of the date of releasing this financial report, i.e. October 31, 2014, is as follows:





## Management statement

This statement is made to confirm that to the best of our knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities and profit or loss of the Group and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of management

Directors A:

signed

Chairman of the Board of Directors  
Viktor Vyshnevetsky

signed

Chief Operating Officer  
Roman Kovalkov

signed

Business Development Director  
Oleksandr Rezyk

signed

Independent Non-executive Director  
Arthur David Johnson

Directors B:

signed

Independent Non-executive Director  
Jacob Mudde

signed

Independent Non-executive Director  
Gwenaëlle Bernadette Andrée Dominique Cousin

Luxembourg, 31 October 2014



**2014FY**

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR ENDED  
JUNE 30, 2014



**Coal Energy S.A.**

2014FY

**Contents**

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	<b>Page</b>
Statement of management responsibility	3
 <b>CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014</b>	
Management report	4
Corporate governance statement	5
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to consolidated financial statements	11

**Statement of Management responsibility**

To the best of our knowledge, consolidated financial statements as of 30 June 2014 of Coal Energy S.A. which have been prepared in accordance with the international financial reporting standards, give a true and fair view of the assets, liabilities, financial position and result of its operations for the year ended 30 June 2014 as required under article 4(3) of the Law. The annual management report includes a fair review of the information required under article 4(4) of the Law.

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

Directors A:

signed

Chairman of the Board of Directors  
Viktor Vyshnevetsky

signed

Chief Operating Officer  
Roman Kovalkov

signed

Business Development Director  
Oleksandr Reznik

signed

Independent Non-executive Director  
Arthur David Johnson

Directors B:

signed

Independent Non-executive Director  
Jacob Mudde

signed

Independent Non-executive Director  
Gwenaëlle Bernadette Andrée Dominique Cousin

Luxembourg, 31 October 2014

**Coal Energy S.A.**

**Management report for the year ended 30 June 2014**

Management of the Company hereby presents its consolidated financial statements for the year ended on 30 June 2014.

1. Results and developments during the year ended on 30 June 2014.

For the year ended on 30 June 2014 the Group recorded an EBITDA profit of USD 6,827 thousand (EBITDA for the year ended 30 June 2013 USD 21,069 thousand). After depreciation, amortization, finance costs and finance income the final loss for the year ended 30 June 2014 after taxation was USD 38,933 thousand (profit for the year ended 30 June 2013 USD 16,899 thousand).

2. Future developments of the Group.

The Group is optimizing internal reserves and is considering remaining options for funding its operations to cover liquidity needs in the environment of continuing military conflict in the Eastern Ukraine.

3. Activity in the field of research and development.

The Group is not involved in any activity in the field of research and development.

4. Own shares.

During the period ended 30 June 2014, the Company and its affiliates have not repurchased shares of Coal Energy S.A.

5. Group's internal control.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group;
- provide reasonable assurance that transactions are recorded, as necessary, to permit preparation of financial statements in accordance with IFRS;
- provide reasonable assurance that receipts and expenditures of the Group are made in accordance with authorizations of Group's management and directors; and
- provide reasonable assurance that unauthorized acquisition, use or disposition of Group's assets that could have a material effect on the financial statements would be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

6. Risk Management.

The Group has implemented policies and procedures to manage and monitor financial market risks. Financial market activities are overseen by the CFO and the Group Management Board.

7. Other information.

Having in mind safety of people and being not able to provide the auditors with necessary access to the assets and documentation and other logistical obstacles (including hostilities, military checkpoints on the roads, absence of electricity, etc.) the Company, took the decision to postpone the annual audit procedure until the military unrests are resolved.

The Group does not use hedging derivatives.

For Coal Energy S.A.:

Directors A:

signed

Chairman of the Board of Directors  
Viktor Vyshnevetsky

signed

Chief Operating Officer  
Roman Kovalkov

signed

Business Development Director  
Oleksandr Reznik

signed

Independent Non-Executive Director  
Arthur David Johnson

Directors B:

signed

Independent Non-Executive Director  
Jacob Mudde

signed

Independent Non-Executive Director  
Gwenaëlle Bernadette Andrée Dominique Cousin

**Coal Energy S.A.**

Société anonyme  
 Registered address: 46A, Avenue J. F. Kennedy, L-1855 Luxembourg,  
 the Grand Duchy of Luxembourg  
 R.C.S. Luxembourg: B 154144  
 (the “Company”)

**Corporate Governance Statement**

Directors:

Name	Date of Appointment	Date of Resignation
Joost Anton Mees – Sole Director	17 June 2010	17 May 2011
Vyktor Vyshnevetsky – Director A	17 May 2011	
Andrey Bolshakov – Director A	17 May 2011	21 September 2011
Mykhailo Zolotarov – Director A	17 May 2011	22 August 2013
Roman Kovalkov – Director A	24 September 2013	
Oleksandr Reznik – Director A	17 May 2011	
Arthur David Johnson – Director A	10 June 2011	
Gwenaelle, Bernadette, Andree, Dominique Cousin – Director B	17 May 2011	
Jacob Mudde – Director B	17 May 2011	

Audit Committee:

Name	Date of Appointment	Date of Resignation
Arthur David Johnson – Director A	10 June 2011	
Jacob Mudde – Director B	10 June 2011	
Gwenaelle, Bernadette, Andree, Dominique Cousin – Director B	10 June 2011	

The Board of Directors (the "Board") states its application of Warsaw Stock Exchange corporate governance rules included in the "Code of Best Practice for WSE Listed Companies" to the form and extent determined by the Resolution No. 20/1287/2011 of the Exchange Supervisory Board dated 19 October 2011. Code of Best Practice for WSE Listed Companies is available at the official website of the Warsaw Stock Exchange: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)

The Board is responsible for establishing and maintaining adequate internal and risk management systems for the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing an independent administrator (the "Administrator") to maintain the accounting records of the Company independent of Coal Energy S.A. The Administrator has a duty of care to maintain proper books and records and prepare for review and approval by the Board the financial statements intended to give a true and fair view. The Board has appointed TMF Luxembourg S.A. as Administrator.

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring that the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's financial statements.

The Board maintains control structures designed and aimed to manage the risks, which are significant for internal control over financial reporting. These control structures include segregation of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes in the Company's annual report.

The Company's policies and the Board's instructions with relevance for financial reporting are updated and communicated via appropriate channels, such as e-mail, correspondence and meetings to ensure that all financial reporting information requirements are met in a complete and accurate manner. The Board has an annual process to ensure that appropriate measures are taken to consider and address the shortcomings

identified and measures recommended by the independent auditors.

There are no restrictions on voting rights.

The Company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of financial records that, in reasonable detail, accurately and fairly reflect the transactions and disposals of the assets of the Company; provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with Luxembourg legal and regulatory requirements, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposals of the Company's assets that could have a material effect on the financial statements.

In order to ensure, that established controls over financial reporting system worked effectively during the year ended 30 June 2014, a summary of the work performed by the internal audit department was reviewed by the Audit Committee.

No person has any special rights of control over the Company's share capital.

*Appointment and replacement of Directors and amendments to the Articles of Association*

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association (hereafter referred as the "Articles of Association") and Luxembourg Companies Law 1915. The Articles of Associations may be amended from time to time by a general meeting of the shareholders under the quorum and majority requirement provided for by the law of 10 August 1915 on commercial companies in Luxembourg, as amended.

*Powers of Directors*

The Board is responsible for managing the business affairs of the Company within the clauses of the Articles of Association. The Directors may only act at duly convened meetings of the Board of Directors or by written consent in accordance with article 9 of Articles of Association.

*Rights of the shareholders*

The operation of the shareholders meetings and their key powers, description of their rights are governed by Articles of Association and national laws and regulation.

*Transfer of shares*

Transfer of shares is governed by Articles of Association of the Company.

signed

\_\_\_\_\_  
Vyktor Vyshnevetsky  
Director A

signed

\_\_\_\_\_  
Gwenaelle Bernadette Andree Dominique Cousin  
Director B

signed

\_\_\_\_\_  
Roman Kovalkov  
Director A

signed

\_\_\_\_\_  
Jacob Mudde  
Director B

signed

\_\_\_\_\_  
Oleksandr Reznik  
Director A

signed

\_\_\_\_\_  
Arthur David Johnson  
Director A

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014**

*(in thousands USD, unless otherwise stated)*

	Note	Year ended 30 June 2014 (unaudited)	Year ended 30 June 2013 (audited)
Revenue	5	111,949	125,969
Cost of Sales	6	(91,087)	(100,654)
<b>GROSS PROFIT/(LOSS)</b>		<b>20,862</b>	<b>25,315</b>
General and administrative expenses	7	(5,047)	(7,169)
Selling and distribution expenses	8	(4,348)	(7,317)
Other operational (expenses)/income	9	(2,704)	(87)
Idle capacity expenses	9.1	(13,101)	(1,087)
<b>OPERATING PROFIT/(LOSS)</b>		<b>(4,338)</b>	<b>9,655</b>
Other non-operating (expenses)/income	10	(670)	(6,600)
Financial income	12	3,111	3,151
Financial costs	13	(35,011)	(18,643)
<b>LOSS BEFORE TAX</b>		<b>(36,908)</b>	<b>(12,437)</b>
Income tax expenses	14	(2,025)	(4,462)
<b>LOSS FOR THE PERIOD</b>		<b>(38,933)</b>	<b>(16,899)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS):</b>			
Effect of foreign currency translation		(38,473)	(11)
Actuarial gain		-	133
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>		<b>(38,473)</b>	<b>122</b>
<b>TOTAL COMPREHENSIVE LOSS:</b>		<b>(77,406)</b>	<b>(16,777)</b>
<b>LOSS FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Equity holders of the parent		(38,558)	(16,724)
Non-controlling interests		(375)	(175)
		<b>(38,933)</b>	<b>(16,899)</b>
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>			
Equity holders of the parent		(76,623)	(16,600)
Non-controlling interests		(783)	(177)
		<b>(77,406)</b>	<b>(16,777)</b>
Weighted average number of ordinary shares outstanding		45,011,120	45,011,120
<b>BASIC (LOSS)/EARNINGS PER ORDINARY SHARE</b>		<b>(85.66)</b>	<b>(37.15)</b>

*(expressed in USD cents)*

Basic earnings per ordinary share are equal to diluted earnings per ordinary share.

