



Unaudited interim consolidated report  
for the nine months FY2014 ended  
31<sup>st</sup> March 2014

# COAL ENERGY S.A., 9M FY2014 REPORT

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**Dear Shareholders,**

The financial results for the 9 months FY2014 have been influenced mainly by the turbulences in the political and macroeconomic environments during the last 6 months in Ukraine. Facing much uncertainty businesses were postponing their production and expansion projects which ultimately adversely exerted on the thermal and coking coal markets via reduced energy demand and postponed construction plans. Export markets for metallurgic product in the 3Q FY2014 were also weaker than expected in the 2Q FY2014. Decreasing sales volumes and sales prices for thermal and coking coal as well as sharp devaluation of the local currency were the major drivers for lower performance in the 3Q FY2014 consequently putting negative impact on the revenues, earnings and overall performance for 9 months FY2014:

- ❖ **Mining output.** In order to focus further on preserving liquidity of the Company and on avoiding inefficient use of capital in the 3Q FY2014 the mining output was balanced in order to meet market demand. Thermal coal output during the 3Q FY2014 reached 101.6 thousand tonnes (decreased by 23.8% q-o-q from 133.3 thousand tonnes) and coking coal output composed 36.7 thousand tonnes (demonstrated an increase by 12.6% q-o-q from 32.6 thousand tonnes). During the 3Q FY2014 underground mining output decreased to 138.3 thousand tonnes from 165.9 thousand tonnes, or by 16.6% q-o-q.  
During the 9 months FY2014 thermal coal output reached 369.6 thousand tonnes (decreased by 64.2% y-o-y, from 1,032.2 thousand tonnes) and coking coal output composed 96.6 thousand tonnes (demonstrated a decrease by 46.7% y-o-y, from 181.3 thousand tonnes).
- ❖ **Coal sales.** In the 3Q FY2014 total coal sales volumes reached 247.5 thousand tonnes which means 50.4% decrease q-o-q, from 499.0 thousand tonnes. The decrease reflected macroeconomic and political instability within the country as well as weaker fundamentals for the international thermal coal and metallurgic industry markets.  
During the 9 months FY2014 total coal sales volumes reached 1,148.1 thousand tonnes (1.7% increase y-o-y, from 1,128.8 thousand tonnes).
- ❖ **Revenue from coal sales.** In the 3Q FY2014 generated coal sales revenue reached US\$16.4 million (decreased by 56.2% q-o-q, from US\$37.4 million). The decrease in coal sales revenues was due to lower average coal sales price per tonne and lower sales volumes for the coking and thermal coal sold domestically and for export.  
During the 9 months FY2014 coal sales revenue composed US\$82.3 million (decreased by 12.3% y-o-y, from US\$93.8 million).
- ❖ **EBITDA.** EBITDA comprised -US\$1.4 million during the 3Q FY2014 being negatively influenced by softening prices and sales volumes of thermal and coking coal.  
EBITDA for the 9 months FY2014 composed US\$4.2 million (a reduction by 81.9% y-o-y, from US\$23.2 million).

The 2014 calendar year is expected to be a challenging year for the entire mining industry with quit long and deep coal market adjustments especially in the first half. Nevertheless the Company expects rebounding of its revenue gradually by 2015 calendar year.

As may be concluded from our monthly production reports further drops in coal extraction will be observed in the 4Q FY2014 in line with the limited demand. Nevertheless we consider such reduction as temporary and expect its restoring during the 1H FY2015.

In order to exploit the currency devaluation for the Company's benefit our sales force was concentrated and carries over the activities on making trial deliveries to new customers abroad

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which we expect to evolve into long-term larger scale contracts. Devaluation is expected to create good potential for the metal exporters and respectively for our coking coal sales to them. Optimizing working capital level remained a key focus area for the management also through reduction of trade receivables.

Overall effect from the currency depreciation for the Company will be negative unless Ukraine country risks diminish and sales opportunities increase proportionally. The negative impact will result from the loan portfolio denominated in the foreign currency and necessity to pay interest and principal in US\$. Nevertheless till the 1Q FY2016 we expect no principal repayments to be scheduled for foreign currency denominated loans (the US\$5.5 million loan that matures in June 2014 is expected to be prolonged based on the decision of the credit committee of the bank which extends maturity of the loan for the next 12 months).