Notes on pages 11 to 37 are an integral part of these consolidated financial statements.



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014**
*(in thousands USD, unless otherwise stated)*

	Note	As at 30 June 2014 (unaudited)	As at 30 June 2013 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	93,974	139,604
Intangible assets	16	4,960	7,914
Financial assets	17	638	4,203
Deferred tax assets	14	732	1,132
Deposit	23	20,000	20,000
		<b>120,304</b>	<b>172,853</b>
<b>Current assets</b>			
Inventories	18	11,675	17,614
Trade and other receivables	19	37,578	33,277
Prepayments and prepaid expenses	20	5,271	2,814
Financial assets	17	2,373	11,259
Other taxes receivables	22	213	3,318
Cash and cash equivalents	23	1,616	3,278
		<b>58,726</b>	<b>71,560</b>
<b>TOTAL ASSETS</b>		<b>179,030</b>	<b>244,413</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	24	450	450
Share premium		77,578	77,578
Retained earnings		(5,552)	33,006
Effect of foreign currency translation		(44,689)	(6,624)
<b>Equity attributable to equity holders of the parent</b>		<b>27,787</b>	<b>104,410</b>
Non-controlling interest		(536)	247
<b>TOTAL EQUITY</b>		<b>27,251</b>	<b>104,657</b>
<b>Non-current liabilities</b>			
Loans and borrowings	25	59,500	59,500
Finance lease liabilities	26	4,422	6,541
Defined benefit obligation		14,943	20,835
Trade and other payables	28	-	226
Other tax payable	22	88	194
Provisions	27	3,908	6,295
Deferred tax liabilities	14	3,017	3,036
		<b>85,878</b>	<b>96,627</b>
<b>Current liabilities</b>			
Loans and borrowings	25	37,054	30,018
Finance lease liabilities	26	881	1,280
Trade and other payables	28	22,360	7,363
Income tax payables	14	1,752	1,152
Provisions	27	721	-
Other tax payables	22	3,133	3,316
		<b>65,901</b>	<b>43,129</b>
<b>TOTAL LIABILITIES</b>		<b>151,779</b>	<b>139,756</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>179,030</b>	<b>244,413</b>

Notes on pages 11 to 37 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014**
*(in thousands USD, unless otherwise stated)*

	Equity attributable to equity holders of the parent				Total	NCI	Total equity
	Share capital	Share premium	Retained earnings	Effect of foreign currency translation			
<b>As at 30 June 2012</b>	<b>450</b>	<b>77,578</b>	<b>49,595</b>	<b>(6,613)</b>	<b>121,010</b>	<b>424</b>	<b>121,434</b>
Loss for the period	-	-	(16,724)	-	(16,724)	(175)	(16,899)
Other comprehensive income/(loss)	-	-	135	(11)	124	(2)	122
<b>As at 30 June 2013</b>	<b>450</b>	<b>77,578</b>	<b>33,006</b>	<b>(6,624)</b>	<b>104,410</b>	<b>247</b>	<b>104,657</b>
Loss for the period	-	-	(38,558)	-	(38,558)	(375)	(38,933)
Other comprehensive loss	-	-	-	(38,065)	(38,065)	(408)	(38,473)
<b>As at 30 June 2014</b>	<b>450</b>	<b>77,578</b>	<b>(5,552)</b>	<b>(44,689)</b>	<b>27,787</b>	<b>(536)</b>	<b>27,251</b>

Notes on pages 11 to 37 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2014**

*(in thousands USD, unless otherwise stated)*

	Year ended 30 June 2014 (unaudited)	Year ended 30 June 2013 (audited)
<b>OPERATING ACTIVITIES</b>		
Loss before tax	(36,908)	(12,437)
Adjustments to reconcile profit before tax to net cash flows		
Depreciation and amortization expenses	11,217	11,490
Finance income	(3,111)	(3,151)
Finance costs	35,011	18,643
Expenses for doubtful debts	2,341	115
(Income)/Loss from sale of property, plant and equipment	(409)	221
(Income)/Expenses attributable to allowance for receivables on sale of property, plant and equipment	(357)	2,197
Writing-off of non-current assets	273	599
Profit from exchange differences	(76)	(3)
Income from writing-off of account payables	(9)	(12)
Movements in defined benefits plan obligations	1,040	2,712
Shortages and losses from impairment of inventory	27	300
Income from current assets received free of charge	(315)	(501)
	<b>8,724</b>	<b>20,173</b>
Working capital adjustments:		
Change in trade and other receivables	(20,642)	(935)
Change in advances made and deferred expenses	(5,391)	(2,050)
Change in inventories	740	(8,422)
Change in trade and other payables	20,165	(1,963)
Change in other tax balances	3,264	(2,333)
Change in provisions	58	-
	<b>6,918</b>	<b>4,470</b>
Income tax paid	(277)	(1,686)
<b>Net cash flow from operating activity</b>	<b>6,641</b>	<b>2,784</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and intangible assets	(10,422)	(63,232)
Proceeds from sale of property, plant and equipment and intangible assets	402	390
Purchase of financial assets	(40)	-
Proceeds from financial assets	364	2,202
Increase in deposit	-	(20,000)
Interest received	2,276	1,312
<b>Net cash flow from investing activity</b>	<b>(7,420)</b>	<b>(79,328)</b>
<b>FINANCIAL ACTIVITIES</b>		
Proceeds from loans and borrowings	65,646	108,652
Repayment of loans and borrowings	(51,358)	(23,900)
Repayment of interest free financial liabilities and notes issued	-	(56)
Interest paid	(14,112)	(10,103)
<b>Net cash flow from financial activity</b>	<b>176</b>	<b>74,593</b>
<b>NET CASH FLOWS</b>	<b>(603)</b>	<b>(1,951)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>3,278</b>	<b>5,226</b>
Effect of translation to presentation currency	(1,059)	3
<b>Cash and cash equivalents at the end of the period</b>	<b>1,616</b>	<b>3,278</b>

Notes on pages 11 to 37 are an integral part of these consolidated financial statements.

Notes to consolidated financial statements for the year ended 30 June 2014

1 General information

For the purposes of these consolidated financial statements, Coal Energy S.A. (“Parent company”) and its subsidiaries have been presented as the Group as follows:

Parent company and its subsidiaries	Country of incorporation	Group shareholding, % as at	
		30 June 2014	30 June 2013
Coal Energy S.A.	Luxembourg	100,00	100,00
Nertera Investments Limited	Cyprus	100,00	100,00
C.E.C. Coal Energy Cyprus Limited	Cyprus	100,00	-
Coal Energy Trading Limited	British Virgin Islands	100,00	100,00
Donbasuglerazrobotka LLC	Ukraine	99,00	99,00
Donugletekhinvest LLC	Ukraine	99,00	99,00
Nedra Donbasa LLC	Ukraine	99,00	99,00
Donprombiznes LLC	Ukraine	99,00	99,00
Ugledobycha LLC	Ukraine	99,99	99,99
Donantracit LLC	Ukraine	99,99	99,99
Tekhinovatsiya LLC	Ukraine	99,99	99,99
Eximenergo LLC	Ukraine	99,00	99,00
Antracit LLC	Ukraine	99,00	99,00
CwAL LE “Sh/U Blagoveshenskoe”	Ukraine	99,00	99,00
CwAL LE “Mine St.Matrona Moskovskaya”	Ukraine	99,00	99,00
Coal Energy Ukraine LLC	Ukraine	99,99	99,99
Progress-Vugillya LLC	Ukraine	99,99	99,99
Sh/U Blagoveshenskoe Management Company LLC	Ukraine	99,99	99,99

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 and the Company number with the Registre de Commerce is B 154144.

Principal activities of the Group are coal mining, coal beneficiation, waste dumps processing and sales of marketable coal. Major production facilities are located in Donetsk region of Ukraine.

These consolidated financial statements were authorized by the Board of Directors as at 31 October 2014.

2 Basis of preparation of the annual consolidated financial statements

2.1 Basis of preparation

The preparation of financial statements in accordance to International Financial Accounting Standards (IFRS) as adopted by European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying of 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) adopted by the European Union.

2.3 Basis of consolidation

(a) 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.

**2 Basis of preparation of the annual consolidated financial statements (continued)**

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.

Before June 30, 2010 the Parent company did not have direct or indirect ownership interest in consolidated entities included in the consolidated financial statements. The pooling of interest method was applied for business combinations under common control for the earlier periods.

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.

**(b) 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 statements 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 statements 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 periods 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 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 2015);

IFRS 10 Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27 (revised), Consolidated and Separate Financial Statements, and IAS 28 (revised), Investments in Associates and Joint Ventures. Application of these standards is mandatory for annual periods beginning on or after January 1, 2014;

IFRS 12 Disclosure of Interest in Other Entities that applies to an entity that has interest in subsidiaries, joint arrangements, associates and/or structured entities (effective from 1 January 2014);

IFRS 13 Fair Value Measurement describes how to measure fair value where fair value required or permitted by IFRS (effective from 1 January 2014);

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**

The accounting policies, significant accounting judgments, estimates and assumptions adopted in the preparation of the annual consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2013.