Interest and scheduled repayments to all financing institutions are made in time and in full scope. Timely rolling over and maturity extension of maturing loans is under control of the management.

Taking into account the current situation in Ukraine, we opt for a conservative approach with regard to capital investments. New projects will be dependent on the market conditions. In order to enhance further cash cost per tonne and operational performance in general further improvements with respect to capital expenditures efficiencies are constantly undertaken: reviewing procurement spending, executing continuous improvement initiatives, assessing mine plans and exercising other organizational changes.

Political and macroeconomic stabilization (stimulated by the presidential elections in May 2014, financial aid from the International Monetary Fund, liberalization of the domestic coal market and privatizations in the mining sector) should provide catalyst for improvement of the Company's operations during the 2H 2014 calendar year and our goal is to position the Company for capitalization as coal markets recover.

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

# COAL ENERGY S.A., 9M FY2014 REPORT

## Review of the financial and operational results of Coal Energy S.A. including parent company and its subsidiaries (hereinafter “Company”) for the 9 months FY2014

The 3Q FY2014 results added negatively to 9 months FY2014 (hereinafter - 9M FY2014) performance. The results of the 3Q FY2014 were affected by political and macroeconomic uncertainties. Hence domestic industrial output demonstrated downturn by 5.0% in the 3Q FY2014 y-o-y, thermal power and heating plants reduced electricity production by 6.2% y-o-y.

Although thermal coal production in Ukraine increased in the 3Q FY2014 by 1.5% y-o-y beginning the 4Q FY2014 major thermal coal market players declared the reduction of their production plans for 2014 calendar year.

During the 3Q FY2014 the Ukrainian steel output decreased by 10.1% y-o-y reflecting lower than expected sales opportunities. Countrywide coking coal output decreased by 4.2% y-o-y in the 3Q FY2014.

The following table summarizes the Company’s key margins and ratios for the 3Q FY2014, the 2Q FY2014, the 9M FY2014 and the 9M FY2013 (numbers are rounded):

<i>in millions of US\$</i>	3Q FY14	2Q FY14	Relative change q-o-q	9M FY14	9M FY13	Relative change y-o-y
Revenue	17.1	38.6	(55.7%)	84.7	104.1	(18.6%)
Gross profit	1.0	8.1	(87.7%)	13.8	26.8	(48.5%)
Operating (loss)/profit	(4.1)	1.3	n/a	(4.8)	14.8	n/a
EBITDA	(1.4)	4.5	n/a	4.2	23.2	(81.9%)
Net (loss)/profit	(18.1)	(2.7)	n/a	(26.4)	5.2	n/a
<i>as a percentage of revenue</i>			<i>Δ percentage points</i>			<i>Δ percentage points</i>
Gross margin %	5.8%	21.0%	(15.2%)	16.3%	25.7%	(9.4%)
Operating (loss)/profit %	(24.0%)	3.4%	(27.4%)	(5.7%)	14.2%	(19.9%)
EBITDA %	(8.2%)	11.7%	(19.9%)	5.0%	22.3%	(17.3%)
Net earnings %	(105.8%)	(7.0%)	(98.8%)	(31.2%)	5.0%	(36.2%)
<b>Ratios*:</b>						
EBITDA/Financial costs	(0.1)	1.1		0.2	4.2	
Debt/EBITDA	39.8	42.7		39.8	2.5	
Net debt/EBITDA	38.5	42.3		38.5	1.3	

\*-EBITDA for calculation of EBITDA/Finance costs is taken for the respective period presented. EBITDA for the Debt/EBITDA and Net Debt/EBITDA ratios calculation is taken for the last four consecutive quarters. 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.MatronaMoskovskaya”) in amount of US\$5.739 million as of the 9M FY2014 and US\$7.822 million as of the 9M FY2013. Calculation of Debt and Net debt exclude the amount of US\$20.0 million (non-current deposit) which is securing loan obligations under a loan with a Ukrainian bank.

### Revenue

For the 9M FY2014 total revenue amounted US\$84.7 million versus US\$104.1 million for the 9M of FY2013 thus declining by 18.6% y-o-y and reflecting a drop in the domestic coal prices and volumes for both thermal and metallurgical coal in FY2014. Export sales volumes also decreased q-o-q reflecting uncertainties for contracting the Ukrainian coal.

Quarterly revenue performance also demonstrates a decline from US\$38.6 million in the 2Q FY2014 to US\$17.1 million in the 3Q FY2014 or by 55.7% q-o-q.

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Coal sales volumes dynamics are presented in the table below (numbers are rounded):

<i>in thousand tonnes</i>	3QFY14	2QFY14	change,%	9M FY14	9M FY13	change,%
Thermal	200	376	(46.8%)	922	945	(2.4%)
Coking	47	123	(61.8%)	226	184	22.8%
Total	247	499	(50.5%)	1,148	1,129	1.7%

In the 3Q FY2014 thermal coal sales decreased q-o-q from 376.0 thousand tonnes to 200.0 thousand tonnes, or by 46.8%, accordingly coking coal sales shrank from 123.0 thousand tonnes to 47.0 thousand tonnes q-o-q, or by 61.8%.

Thermal coal traditionally composed major part of coal sales volumes: 81.0% in the 3Q FY2014.

The Company searched for favourable sales opportunities making efforts to utilize the local currency devaluation. Still the country risks and related reliability of supply performance overwhelmed the potential attractiveness of starting new business relations. In the 3Q FY2014 coal export sales comprised US\$1.4 million versus US\$2.1 million in the 2Q FY2014 thus declining by 33.3%. Coal export sales for the 9M FY2014 reached US\$4.1 million compared to US\$9.5 million for the 9M FY2013, revealing a 56.8% decline. Despite the general decline in coal sales volumes for export the Company broadened its customer base by making test deliveries with expectation to evolve the relation in future.

Revenue from coal export sales composed 4.8% in total revenue during the 9M FY2014 versus 9.1% in the 9M FY2013 due to significantly lower export demand in the reporting period which we explain by the instability within the country.

Comparing coal trading activity for the 9M FY2014 y-o-y it increased from US\$4.3 million to US\$25.2 million. Coal trading in the 3Q FY2014 reached US\$7.9 million compared to US\$11.2 million in the 2Q FY2014, and declined by 29.5% q-o-q.

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

The following table links cost of sales with total cash cost of production in each business segment of the Company in the 9M FY2014 and the 9M FY2013:

<i>in thousands of US\$</i>	9M FY14	9M FY13
<b>Cost of sales</b>	<b>70,942</b>	<b>77,344</b>
Less:		
Cost of merchandising inventory	(26,273)	(13,821)
Change in finished goods	(10,116)	10,171
Cost of other services	(184)	(310)
Depreciation and amortization	(4,414)	(8,206)
<b>Total cash cost of production</b>	<b>29,955</b>	<b>65,178</b>
<i>Including:</i>		
Total cash cost of mining	26,568	59,490
Total cash cost of beneficiation	1,346	2,443
Total cash cost of waste dumps processing	2,041	3,246
<i>in US\$ per tonne</i>		
Cash cost of mining per 1 tonne of ROM coal	57.0	49.0
Cash cost of beneficiation per 1 tonne of ROM coal	12.1	14.4
Cash cost of waste processing per 1 tonne of saleable coal from waste dumps	22.2	27.8

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Cash cost of mining was under negative influence of lower mining output and expenses of conditionally fixed nature (materials, wages, energy, etc.) factors y-o-y. Thus for the 9M FY2014 cash cost of mining increased by 16.3% y-o-y. However, on a quarterly basis cash cost of mining declined by 17.3% to US\$50.3 per tonne due to cost reductions and local currency depreciation lowering major expenses (wages, electricity, raw material expenses, etc.).

Cash cost of beneficiation for the 9M FY2014 decreased down to US\$12.1 per tonne.

Cash cost of coal waste processing was lower by 20.1% compared to the 9M FY2013 due to homogeneous composition of processed waste dumps and the required quality characteristics of coal concentrate. In the 3Q FY2014 cash cost of coal waste processing reached US\$23.5, thus increased by 8.8% q-o-q due to lower volumes of coal concentrate produced.