**3.1 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, Luxembourg and British Virgin Islands (BVI) the functional currency is US dollar ("USD"). These consolidated financial statements are presented in thousands of US dollars, unless otherwise stated.

**(b) Foreign currency transactions**

Exchange rates used in the preparation of these in annual consolidated financial statements were as follows:

Currency	30 June 2014	Average for six months ended 31 December 2013	Average for three months ended 31 March 2014	Average for three months ended 30 June 2014	30 June 2013	Average for the year ended 30 June 2013	30 June 2012
UAH/USD	11.8233	7.9930	8.8627	11.6920	7.9930	7.9930	7.9925

**(c) Translation into presentation currency:**

- all assets and liabilities, both monetary and non-monetary, are converted at closing exchange rates at the dates of each statements of financial position presented;

- income and expense items are converted 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;

- all equity items are converted at the historical exchange rates;

- all resulting exchange differences are recognized as a separate component in other comprehensive income;

- in the consolidated statements of cash flows, cash balances and beginning and end of each period presented are converted at exchange rates at the respective dates. All cash flows are converted at the average exchange rates for the periods presented. Resulting exchange differences are presented as effect of conversion to presentation currency.

### 3 Summary of significant accounting policies (continued)

#### 3.2 Revenue recognition

Revenue is recognized 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 principal activities are stated in Note 1. Revenue from sales of goods is recognized when all criteria are satisfied:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer.

##### (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.

##### (d) Emission rights

Due to high level of uncertainty income from sale of Emission Reduction Units recognized in other operating income on cash basis and do not recognized as intangible asset.

#### 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 statements 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 recognized 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;
- 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 recognized 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 utilized 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 recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 realized 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 recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized 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 Summary of significant accounting policies (continued)

#### 3.4 Property, plant and equipment

Property, plant and equipment are 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 statements of comprehensive income during the financial period in which they are incurred. Major renewals and improvements are capitalized 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:

-	Underground 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 capitalized 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 capitalized during construction period where such costs are financed by borrowings. Depreciation of these assets commences when the assets are put into operation.

#### 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 recognized in profit and loss in the consolidated statements 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 recognized as an expense in the income statements 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 recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### 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 capitalized 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 amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized 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 amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is charged on a straight-line basis over the following economic useful lives of these assets:

-	Licenses, special permissions and patent rights	5 - 20 years
-	Other intangible assets	5 - 10 years

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level.

### 3 Summary of significant accounting policies (continued)

#### 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 statements 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 recognized in prior periods. A reversal of an impairment loss is recognized in the consolidated statements 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 recognized 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 recognized 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.

##### (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 unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized 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 reorganization 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 amortized 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.



### 3 Summary of significant accounting policies (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, loans issued where the carrying amount is reduced through the use of an allowance for impairment. When a trade or other or loans issued receivables is considered uncollectible, it is written off against the allowance. On basis of the facts confirming that receivables or loans issued, 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 recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

When a decline in fair value of an available-for-sale investment has been recognized directly in other comprehensive income and there is objective evidence that investment is impaired, the cumulative loss that had been recognized directly in other comprehensive income is removed from other comprehensive income and recognized in profit or loss in the consolidated statements of comprehensive income even though the investment has not been derecognized. Impairment losses previously recognized through profit or loss in the consolidated statements of comprehensive income are not reversed. Any increase in fair value subsequent to an impairment loss is recognized directly in other comprehensive income.

#### (4) Derecognition of financial assets

The Group derecognizes 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.

#### 3.10 Inventories

Inventories are recorded at the lower of cost and net realizable value. Net realizable 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 labour 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 statements of comprehensive income. If the circumstances that caused the write-down no longer exist, the amount of the write-down is reversed.

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 statements 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 six months or less.

For the purpose of the consolidated statements 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 24.

#### 3.14. Legal reserve

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.

### 3 Summary of significant accounting policies (continued)

#### 3.15 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, including 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 settlement of obligation at least for 12 months from reporting date.

##### (3) Derecognition

A financial liability is derecognized 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 recognized through profit or loss.

#### 3.16 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.

Actuarial gains and losses are recognized in the other comprehensive income statements in the period in which they occur.

#### 3.17 Provisions

Provisions are recognized when the Group has 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 recognized 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 estimated 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.

Management created provision for the payment of potential tax liabilities related to settlement of financial assets and liabilities. Though if the controlling authorities classify such transactions as a subject of taxation and apply such classification to the companies of the Group, actual taxes and penalties may differ from the Management assessment.

#### 3.18 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 capitalized 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 recognized 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 recognized 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. The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

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 recognized in the consolidated statements of comprehensive income. Ongoing rehabilitation costs are expensed when incurred.

#### 3.19 Financial guarantee contracts

Management on annual basis assesses probability of risks that can be arising in relation of financial guarantee contracts through financial analysis of counterparties. If the risk is significant – financial guarantee contracts must be recognized as liabilities in notes to consolidated financial statements in accordance with IAS 37. Otherwise – if risk is insignificant – financial guarantee contracts liabilities must be disclosed as off-balance sheet liabilities.

#### 4 Significant accounting judgments, estimates

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 recognized in these consolidated financial statements:

(a) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recognized in the statements 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 recognized fair value of financial instruments.

(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 growth rate used for extrapolation purposes (coal price, sales volume) and 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.

(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.

(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 license 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 recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, 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.

(g) Idle capacity expenses

Due to volatility of the coal market production capacity of the Group's individual Companies in some periods could be operated not according to its normal capacity of the production facilities. In the case of significant deviation of the actual capacity from the normal capacity, part of the fixed production overheads is reflected in item "Idle capacity expenses".

Management of the Group uses estimations and judgments to determine the following items: normal capacity of the individual companies, the period of the partial exploitation of the production capacity, amount of overheads that should be allocated.

**5 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:

- mineral resource and processing industry — includes income from sale of own coal products and income from coal beneficiation;
- trade activity - includes income from sale of merchandises;
- other activity - includes income from rendering of other works and services.

Management controls the results of operating segments separately for the purpose of decision making about allocation of resources and performance measurement. The results of segments are estimated on profit/(loss) before tax.

Information about the segments of business for the year ended 30 June 2014:

	Business segments			Assets and liabilities not included in segments	Total
	Mineral resource and processing industry	Trade activity	Other activity		
<b>Revenue</b>					
Sales to external customers	65,168	46,280	501	-	111,949
	<b>65,168</b>	<b>46,280</b>	<b>501</b>	-	<b>111,949</b>
<b>(Loss)/profit before tax of the segment</b>	<b>(48,625)</b>	<b>11,447</b>	<b>270</b>	-	<b>(36,908)</b>
Depreciation and amortization expenses	(11,217)	-	-	-	(11,217)
Defined benefits plan obligations expenses	(1,040)	-	-	-	(1,040)
<b>Operational assets</b>	<b>170,037</b>	<b>3,334</b>	<b>87</b>	<b>5,572</b>	<b>179,030</b>
<b>Operational liabilities</b>	<b>(137,349)</b>	<b>(4,075)</b>	<b>(473)</b>	<b>(9,882)</b>	<b>(151,779)</b>
<b>Disclosure of other information</b>					
Capital expenditure	12,434				12,434

As at 30 June 2014 assets of segments do not include financial assets (USD 3,011 thousand), cash (USD 1,616 thousand), other taxes receivable (USD 213 thousand), as well as deferred tax assets (USD 732 thousand), since management of these assets is carried out at the Group's level.

As at 30 June 2014 liabilities of segments do not include deferred tax liabilities (USD 3,017 thousand), other taxes payable (USD 3,221 thousand), income tax payables (USD 1,752 thousand), provision on tax liabilities (USD 1,892 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 2013:

	Business segments			Assets and liabilities not included in segments	Total
	Mineral resource and processing industry	Trade activity	Other activity		
<b>Revenue</b>					
Sales to external customers	110,372	14,950	647	-	125,969
	<b>110,372</b>	<b>14,950</b>	<b>647</b>	-	<b>125,969</b>
<b>(Loss)/Profit before tax of the segment</b>	<b>(13,135)</b>	<b>437</b>	<b>261</b>	-	<b>(12,437)</b>
Depreciation and amortization expenses	(11,490)	-	-	-	(11,490)
Defined benefits plan obligations expenses	(4,571)	-	-	-	(4,571)
Impairment of inventories	(300)	-	-	-	(300)
<b>Operational assets</b>	<b>217,766</b>	<b>3,032</b>	<b>425</b>	<b>23,190</b>	<b>244,413</b>
<b>Operational liabilities</b>	<b>(129,246)</b>	<b>(227)</b>	<b>(213)</b>	<b>(10,070)</b>	<b>(139,756)</b>
<b>Disclosure of other information</b>					
Capital expenditure	60,504	-	-	-	60,504

As at 30 June 2013 assets of segments do not include financial assets (USD 15,462 thousand), cash (USD 3,278 thousand), other taxes receivable (USD 3,318 thousand), as well as deferred tax assets (USD 1,132 thousand), since management of these assets is carried out at the Group's level.

As at 30 June 2013 liabilities of segments do not include deferred tax liabilities (USD 3,036 thousand), other taxes payable (USD 3,510 thousand), income tax payables (USD 1,152 thousand), provision on tax liabilities (USD 2,372 thousand), since management of these liabilities is carried out at the Group's level.