### ***Gross profit***

Gross profit totalled US\$13.8 million for the 9M FY2014 versus US\$26.8 million for the 9M FY2013 demonstrating a drop by 48.5% y-o-y. While in relative terms gross margin composed 16.3% for 9M FY2014 compared to 25.7% for the 9M FY2013.

### ***Operating expenses***

#### *General and administrative expenses*

General and administrative expenses decreased by 25.0% for the 9M FY2014 as compared to the same period of the previous financial year and comprised US\$4.2 million.

The expenses decreased mostly in the items like wages and salaries of administrative personnel segment (from US\$3.7 million for the 9M FY2013 to US\$2.8 million for the 9M FY2014, or by 24.3% y-o-y) and subcontractors services (from US\$1.3 million for the 9M FY2013 to US\$1.1 million for the 9M FY2014, or by 15.4% y-o-y). These items are negotiated, agreed and paid in the local currency and partially such reduction is related to the Ukrainian hryvnia devaluation.

#### *Selling and distribution expenses*

Selling and distribution expenses amounted to US\$3.6 million for the reported period as compared to US\$6.1 million for the 9M FY2013, demonstrating substantial drop of 41.0% y-o-y, driven mainly by lower transportation costs. Selling and distribution costs comprised 4.3% in relation to revenue for the 9M FY2014 versus 5.9% for the 9M FY2013.

#### *Idle capacity expenses*

Idle capacity expenses comprised US\$10.6 million for the 9M FY2014. The item of expenses decreased by US\$3.5 million to US\$2.9 million q-o-q, which means by 17.1%.

Due to volatility of the coal market production capacity of the Company's individual companies in some periods could not be operated at 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".

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Management of the Company 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.

### *Operating loss /profit*

During the 9M FY2014 the Company recorded US\$4.8 million of operating loss compared to US\$14.8 million of operating profit during the 9M FY2013. For the 3Q FY2014 operating loss composed US\$4.1 million compared to an operating profit of US\$1.3 million in the 2Q FY2014. Operating profit margin was negative for the 9M FY2014 and composed -5.7%.

### *Financial costs*

During the 9M FY2014 financial costs comprised US\$21.3 million (compared to US\$5.4 million y-o-y) also including US\$9.9 million of losses from non-operational exchange differences mainly attributable to the US-denominated loan portfolio appreciation driven by the local currency depreciation.

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

For the nine months of FY2014 other non-operating expenses of the Company declined to US\$1.0 million or by 68.8% compared to 9M FY2013.

### *Net loss/profit*

The Company recorded net loss of US\$26.4 million for the 9M FY2014 compared to a net profit of US\$5.2 million for the 9M FY2013. Net loss for the 3Q FY2014 in amount of US\$18.1million (compared to the net loss of US\$2.7 million in the 2Q FY2014) was further suppressed by the financial costs of US\$14.1 million in the 3Q FY2014 resulting also from negative currency exchange differences.

### *Other comprehensive loss/income*

Sharp depreciation of the reporting currency (local currency Ukrainian hryvnia) resulted in the other comprehensive loss (arising mainly from the intragroup loans) of US\$32.5 million during the 3Q FY2014.

### *Production results*

Coal Energy total production decreased to 558.2 thousands tonnes of coal for the 9M FY2014 or by 58.0% as compared to the 9M FY2013.

*Underground mining.* In the 9M FY2014 mining output decreased to 466.2 thousand tonnes from 1,213.5 thousand tonnes for the 9M FY2013, or by 61.6% y-o-y.

Mining of thermal coal decreased by 64.2% y-o-y to 369.6 thousand tonnes while mining output of coking and dual-purpose coal decreased by 46.7% y-o-y to 96.6 thousand tonnes.

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The table below shows mining volumes by each operating entity in the Company:

<i>in thousand of tonnes</i>	Coal type	9M FY14	9M FY13	change, %
Donbasuglerazrobotka LLC	Thermal	1.7	32.9	(94.8%)
Donprombiznes LLC	Thermal	34.8	231.1	(84.9%)
Eximenergo LLC	Thermal	158.3	266.8	(40.7%)
Ugledobycha LLC	Thermal	123.8	122.1	1.4%
CwAL LE "Sh/U Blagoveshenskoe"	Thermal	51.0	379.3	(86.6%)
<i>Sub-total thermal coal</i>		<i>369.6</i>	<i>1032.2</i>	<i>(64.2%)</i>
Nedra Donbasa LLC	Coking	6.0	13.1	(54.2%)
Tekhinovatsiya LLC	Dual-purpose	3.5	28.0	(87.5%)
CwAL LE "Mine St.Matrona Moskovskaya"	Coking	87.1	140.2	(37.9%)
<i>Sub-total coking coal</i>		<i>96.6</i>	<i>181.3</i>	<i>(46.7%)</i>
<b>Total mining</b>		<b>466.2</b>	<b>1,213.5</b>	<b>(61.6%)</b>
Antracit LLC	Coal concentrate	92.0	116.5	(21.0%)
<b>Total production</b>		<b>558.2</b>	<b>1,330.0</b>	<b>(58.0%)</b>

*Coal waste dumps processing.* During the 9M FY2014 production of coal from waste dumps processing reached 92.0 thousand tonnes, or decreased by 21.0% y-o-y.

*Beneficiation.* Beneficiation of own coal mined and bought from third parties reached 111.6 thousand tonnes for the 9M FY2014, decreased by 34.1% y-o-y compared to the 9M FY2013. For the 9M FY2014 beneficiation services to third parties were provided in amount of 23.4 thousand tonnes.

### ***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 reduce 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

## COAL ENERGY S.A., 9M FY2014 REPORT

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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 maintained in order to secure the Company's ability to increase production after the market revival. If sales are not expected to regain back their volume and price for some particular coal grades from a particular asset 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 and the local currency devaluation*

In order to continue investment program at the levels to reach the expected targets the Company would need external financing. The macroeconomic instability in the country made the banks to reassess their country risk policies and they either stopped providing new financing to the customers or even lowered their credit exposures. Instability also made the population to transfer their savings into US\$ and/or even take their savings away from the banking system which additionally squeezed the banking system 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 the Company attracted most of its credit portfolio in US\$. Hryvnia loans volumes limitations as well as higher interest rate related in part to the National Bank of Ukraine policy also to limit the hryvnia mass in circulation to keep the inflation rate at a stable level. The Company is timely fulfilling commercial terms of the loan agreements in order to limit the risk of non-prolongation of the existing credit facilities and in constant dialogue with the banks for timely extension of the maturities.

Although the interest rate under the hryvnia loans is higher than for foreign currency loans the latter exposes the Company to the exchange rate risks. During the 3Q FY2014 the Company has suffered from devaluation of hryvnia (through inflated amount of liabilities and interest payable), although the negative affect on the cash outflows was mitigated by the absence of foreign currency loans principal repayments. The first foreign currency loans repayments are expected to start in the 1Q FY2016. Till that time the Company expects that the coal markets will rebound and the Company will be able to cover the exchange rate losses which are to be realized by that time. The Company is also working on increasing its export operations which in its turn should attract foreign currency flows and further mitigate the currency devaluation risks. We can not exclude the risk of further devaluation of hryvnia.

Still the Company also may have some positive effect for the expense side. Major expenditures of the Company, like wages and salaries, raw materials, maintenance expenditures and CAPEX are linked to the local currency and these are not expected to be adjusted simultaneously and in full scope.

*The Company's activity may be influenced by political instability and/or uncertainty 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

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construction plans and metallurgic industry (being directly or indirectly the core consumers for the Company's products), tax payments to the state budget.

Adverse developments of the situation may be expected if the escalations of violence are heated-up by the powers within and outside the country with the potential consequences of separatism proclamation and even broader geopolitical conflicts in the region. Such unfavourable developments together with separatism proclamation will definitely force the government to enforce antiterrorist operation and may bring to enforcing the national army and other military forces and authorities to calm the riots – steps with consequences which are harder to evaluate based on the amount of available information to the Company.

Mitigation of the risk is mainly outside of control of the Company on macro level. Stabilisation of the situation in our opinion will be possible under the conditions of broad negotiations and round tables of regional political and business elites for the sake of mutual prosperity of the country, businesses and citizens.