**5 Information on operational segments (continued)**

	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
Revenue received from sale of finished goods	65,168	110,372
Revenue from trading activity	46,280	14,950
Revenue from other activity	501	647
	<b>111,949</b>	<b>125,969</b>

**Geographic information**

<b>Revenue from external customers</b>	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
Ukraine	105,913	114,598
Countries other than Ukraine and CIS	5,835	11,105
Countries of the CIS	201	266
	<b>111,949</b>	<b>125,969</b>

Specific of the Group's activity implies that the Clients, revenue from which is more than 10% of Group's Revenue composed USD 74,838 thousand for the year ended 30 June 2014 and presented in table below:

	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
Client 1	43,965	30,949
Client 2	27,203	21,784
Client 3	3,670	39,704
	<b>74,838</b>	<b>92,437</b>

All non-current assets of the Group are located in Ukraine.

**6 Cost of sales**

	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
Cost of merchandising inventory	(35,796)	(14,513)
Raw materials	(14,628)	(27,447)
Wages and salaries of operating personnel	(13,954)	(36,443)
Change in finished goods	(11,263)	9,428
Energy supply	(6,598)	(12,713)
Depreciation and amortization expenses	(4,985)	(10,757)
Subcontractors services	(2,912)	(5,582)
Other expenses	(951)	(2,627)
	<b>(91,087)</b>	<b>(100,654)</b>

**7 General and administrative expenses**

	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
Wages and salaries of administrative personnel	(3,417)	(4,855)
Subcontractors services	(1,161)	(1,500)
Bank services	(211)	(514)
Depreciation and amortization expenses	(91)	(137)
Other expenses	(167)	(163)
	<b>(5,047)</b>	<b>(7,169)</b>

**8 Selling and distribution expenses**

	Year ended 30 June 2014	Year ended 30 June 2013
Delivery costs	(3,268)	(6,101)
Subcontractors services	(449)	(396)
Wages and salaries of distribution personnel	(429)	(590)
Depreciation and amortization expenses	(141)	(147)
Other expenses	(61)	(83)
	<b>(4,348)</b>	<b>(7,317)</b>

**9 Other operating income/expenses**

	Year ended 30 June 2014	Year ended 30 June 2013
Doubtful debts expenses	(2,341)	(115)
Writing-off of VAT	(132)	(400)
Income from Emission Reduction Units sale	-	228
Profit from exchange differences	76	3
Other operating expenses	(381)	(14)
Other operating income	74	211
	<b>(2,704)</b>	<b>(87)</b>

**9.1 Idle capacity expenses**

	Year ended 30 June 2014	Year ended 30 June 2013
Depreciation and amortization expenses	(5,948)	(373)
Wages and salaries	(4,336)	(223)
Energy supply	(1,402)	-
Raw materials	(953)	-
Other expenses	(462)	(491)
	<b>(13,101)</b>	<b>(1,087)</b>

**10 Other non-operating income/expenses**

	Year ended 30 June 2014	Year ended 30 June 2013
Wages and salaries of non-operating personnel	(434)	(725)
Social sphere expenses	(434)	(465)
Writing-off of non-current assets	(273)	(599)
Recognized penalties, fines, charges	(74)	(170)
Depreciation of non-operating property, plant and equipment	(52)	(76)
Income/(Expenses) attributable to allowance for receivables on sale of property, plant and equipment	357	(2,197)
Income from sale of property, plant and equipment	409	(221)
Cash write-off	-	(2,344)
Other non-operating income	343	668
Other non-operating expenses	(512)	(471)
	<b>(670)</b>	<b>(6,600)</b>

**11 Depreciation and amortization expenses**

	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
<b>Depreciation</b>		
Idle capacity: depreciation expenses	(5,336)	(373)
Cost of sales	(4,743)	(9,834)
Selling and distribution expenses	(141)	(147)
General and administrative expenses	(91)	(137)
Depreciation of non-operating property, plant and equipment	(52)	(76)
	<b>(10,363)</b>	<b>(10,567)</b>
<b>Amortization</b>		
Idle capacity: amortization expenses	(612)	-
Cost of sales	(242)	(923)
	<b>(854)</b>	<b>(923)</b>
	<b>(11,217)</b>	<b>(11,490)</b>

**12 Financial income**

	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
Interest income	2,275	1,312
Income from measurement of financial assets at amortized cost	834	727
Income from measurement of financial liabilities at amortized cost	2	-
Gain from non-operational exchange differences	-	1,112
	<b>3,111</b>	<b>3,151</b>

**13 Financial costs**

	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
Interest expenses	(12,747)	(7,998)
Loss from non-operational exchange differences	(12,307)	-
Impairment loss of loans issued	(7,157)	(10,958)
Finance lease expenses	(1,397)	(1,459)
Unwinding of discount expenses	(461)	(752)
Expenses from measurement of financial liabilities at amortized cost	(133)	(268)
Expenses from measurement of financial assets at amortized cost	(809)	-
Effect of provision reversal and changes in estimates	-	2,792
	<b>(35,011)</b>	<b>(18,643)</b>

**14 Income tax expenses**

	Year ended 30 June 2014	Year ended 30 June 2013
Current income tax (rate 21%)	-	(1,371)
Current income tax (rate 19%)	(193)	(995)
Current income tax (rate 18%)	(501)	-
Deferred tax	(1,331)	(2,096)
<b>Income tax expenses</b>	<b>(2,025)</b>	<b>(4,462)</b>
<b>At the beginning of the period</b>	<b>(1,152)</b>	<b>(472)</b>
Current income tax charge (rate 21%)	-	(1,371)
Current income tax charge (rate 19%)	(193)	(995)
Current income tax charge (rate 18%)	(501)	-
Amount paid in the period	277	1,686
Effect of translation to presentation currency	(183)	-
<b>At the end of the period</b>	<b>(1,752)</b>	<b>(1,152)</b>
<b>Effect</b>		
Profit before tax (rate 21%)	-	15,148
Loss before tax (rate 19%)	(7,411)	(27,585)
Loss before tax (rate 18%)	(29,497)	-
Income tax (rate 21%)	-	(3,181)
Income tax (rate 19%)	1,408	5,241
Income tax (rate 18%)	5,310	-
Effect of different statutory tax rates of overseas jurisdictions	444	211
Effect of change in income tax rate	-	129
Tax effect of permanent differences	(9,187)	(6,862)
<b>Income tax expenses</b>	<b>(2,025)</b>	<b>(4,462)</b>

According to the Tax Code, a tax rate of 23% is applied starting from 1 April 2011, 21% – from 1 January 2012, 19% – from 1 January 2013, 18% - from 1 January 2014.

When estimating deferred taxes as at 30 June 2014, the Group accounted for income tax rate and other implications of the Tax Code.

**Recognized tax assets and liabilities**

	30 June 2013	Recognized in profit (loss)	Effect of translation to presentation currency	30 June 2014
<b>Effect of temporary differences on deferred tax assets</b>				
Property, plant and equipment, intangible assets	169	(37)	(73)	59
Inventories	1,065	(943)	(122)	-
Provisions	627	143	(230)	540
Defined benefit plan obligations	3,334	564	(1,207)	2,691
Charged vacation expenses	497	(164)	(113)	220
Folded on individual Companies' level	(4,560)			(2,778)
<b>Total deferred tax assets</b>	<b>1,132</b>	<b>(437)</b>	<b>(1,745)</b>	<b>732</b>
<b>Effect of temporary differences on deferred tax liabilities</b>				
Property, plant and equipment, intangible assets	(7,411)	(1,009)	2,638	(5,782)
Financial instruments	(185)	114	58	(13)
Folded on individual Companies' level	4,560			2,778
<b>Total deferred tax liabilities</b>	<b>(3,036)</b>	<b>(895)</b>	<b>2,696</b>	<b>(3,017)</b>
<b>Net deferred tax asset/(liability)</b>	<b>(1,904)</b>	<b>(1,332)</b>	<b>951</b>	<b>(2,285)</b>



**14 Income tax expenses (continued)**

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.

	30 June 2012	Recognized in profit (loss)	Effect of deferred tax expense from comprehensive income	Effect of translation to presentation currency	30 June 2013
<b>Effect of temporary differences on deferred tax assets</b>					
Property, plant and equipment, intangible assets	337	(168)	-	-	169
Inventories	562	503	-	-	1,065
Provisions	607	20	-	-	627
Defined benefit plan obligations	2,925	434	(25)	-	3,334
Charged vacation expenses	621	(123)	-	(1)	497
Folded on individual Companies' level	(2,491)				(4,560)
<b>Total deferred tax assets</b>	<b>2,561</b>	<b>666</b>	<b>(25)</b>	<b>(1)</b>	<b>1,132</b>
<b>Effect of temporary differences on deferred tax liabilities</b>					
Property, plant and equipment, intangible assets	(4,470)	(2,940)	-	(1)	(7,411)
Financial instruments	(364)	178	-	1	(185)
Folded on individual Companies' level	2,491				4,560
<b>Total deferred tax liabilities</b>	<b>(2,343)</b>	<b>(2,762)</b>	<b>-</b>	<b>-</b>	<b>(3,036)</b>
<b>Net deferred tax asset/(liability)</b>	<b>218</b>	<b>(2,096)</b>	<b>(25)</b>	<b>(1)</b>	<b>(1,904)</b>