The Company is involved in the basic material industry which may assume minimum stable level of demand for the fossil energy resources. On its corporate level the Company strives to provide the best price/quality product and to broaden its customer base in order to diversify and secure the sources of revenue. Additionally the Company can provide informational and practical support for its employees and workers who suffer from such events and need either physical or psychological assistance to cope with the unfavourable developments.

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

If bilateral trade relations between Russia and Ukraine were to deteriorate, this may have negative impact on the Ukrainian economy as a whole and thus on the Company's business, results of operations, financial condition and prospects as industrial output in the country may further 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 Russia may adversely affect the pace of economic growth of Ukraine. Furthermore, gas price increases may force Ukraine to launch certain reforms in the energy sector and modernization of major energy-consuming industries through the implementation of efficient technologies and modernization of production facilities. While defending its geopolitical interests the 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 the development and any strong perspective of any business sector in question and hence affect energy demand.

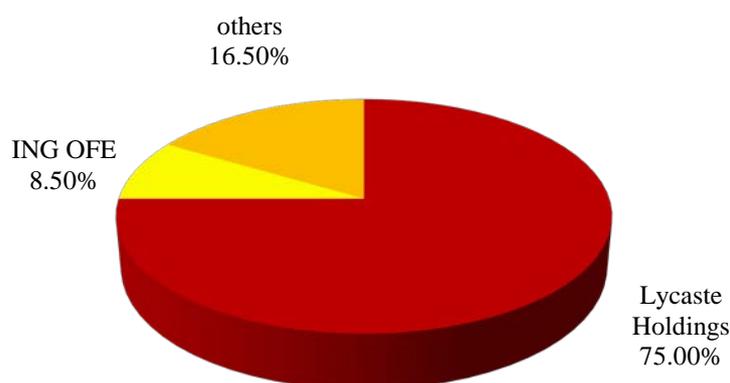
The Company does not possess resources to mitigate the described risk on macro level. On the level of the enterprise the Company invests in the production and technological solutions at its assets in order to provide competitive price/quality ratio. Additionally the Company aspires to guarantee and to support the social standards of living of its employees and to establish a direct

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dialogue with them in order to build up loyalty and avoid social unrests at the assets of the Company even during the times of economic and political instability and increased risks.

### *Equity and ownership structure 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 report's publication date and as of the 31<sup>st</sup> March 2014.



As at the report's publication date and on the 31<sup>st</sup> March 2014 share capital of Coal Energy S.A. comprised 45,011,120 shares.

Over the 9M FY2014 the following change in the shareholding structure took place:

- ❖ On the 19<sup>th</sup> of September 2013 the Company received a notification from Generali OFE that as a result of the transaction settled on the 12<sup>th</sup> of September 2013 the Fund 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 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 Generali OFE held 2,239,835 (two million two hundred thirty nine thousand eight hundred thirty five) shares which represented 4.98% share in capital and votes at the general meeting of the Company.



**COAL ENERGY S.A.**

**9m 2014FY**

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE NINE MONTHS  
ENDED MARCH 31, 2014



**Coal Energy S.A.**

9m 2014FY

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**Statement of Management responsibility**

To the best of our knowledge, consolidated financial statements as of 31 March 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 nine months ended 31 March 2014 as required under article 4(3) of the Law. The interim 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:

Directors B:

\_\_\_\_\_  
Chairman of the Board of Directors  
Viktor Vyshnevetsky

\_\_\_\_\_  
Independent Non-executive Director  
Jacob Mudde

\_\_\_\_\_  
Chief Operating Officer  
Roman Kovalkov

\_\_\_\_\_  
Independent Non-executive Director  
Gwenaëlle Bernadette Andrée Dominique Cousin

\_\_\_\_\_  
Business Development Director  
Oleksandr Reznik

\_\_\_\_\_  
Independent Non-executive Director  
Arthur David Johnson

Luxembourg, 26 May 2014

**Coal Energy S.A.****Management report for the nine months ended 31 March 2014**

Management of the Company hereby presents its consolidated financial statements for the nine months ended on 31 March 2014.