**15 Property, plant and equipment**

	Underground mining	Buildings and constructions	Machinery, equipment and vehicles	Other	Construction in progress	Total
<b>Cost</b>						
<b>as at 30 June 2012</b>	<b>61,647</b>	<b>16,892</b>	<b>30,189</b>	<b>1,858</b>	<b>4,154</b>	<b>114,740</b>
Additions	46,800	5,490	6,519	487	1,081	60,377
Transfer	439	2,801	915	-	(4,155)	-
Disposals	(153)	(185)	(2,694)	(249)	-	(3,281)
Effect of translation to presentation currency	(2)	(3)	(3)	4	1	(3)
<b>as at 30 June 2013</b>	<b>108,731</b>	<b>24,995</b>	<b>34,926</b>	<b>2,100</b>	<b>1,081</b>	<b>171,833</b>
Additions	8,272	741	2,830	155	-	11,998
Disposals	(32)	(43)	(2,117)	(216)	(23)	(2,431)
Effect of translation to presentation currency	(37,824)	(8,324)	(11,475)	(696)	(398)	(58,717)
<b>as at 30 June 2014</b>	<b>79,147</b>	<b>17,369</b>	<b>24,164</b>	<b>1,343</b>	<b>660</b>	<b>122,683</b>
<b>Accumulated depreciation</b>						
<b>as at 30 June 2012</b>	<b>(6,158)</b>	<b>(4,535)</b>	<b>(12,363)</b>	<b>(1,146)</b>	-	<b>(24,202)</b>
Depreciation for the period	(3,304)	(1,099)	(5,525)	(639)	-	(10,567)
Disposals	89	82	2,152	211	-	2,534
Effect of translation to presentation currency	-	1	(1)	6	-	6
<b>as at 30 June 2013</b>	<b>(9,373)</b>	<b>(5,551)</b>	<b>(15,737)</b>	<b>(1,568)</b>	-	<b>(32,229)</b>
Depreciation for the period	(4,219)	(1,164)	(4,733)	(247)	-	(10,363)
Disposals	3	8	946	178	-	1,135
Effect of translation to presentation currency	4,068	2,084	6,068	528	-	12,748
<b>as at 30 June 2014</b>	<b>(9,521)</b>	<b>(4,623)</b>	<b>(13,456)</b>	<b>(1,109)</b>	-	<b>(28,709)</b>
<b>Net book value</b>						
<b>as at 30 June 2013</b>	<b>99,358</b>	<b>19,444</b>	<b>19,189</b>	<b>532</b>	<b>1,081</b>	<b>139,604</b>
<b>as at 30 June 2014</b>	<b>69,626</b>	<b>12,746</b>	<b>10,708</b>	<b>234</b>	<b>660</b>	<b>93,974</b>

As at 30 June 2014 loans and borrowings of the Group were pledged by the property, plant and equipment with carrying amount of USD 14,636 thousand (30 June 2013 – USD 22,593 thousand): Note 25 "Loans and borrowings".

During the year ended 30 June 2014 any borrowing costs were capitalized as property, plant and equipment.

During the year ended 30 June 2014 any research and development costs were capitalized as property, plant and equipment. The Group's mining activity in current financial year relates to exploitation of the existing mines and mined beds.

As of the date of publication of annual report Group's management has no possibility to estimate impact of military conflict on impairment of property, plant and equipment considering uncertainties of their future economic benefits.

As at the date of presentation of the financial statements the Group contractual commitments are immaterial.

## 16 Intangible assets

Cost	Licenses, special permissions and patent rights	Other intangible assets	Other projects and permissions	Total
<b>as at 30 June 2012</b>	<b>10,332</b>	<b>53</b>	<b>133</b>	<b>10,518</b>
Additions	43	5	79	127
Disposals	-	(2)	(29)	(31)
Effect of translation to presentation currency	(3)	-	2	(1)
<b>as at 30 June 2013</b>	<b>10,372</b>	<b>56</b>	<b>185</b>	<b>10,613</b>
Additions	409	1	26	436
Disposals	-	(3)	(85)	(88)
Effect of translation to presentation currency	(3,488)	(21)	(40)	(3,549)
<b>as at 30 June 2014</b>	<b>7,293</b>	<b>33</b>	<b>86</b>	<b>7,412</b>
<b>Accumulated depreciation</b>				
<b>as at 30 June 2012</b>	<b>(1,721)</b>	<b>(10)</b>	<b>(60)</b>	<b>(1,791)</b>
Amortization charge for the period	(890)	(8)	(25)	(923)
Disposal	-	1	14	15
Effect of translation to presentation currency	1	-	(1)	-
<b>as at 30 June 2013</b>	<b>(2,610)</b>	<b>(17)</b>	<b>(72)</b>	<b>(2,699)</b>
Amortization charge for the period	(816)	(10)	(28)	(854)
Disposals	-	1	24	25
Effect of translation to presentation currency	1,045	8	23	1,076
<b>as at 30 June 2014</b>	<b>(2,381)</b>	<b>(18)</b>	<b>(53)</b>	<b>(2,452)</b>
<b>Net book value</b>				
<b>as at 30 June 2013</b>	<b>7,762</b>	<b>39</b>	<b>113</b>	<b>7,914</b>
<b>as at 30 June 2014</b>	<b>4,912</b>	<b>15</b>	<b>33</b>	<b>4,960</b>

As at 30 June 2014 licenses 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 523 thousand (Tekhinovatsiya 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 1,913 thousand (CwAL LE "Sh/U Blagoveshenskoe");
- 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 1,789 thousand (CwAL LE "Sh/U Blagoveshenskoe").
- special permissions for subsurface use # 5438 as of 27 December 2011 issued by Ministry of ecology and natural resources of Ukraine for 20 years. Net book value of this permission equals to USD 401 thousand (Nedra Donbasa LLC).

As at 30 June 2014 there are no pledged intangible assets.

As at 30 June 2014 there are no contractual commitments as for intangible assets of the Group.

**17 Financial assets**

	As at 30 June 2014	As at 30 June 2013
<b>Non-current financial assets</b>		
Held-to-maturity investments	638	4,203
	<b>638</b>	<b>4,203</b>
<b>Current financial assets</b>		
Loans issued	15,017	22,432
Allowance for loans issued	(14,816)	(11,173)
Held-to-maturity investments	2,172	-
	<b>2,373</b>	<b>11,259</b>

Held-to maturity investments are non-interest notes, issued generally by third parties. These notes are discounted using effective annual interest rate 18% for the year ended 30 June 2014, 2013 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, generally issued to related parties.

Given the fact that repayment of the financial assets by the Group's counterparties was postponed by 30 June 2014 and overall uncertainties in the industry, the Company decided to keep conservative approach regarding the financial assets accounting and introduces 100% special allowance on that account in the reporting period.

**18 Inventories**

	As at 30 June 2014	As at 30 June 2013
Merchandise	7,409	30
Finished goods	2,429	15,278
Raw materials	1,127	1,347
Spare parts	694	942
Other inventories	16	17
	<b>11,675</b>	<b>17,614</b>

As at 30 June 2014 bank loans were secured by finished goods, carrying amount of which is USD 5,500 thousand (As at 30 June 2013 finished goods were pledged as collateral on amount USD 5,500 thousand).

As of the day of publication of annual financial report Group's management has no possibility to assess inventory damage and theft probability.

**19 Trade and other receivables**

	As at 30 June 2014	As at 30 June 2013
Trade receivables	35,058	33,202
Allowance for trade receivables	(1,106)	(293)
Receivables under factoring contracts	3,194	-
Receivables on sale of property, plant and equipment	1,277	2,206
Allowance for receivables on sale of property, plant and equipment	(1,164)	(2,197)
Other receivables	412	179
Allowance for other receivables	(286)	(6)
Interest receivable	193	186
	<b>37,578</b>	<b>33,277</b>

As at 30 June 2014 bank loans were secured by trade receivables, carrying amount of which was USD 12,069 thousand (As at 30 June 2013 – USD 839 thousand).

**20 Prepayments and prepaid expenses**

	As at 30 June 2014	As at 30 June 2013
Advances paid	5,210	2,711
Deferred expenses	61	103
	<b>5,271</b>	<b>2,814</b>

**21 Changes in allowance made**

	As at 30 June 2014	As at 30 June 2013
<b>Balance as at the beginning of the period</b>	<b>(13,669)</b>	<b>(191)</b>
(Accrual)/Reverse	(11,007)	(13,491)
Use of allowances	477	13
Effect of translation to presentation currency	6,827	-
<b>Balance as at the end of the period</b>	<b>(17,372)</b>	<b>(13,669)</b>
	<b>As at 30 June 2014</b>	<b>As at 30 June 2013</b>
Allowance for loans issued	(14,816)	(11,173)
Allowance for receivables on sale of property, plant and equipment	(1,164)	(2,197)
Allowance for trade accounts receivable	(1,106)	(293)
Allowance for other accounts receivable	(286)	(6)
	<b>(17,372)</b>	<b>(13,669)</b>

**22 Other taxes**

	As at 30 June 2014	As at 30 June 2013
<b>Current taxes receivable</b>		
VAT recoverable	174	3,318
Prepayments for wages and salaries related taxes	39	-
	<b>213</b>	<b>3,318</b>
<b>Current taxes payable</b>		
VAT payable	(1,493)	(1,470)
Payable for wages and salaries related taxes	(1,335)	(1,462)
Payables for other taxes	(305)	(384)
	<b>(3,133)</b>	<b>(3,316)</b>
<b>Non-current taxes payable</b>		
Payables for other taxes	(75)	(158)
Payable for VAT	(13)	(36)
	<b>(88)</b>	<b>(194)</b>

As at 30 June 2014 CwAL LE "Mine St.Matrona Moskovskaya" has non-current tax liabilities to Department of the Treasury of Dzerzhinsk city. Total nominal liabilities amounting to USD 196 thousands consist of:

Tax liabilities for dividends: non-current portion presented at amortized cost amounting to USD 9 thousands, date of maturity August 2016.

Tax liabilities for VAT: non-current portion presented at amortized cost amounting to USD 13 thousands, date of maturity November 2016.

Tax liabilities for income tax: non-current portion presented at amortized cost amounting to USD 66 thousands, date of maturity December 2016.

Current portion of non-current tax liabilities amounting to USD 69 thousands includes in current payables for other taxes. Discount rate used by the Group is 18%.

**23 Non-current deposit, cash and cash equivalents**

	As at 30 June 2014	As at 30 June 2013
<b>Non-current deposit</b>		
Deposit	20,000	20,000
	<b>20,000</b>	<b>20,000</b>
<b>Cash and cash equivalents</b>		
Cash on deposit	-	380
Cash in bank	1,616	2,898
	<b>1,616</b>	<b>3,278</b>

As at 30 June 2014 loans and borrowings of the Group were pledged by cash on deposit with carrying amount of USD 20,000 thousand: Note 25 "Loans and borrowings". The deposit on amount USD 20,000 thousand is placed in Ukrainian Business Bank with interest rate 11%. Deposit currency is USD. Credit rating of Ukrainian Business Bank is BBB+, positive forecast (according to rating decision dated 31 May 2013 of Ukrainian Credit Rating Agency). The term of the deposit is up to 18 September 2017.

**24 Share capital**

	As at 30 June 2014		As at 30 June 2013	
	%	Amount	%	Amount
Lycaste Holding Limited *	75	338	75	338
Free float	25	112	25	112
	<b>100</b>	<b>450</b>	<b>100</b>	<b>450</b>

\* - according to pledge agreement signed as at 11 February 2013 between Lycaste Holding Limited, European Bank For Reconstruction and Development and Coal Energy S.A. 6 747 167 shares owned by Lycaste Holding Limited are pledged.

During the year ended 30 June 2014 quantity of shares did not change.

**25 Loans and borrowings**

	As at 30 June 2014	As at 30 June 2013
<b>Non-current loans and borrowings</b>		
Loans received	(39,500)	(39,500)
Borrowings received	(20,000)	(20,000)
	<b>(59,500)</b>	<b>(59,500)</b>
<i>Deducting current portion of long-term borrowings:</i>		
Current portion of long-term borrowings	-	-
<b>Total non-current loans and borrowings</b>	<b>(59,500)</b>	<b>(59,500)</b>
<b>Current loans and borrowings</b>		
Bank loans	(33,860)	(30,018)
Payables under factoring contracts	(3,194)	-
<b>Total current loans and borrowings</b>	<b>(37,054)</b>	<b>(30,018)</b>

**The amount of non-current loans and borrowings as at 30 June 2014 comprises the followings borrowings:**

— loan amounting to USD 4,500 thousand received by Antracit LLC in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 4,500 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by the property of Donprombiznes LLC, pledging value of which amounts to USD 732 thousand. Maturity date is on 15 August 2017.

— loan amounting to USD 20,000 thousand received by CwAL LE "Sh/U Blagoveshenskoe" in USD according to the credit agreement concluded with Loricom Holding Group LTD with credit limit USD 20,000 thousand. Annual interest rate equals to 11,0%. Obligations under this credit agreement are guaranteed by: the corporate rights in share capital of Tekhinovatsiya LLC and property pledged value of which amounts to USD 4,748 thousand; the corporate rights in share capital of Donprombiznes LLC and property pledged value of which amounts to USD 7,270 thousand. Maturity date is on 15 September 2017.

— loan amounting to USD 35,000 thousand received by Coal Energy S.A. in USD according to the credit agreement concluded with European Bank for Reconstruction and Development with credit limit USD 70,000 thousand. Annual interest rate equals to 6m Libor plus 5,85% margin per annum. Obligations under this credit agreement are guaranteed by the property of Antracit LLC, pledging value of which amounts to USD 1,886 thousand and by 14,99% of total shares in Coal Energy S.A. (6,747,167 shares), also obligations under this credit agreement are guaranteed by 99% of share capital of Antracit LLC and Progress-Vugillya LLC. Maturity date is on 20 June 2020.

**The amount of current loans and borrowings as at 30 June 2014 comprises the followings borrowings:**

— loan amounting to USD 5,500 thousand received by Eximenergo LLC in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 5,500 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by the finished goods (coal) in turnover pledged value of which amounts to USD 5,500 thousand. Maturity date is on 3 June 2015.

— loan amounting to USD 3,086 thousand received by Coal Energy Ukraine LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 3,975 thousand. Annual interest rate equals to 21,0%. Obligations under this credit agreement are guaranteed by the revenue under the sales contracts amounting to USD 3,579 thousand. Maturity date is on 30 January 2015.

— loan amounting to USD 19,819 thousand received by CwAL LE "Sh/U Blagoveshenskoe" in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 20,000 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by: the pledge of the deposit in Ukrainian Business Bank on amount USD 20,000 thousand. Maturity date is on 16 September 2014.

— loan amounting to USD 2,317 thousand received by Donugletekhinvest LLC in UAH according to the credit agreement concluded with OJSC "Delta Bank" (former OJSC "Creditprombank") with credit limit USD 2,537 thousand. Annual interest rate equals to 22,0%. Obligations under this credit agreement are guaranteed by the property of Ugledobyvayushie Tehnology LLC pledging value of which amounts to USD 4,151 thousand and by the guarantee of Ugledobyvayushie Tehnology LLC amounting to USD 2,537 thousand. Maturity date is on 31 March 2015.

— loan amounting to USD 1,776 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit equaling to USD 1,776 thousand. Annual interest rate equals to 21,0% Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 2,129 thousand . Maturity date is on 22 December 2014.

— loan amounting to USD 1,362 thousand received by Donantracit LLC in EUR according to the credit agreement concluded with Ukrainian Business Bank with credit limit equaling to USD 1,362 thousand. Annual interest rate equals to 12,0% Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 2,368 thousand . Maturity date is on 31 October 2014.

**25 Loans and borrowings (continued)**

— factoring amounting to USD 3,194 thousand received by Donantracit LLC in UAH according to factoring contract concluded with OJSC "OTP Bank" with credit limit equaling to USD 3,315 thousand. Annual interest rate range to 25,3-27,0%. Obligations under this factoring contract are guaranteed by the revenue under the contracts amounting to USD 3,993 thousand, guarantee of CwAL LE "Sh/U Blagoveshenskoe" and Coal Energy S.A. amounting to USD 3,315 thousand. Maturity date is on 30 June 2015.

**The amount of non-current loans and borrowings as at 30 June 2013 comprises the followings borrowings:**

— loan amounting to USD 4,500 thousand received by Antracit LLC in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 4,500 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by the property of Donprombiznes LLC, pledging value of which amounts to USD 1,612 thousand. Maturity date is on 15 August 2017.

— loan amounting to USD 20,000 thousand received by CwAL LE "Sh/U Blagoveshenskoe" in USD according to the credit agreement concluded with Loricom Holding Group LTD with credit limit USD 20,000 thousand. Annual interest rate equals to 11,0%. Obligations under this credit agreement are guaranteed by: the corporate rights in share capital of Tekhinovatsiya LLC and property pledged value of which amounts to USD 7,401 thousand; the corporate rights in share capital of Donprombiznes LLC and property pledged value of which amounts to USD 10,389 thousand. Maturity date is on 15 September 2017.

— loan amounting to USD 35,000 thousand received by Coal Energy S.A. in USD according to the credit agreement concluded with European Bank for Reconstruction and Development with credit limit USD 70,000 thousand. Annual interest rate equals to 6m Libor plus 5,85% margin per annum. Obligations under this credit agreement are guaranteed by the property of Antracit LLC, pledging value of which amounts to USD 3,191 thousand and by 14,99% of total shares in Coal Energy S.A.(6`747`167 shares), also obligations under this credit agreement are guaranteed by 99% of share capital of Antracit LLC and Progress-Vugillya LLC. Maturity date is on 20 June 2020.

**The amount of current loans and borrowings as at 30 June 2013 comprises the followings borrowings:**

— loan amounting to USD 5,500 thousand received by Eximenergo LLC in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 5,500 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by the finished goods (coal) in turnover pledged value of which amounts to USD 5,500 thousand. Maturity date is on 06 June 2014.

— loan amounting to USD 765 thousand received by Coal Energy Ukraine LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 5,880 thousand. Annual interest rate equals to 21,0%. Obligations under this credit agreement are guaranteed by the revenue under the sales contracts amounting to USD 839 thousand. Maturity date is on 31 January 2014.

— loan amounting to USD 20,000 thousand received by CwAL LE "Sh/U Blagoveshenskoe" in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 20,000 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by the deposit in Ukrainian Business Bank on amount USD 20,000 thousand. After 30 June 2013 maturity date was changed to 16 September 2014 (Maturity date as at 30 June 2013 – 17 September 2013).

— loan amounting to USD 3,753 thousand received by Donugletekhinvest LLC in UAH according to the credit agreement concluded with OJSC "Creditprombank" with credit limit USD 3,753 thousand. Annual interest rate equals to 22,0%. Obligations under this credit agreement are guaranteed by the property of Ugedobyvayushie Technology LLC pledging value of which amounts to USD 6,140 thousand and by the guarantee of Ugedobyvayushie Technology LLC amounting to USD 3,753 thousand. Maturity date is on 28 May 2014.

**Essential terms:**

	Currency	Nominal interest rate, %	As at 30 June 2014	As at 30 June 2013
Non-current loan	USD	6-month LIBOR + 5,85%	(35,000)	(35,000)
Non-current borrowing	USD	11,00	(20,000)	(20,000)
Non-current loan	USD	13,00	(4,500)	(4,500)
			<b>(59,500)</b>	<b>(59,500)</b>

**Terms of non-current loans and borrowings (undiscounted flows)**

	As at 30 June 2014	As at 30 June 2013
within 1 year	-	-
from 1 to 5 years	(52,500)	(45,500)
more than 5 years	(7,000)	(14,000)
	<b>(59,500)</b>	<b>(59,500)</b>

**Terms of current loans and borrowings**

	As at 30 June 2014	As at 30 June 2013
On demand	(1,472)	-
Within 3 months	(23,862)	(20,000)
From 3 to 12 months	(11,720)	(10,018)
	<b>(37,054)</b>	<b>(30,018)</b>

**26 Finance lease liabilities**

	As at 30 June 2014		As at 30 June 2013	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Due within 1 year	968	881	1,408	1,280
From 1 to 5 years	3,808	2,259	5,633	3,341
More than 5 years	37,148	2,163	56,359	3,200
	<b>41,924</b>	<b>5,303</b>	<b>63,400</b>	<b>7,821</b>
Future finance charges	(36,621)	-	(55,579)	-
Present value of lease obligation	<b>5,303</b>	<b>5,303</b>	<b>7,821</b>	<b>7,821</b>
<b>Current portion of financial lease liabilities</b>		<b>(881)</b>		<b>(1,280)</b>
<b>Non-current financial lease liabilities</b>		<b>(4,422)</b>		<b>(6,541)</b>

In 2009 CwAL LE Sh/U Chapaeva (current entity name - CwAL LE “Sh/U Blagoveshenskoe”) negotiated the contract of lease of state property-integral property complex GC Shakhtoupravlinnia named after V.I. Chapaeva.

In 2010 CwAL LE Novodzerzhynskaya Mine (current entity name - CwAL LE “Mine St.Matrona Moskovskaya”) negotiated the contract of lease of state property-integral property complex – integral property complex GC Novodzerzhynskaya Mine.

According to these contracts, the lessee receives state property for the period of 49 years (current entity name CwAL LE “Sh/U Blagoveshenskoe” - until 11 February 2058, CwAL LE “Mine St.Matrona Moskovskaya” - 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 success or of rights and liabilities of GC Shakhtoupravlinnia named after V. I. Chapaeva and GC Novodzerzhynskaya Mine. Additionally, the lessee undertakes current and capital maintenance 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 in to 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 30 June 2014	At 30 June 2013
Property, plant and equipment	35,019	52,485
Intangible assets	3,701	6,276
	<b>38,720</b>	<b>58,761</b>

**27 Provisions**

	At 30 June 2014	At 30 June 2013
<b>Non-current provisions</b>		
Provision for land restoration	(2,206)	(3,258)
Provision on tax liabilities	(1,171)	(2,372)
Dismantling provision	(531)	(665)
	<b>(3,908)</b>	<b>(6,295)</b>
<b>Current provisions</b>		
Provision on tax liabilities	(721)	-
	<b>(721)</b>	-

The Group 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 decommissions of property, plant and equipment and land restoration under waste dumps procedures. Discount rate used by the Group is 18%.

Management recognized provision for the payment of potential tax liabilities. However, if the tax 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.

Expected timing of economic benefits outflows for provision on tax liabilities are in the period from February 2015 to April 2017

Expected timing of economic benefits outflows for provision for land restoration and dismantling are postponed for long period.

**Changes in non-current provisions**

	Provision for land restoration	Dismantling provision	Provision on tax liabilities	Total provisions
<b>As at 30 June 2013</b>	<b>(3,258)</b>	<b>(665)</b>	<b>(2,372)</b>	<b>(6,295)</b>
Unwinding of discount	(23)	(81)	(374)	(478)
Transfer of current portion	-	-	721	721
Revision of provision	19	-	-	19
Effect of translation to presentation currency	1,055	216	854	2,125
<b>As at 30 June 2014</b>	<b>(2,207)</b>	<b>(530)</b>	<b>(1,171)</b>	<b>(3,908)</b>



## 28 Trade and other payables

### Current trade and other payables:

	As at 30 June 2014	As at 30 June 2013
Trade payables	(17,553)	(1,206)
Interest due	(1,300)	(613)
Payables for unused vacations	(1,224)	(2,625)
Payables for wages and salaries	(1,201)	(1,804)
Other payables	(512)	(1,019)
Payables for acquisition property, plant and equipment	(454)	(91)
Advances received	(102)	(5)
Interest due to factoring contract	(14)	-
	<b>(22,360)</b>	<b>(7,363)</b>

### Non-current trade and other payables:

	As at 30 June 2014	As at 30 June 2013
Other payables	-	(226)
	<b>-</b>	<b>(226)</b>

## 29 Related party transactions

According to existing criteria of determination of related parties, the related parties of the Group are divided into the following categories:

- Entities - related parties under common control with the Companies of the Group;
- Entities - related parties, which have joint key management personnel with the Companies of the Group.

Ultimate controlling party is Mr. Vyshnevetsky 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 category are occasional and not significant, thus, they are not disclosed in these 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 statements of comprehensive income

	Year ended 30 June 2014	Year ended 30 June 2013
Income from sales of finished products, goods	2,541	1,622
Income from rendering of services	191	230
Impairment loss of loans issued	(7,122)	(10,884)
Expenses attributable to allowance for trade and other receivables	(909)	-
Expenses attributable to allowance for receivables on sale of property, plant and equipment	85	(1,503)
Income from operating lease	14	145
Income from sale of property, plant and equipment	9	78
Operating lease expenses	(263)	(347)
Purchases of services	(895)	(1,581)
Purchases of property, plant and equipment	(1,445)	(5,431)
Purchases of inventories	(5,127)	(13,413)

### Items of consolidated statements of financial position

	As at 30 June 2014	As at 30 June 2013
Current loans issued	14,916	22,281
Allowances for loans issued	(14,715)	(11,098)
Trade receivables	5,125	2,887
Allowances for trade receivables	(662)	(108)
Held-to-maturity investments	2,761	3,795
Advances paid	64	709
Other receivables	283	-
Prepayments for property, plant and equipment	(283)	-
Receivables on sale of property, plant and equipment	992	1,513
Allowances for receivables on sale of property, plant and equipment	(932)	(1,503)
Advances received	(69)	-
Other payables	(26)	(56)
Payables for acquisition property, plant and equipment	(444)	(70)
Trade payables	(979)	(253)

**29 Related party transactions (continued)**

**Remuneration of key management personnel**

	Year ended 30 June 2014	Year ended 30 June 2013
Wages and salaries	(158)	(250)
Contribution to Pension Fund and other social taxes	(70)	(112)
Dismissal benefits	(19)	(0)
	<u>(247)</u>	<u>(362)</u>
The average number of key management personnel, persons	<u>14</u>	<u>15</u>

For the year ended 30 June 2014 there were no other benefits to key management personnel except above listed.

**Remuneration of personnel**

	Year ended 30 June 2014	Year ended 30 June 2013
Wages and salaries of operating personnel	13,954	36,443
Wages and salaries of administrative personnel	3,417	4,855
Wages and salaries of distribution personnel	429	590
Wages and salaries of non-operating personnel	434	714
Wages and salaries of personnel involved in production of property, plant and equipment	248	1,381
Wages and salaries of personnel in the period of idle capacity	4,336	223
<b>The average number of employees, persons</b>	<b>3,705</b>	<b>6,387</b>

**30 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 2014 is appropriate and all of the Group'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 entities 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.

**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 assets are subject to the credit risk of the Group. Management of the Group assesses the credit risk as for financial assets on the year basis taking into account counterparties financial position, credit reputation, background cooperation and other factors.

As at 30 June 2014 Group has 8 major clients (30 June 2013 - 6 Clients) with the balances over USD 1,000 thousand that equals approximately 81% (30 June 2013- 87%) of the total trade and other receivables.

The Group recognizes allowance for receivables to secure trade and other receivables. The calculation of the allowance's amount is based on individual assessment of the financial position of the particular contractor. Group's Management performs monitoring of payback period. In case of delay in payment, its reasons are clarified, and the decision whether to implement a sanction or provide a short-time delay of payment is made. It should be noted that the average delay period in payment for main debtors is 120 days.

Despite the fact that the current business environment may have influence on the customer's ability to redeem their debts, management considers that recognized allowance for receivables is sufficient.

The maximum exposure to credit risk at the reporting date is represented by the carrying amount of each class of financial assets. Group estimates the concentration of risk in respect of the trade and other receivables as high.

Specific of the Group's activity implies that trade receivables are composed of receivables due from wholesale customers.

**30 Management of financial risks (continued)**

Carrying amount of financial assets reflects maximum exposure of the Group's credit risk. The Group's exposure to credit risk is presented below:

	At 30 June 2014	At 30 June 2013
Trade receivables	33,952	32,909
Other receivables	126	173
Receivables on sale of property, plant and equipment	113	9
Held-to-maturity investments	2,810	4,203
Loans issued	201	11,259
Cash and cash equivalents	21,616	23,278
	<b>58,818</b>	<b>71,831</b>

**Distribution of trade receivables, other receivables and receivables on sale of property, plant and equipment by maturities is as follows:**

	At 30 June 2014	At 30 June 2013
Undue	23,811	16,003
Past due but not impaired	13,574	17,088
	<b>37,385</b>	<b>33,091</b>

On the basis of analysis of payments for the current period management of the Group considers 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 2014	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	6,347	2,979	3,754	382	-	13,462
Past due but not impaired receivables on sale of property, plant and equipment	112	-	-	-	-	112
	<b>6,459</b>	<b>2,979</b>	<b>3,754</b>	<b>382</b>	<b>-</b>	<b>13,574</b>
as at 30 June 2013	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	1,734	3,231	2,746	9,377	-	17,088
	<b>1,734</b>	<b>3,231</b>	<b>2,746</b>	<b>9,377</b>	<b>-</b>	<b>17,088</b>

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

Apart from general evaluation made by management, there is an approval procedures which each potential customer has to follow.

Customer reliability is evaluated and approved by following departments:

- department, which initiated cooperation with counterparty (usually Sales department or Purchase department);
- Financial department;
- Analytical department;
- Audit department;
- Legal department.

As a result of evaluation procedures, approval sheet is completed with sign-offs and comments if any of all stated above departments.

After Management's approval and clarifications of all responsible departments' comments approval sheet is completed. Consequently of asserted Approval sheet, department which initiated cooperation with the counterparty is entitled to sign an agreement.

**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 of the Group.

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.

30 Management of financial risks (continued)

Distribution of financial liabilities by maturities is as follows:

as at 30 June 2014	on demand	within 30 days	from 30 to 90 days	from 90 to 180 days	from 180 to 360 days	from 1 to 5 years	more than 5 years	Total
Trade payables	5,145	3,286	5,497	3,511	114	-	-	17,553
Other payable	182	1,581	294	34	189	-	-	2,280
Non-current loans and borrowings	-	-	-	-	-	52,500	7,000	59,500
Current loans and borrowings	1,472	1,039	22,824	2,795	8,924	-	-	37,054
Interest payable	-	853	1,615	1,797	3,028	-	-	7,293
Obligation under finance lease	-	82	163	244	479	3,808	37,148	41,924
	<b>6,799</b>	<b>6,841</b>	<b>30,393</b>	<b>8,381</b>	<b>12,734</b>	<b>56,308</b>	<b>44,148</b>	<b>165,604</b>

as at 30 June 2013	on demand	within 30 days	from 30 to 90 days	from 90 to 180 days	from 180 to 360 days	from 1 to 5 years	more than 5 years	Total
Trade payables	425	485	179	93	24	-	-	1,206
Other payable	135	880	110	107	189	625	-	2,046
Non-current loans and borrowings	-	-	-	-	-	45,500	14,000	59,500
Current loans and borrowings	-	-	20,000	-	10,018	-	-	30,018
Interest payable	-	592	1,097	2,208	3,146	13,139	1,098	21,280
Obligation under finance lease	-	117	235	352	704	5,633	56,359	63,400
	<b>560</b>	<b>2,074</b>	<b>21,621</b>	<b>2,760</b>	<b>14,081</b>	<b>64,897</b>	<b>71,457</b>	<b>177,450</b>

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.

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 USD. The Group's exposure to foreign currency changes for all other currencies is not material.

USD	At 30 June 2014	Increase/decreases in exchange rate	Effect on profit before tax
Cash and cash equivalents	21,615	29,05%	6,278
		-29,05%	(6,278)
Trade receivables	51	29,05%	15
		-29,05%	(15)
Loan and borrowings received	(87,253)	29,05%	(25,343)
		-29,05%	25,343
<b>Total effect of change in exchange rate</b>		<b>Increase</b>	<b>19,050</b>
		<b>Decrease</b>	<b>(19,050)</b>

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.

Group regularly assesses the potential scenarios of future prices fluctuation in cost of sales components and its influence on operating and investment decisions. The risks of changes in the prices of raw materials and electricity are the most significant risks of the Group, as they are essential cost of sales components.

It should be taken into account that in the current economic situation, Management's estimates may differ from the actual impact of price's changes on the cost of finished goods and the financial position of the Group.

**30 Management of financial risks (continued)**

For the purpose of the commodity price risk assessment Management has used composite index that covers inflation rate, business environment and other factors. Composite index for 2014 financial year was estimated as 15%.

Commodity price risk and its influence on main financial indicators for the period ended 30 June 2014 is presented below:

	Current position	Change of composite index	
		+15%	-15%
Revenue	111,949	111,949	111,949
Cost of sales	(91,087)	(94,271)	(87,903)
<b>Gross profit</b>	<b>20,862</b>	<b>17,678</b>	<b>24,046</b>
Administrative expenses	(5,047)	(5,047)	(5,047)
Selling expenses	(4,348)	(4,348)	(4,348)
Other operation income	(2,704)	(2,704)	(2,704)
Idle capacity expenses	(13,101)	(13,454)	(12,748)
<b>Operating Loss</b>	<b>(4,338)</b>	<b>(7,875)</b>	<b>(801)</b>
Other non-operating expenses	(670)	(670)	(670)
Financial income	3,111	3,111	3,111
Financial costs	(35,011)	(35,011)	(35,011)
<b>Loss before tax</b>	<b>(36,908)</b>	<b>(40,445)</b>	<b>(33,371)</b>
Income tax	(2,025)	(2,025)	(2,025)
<b>Net loss</b>	<b>(38,933)</b>	<b>(42,470)</b>	<b>(35,396)</b>
<b>EBITDA</b>	<b>6,827</b>	<b>3,290</b>	<b>10,364</b>

**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. Sensitivity analysis attributable to loan attracted with floating interest rate presented below.

	Amount of financial instrument as at 30 June 2014	Effect on profit before tax	
		+1%	-1%
Interest expenses attributable to loan with floating rate (Libor 6m + 5.85%)	35,000	350	(350)

**Financial instruments**

Set out below is a comparison by category of carrying amounts and values of financial instruments:

	Carrying amount		Fair values	
	at 30 June 2014	at 30 June 2013	at 30 June 2014	at 30 June 2013
<b>Financial assets</b>				
Non-current financial assets				
Notes receivable	638	4,203	638	4,203
Non-current deposit	20,000	20,000	20,000	20,000
Current financial assets				
Notes receivable	2,172	-	2,172	-
Loans issued	201	11,259	201	11,259
Trade and other receivables	37,578	33,277	37,578	33,277
Cash and cash equivalents	1,616	3,278	1,616	3,278
<b>Financial liabilities</b>				
Non-current loans and borrowings				
Borrowings received	59,500	59,500	59,500	59,500
Non-current trade and other payables	-	226	-	226
Current loans and borrowings				
Bank loans	33,860	30,018	33,860	30,018
Payables under factoring contracts	3,194	-	3,194	-
Obligation under finance lease	5,303	7,821	5,303	7,821
Trade and other payables	22,360	7,363	22,360	7,363

**30 Management of financial risks (continued)**

The following methods and assumption were used to estimate fair values:

Cash and 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.

**31 Contingent assets and liabilities**

As at the date of presentation of the financial statements the Group is not involved in any legal processes that can have material impact on its financial position.

**32 Off-balance sheet liabilities**

Companies of the Group were engaged in indemnity contracts and guarantee contracts to secure liabilities of third parties.

As at 30 June 2014 contracts of guarantee assuring liabilities LLC "Ugletechnic" amount to USD 6,766 thousands. Maturity date is 30 November 2014.

**33 Subsequent events**General information

During subsequent period the Group experienced difficulties resulting from the continued military conflict in Donetsk and Lugansk regions where Group's major operating facilities are located. Under such circumstances difficulties take the forms of (including but not limited) limitations to mining and other business activities without threat to lives and health of employees; limited access to assets for carrying out maintenance works and assessment of inflicted damage; hampered planning and execution of the investment program. These adversely affect business operations of Group's customers and their timely fulfillment of obligations towards the Group.

Given this situation, the Group carries out methodical and systematic work with trade account receivables, attracts factoring financing to secure sufficient current liquidity, as well as reduces operating costs.

Finance lease

Due to inability to use the production assets owned under finance lease, the Group suspended payments under the respective agreements in April-May 2014 until the military confrontation in the region will be resolved.

Loans and deposits

According to the additional agreement signed on 30 September 2014 for the UAH loan obtained by Donugletekhninvest LLC from Delta Bank with the credit limit UAH 30,000 thousand interest accrued from 20 August 2014 till 30 November 2014 should be paid in amount not less than UAH 25 thousand monthly starting from the month of September 2014; the rest of the interest accrued but not paid for this period must be paid in full till 1 December 2014. Interest accrued after 1 December 2014 must be paid in full on monthly basis not later than the 10<sup>th</sup> day of month following the month of accrual. 30 September 2014 the Group obtained additional tranche from Delta Bank in amount of UAH 2,700 thousand. Obligations under this loan agreement must be settled according to schedule till 31 March 2015, but not later than 27 May 2016.

On the 8 October 2014 the USD loan obtained by CwAL LE "Sh/U Blagoveshenskoe" from Ukrainian Business Bank in amount of USD 19,819 thousand was settled in full at the expense of the deposit placed in same bank.

As at date of publication of this report obligations under factoring contract signed between Donantracit LLC and OJSC "OTP bank" composed UAH 36,687 thousand. According to the additional agreement signed 1 October 2014 interest accrued for the period from 1 September till 1 December 2014 for tranches received before 1 September 2014 should be accrued using the annual interest of 10% p.a., but interest for the period from 1 September 2014 till 1 December 2014 for all the outstanding tranches must be paid using 26% p.a. rate.

As of the date of publication of this report there are no precedents for early loan repayments (defaults) from any financing institutions. In case of continuing military confrontation in Donetsk and Lugansk regions, the Group is expecting to negotiate further postponement for interest and principals payments.

According to the management's opinion there were no events after the closing date, except for the disclosed above and known to the management which would substantially influence the financial standing of the Group.