## 1. Results and developments during the nine months ended on 31 March 2014.

For the nine months ended on 31 March 2014 the Group recorded an EBITDA profit of USD 4,210 thousand (USD 23,203 thousand – EBITDA for the nine months ended 31 March 2013). After depreciation, amortization, finance costs and finance income the final loss for the nine months ended 31 March 2014 after taxation was USD 26,443 thousand (USD 5,199 thousand – profit for the nine months ended 31 March 2013).

## 2. Future developments of the Group.

The Group expects progressive implementation of plan for expansion by the introduction of new technology and mechanical aids.

## 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 31 March 2014, the Company and its affiliates have not repurchased of 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.

The Group does not use hedging derivatives.

For Coal Energy S.A.:

Directors A:

Directors B:

\_\_\_\_\_  
Chairman of the Board of Directors  
Viktor Vyshnevetsky

\_\_\_\_\_  
Independent Non-Executive Director  
Jacob Mudde

\_\_\_\_\_  
Chief Operating Officer  
Roman Kovalkov

\_\_\_\_\_  
Independent Non-Executive Director  
Gwenaëlle Bernadette Andrée Dominique Cousin

\_\_\_\_\_  
Business Development Director  
Oleksandr Reznik

\_\_\_\_\_  
Independent Non-Executive Director  
Arthur David Johnson

Luxembourg, 26 May 2014

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 31 MARCH 2014**

*(in thousands USD, unless otherwise stated)*

	Note	9 months ended 31 March 2014 (unaudited)	3 months ended 31 March 2014 (unaudited)	Year ended 30 June 2013 (audited)	9 months ended 31 March 2013 (unaudited)	3 months ended 31 March 2013 (unaudited)
Revenue	5	84,700	17,085	125,969	104,097	17,371
Cost of Sales	6	(70,942)	(16,075)	(100,654)	(77,344)	(17,484)
<b>GROSS PROFIT/(LOSS)</b>		<b>13,758</b>	<b>1,010</b>	<b>25,315</b>	<b>26,753</b>	<b>(113)</b>
General and administrative expenses	7	(4,239)	(1,366)	(7,169)	(5,637)	(1,974)
Selling and distribution expenses	8	(3,566)	(960)	(7,317)	(6,091)	(1,476)
Other operational (expenses)/income	9	(203)	122	(87)	171	224
Idle capacity expenses		(10,592)	(2,863)	(1,087)	(418)	(413)
<b>OPERATING PROFIT/(LOSS)</b>		<b>(4,842)</b>	<b>(4,057)</b>	<b>9,655</b>	<b>14,778</b>	<b>(3,752)</b>
Other non-operating (expenses)/income	10	(974)	(128)	(6,600)	(3,212)	(806)
Financial income	12	2,089	607	3,151	2,762	886
Financial costs	13	(21,314)	(14,052)	(18,643)	(5,373)	(2,521)
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(25,041)</b>	<b>(17,630)</b>	<b>(12,437)</b>	<b>8,955</b>	<b>(6,193)</b>
Income tax expenses	14	(1,402)	(512)	(4,462)	(3,756)	(525)
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>(26,443)</b>	<b>(18,142)</b>	<b>(16,899)</b>	<b>5,199</b>	<b>(6,718)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS):</b>						
Effect of foreign currency translation		(32,528)	(32,530)	(11)	(11)	-
Actuarial gain		-	-	133	-	-
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>		<b>(32,528)</b>	<b>(32,530)</b>	<b>122</b>	<b>(11)</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME:</b>		<b>(58,971)</b>	<b>(50,672)</b>	<b>(16,777)</b>	<b>5,188</b>	<b>(6,718)</b>
<b>PROFIT/LOSS FOR THE PERIOD ATTRIBUTABLE TO:</b>						
Equity holders of the parent		(26,175)	(17,965)	(16,724)	5,126	(6,678)
Non-controlling interests		(268)	(177)	(175)	73	(40)
		<b>(26,443)</b>	<b>(18,142)</b>	<b>(16,899)</b>	<b>5,199</b>	<b>(6,718)</b>
<b>COMPREHENSIVE INCOME/LOSS ATTRIBUTABLE TO:</b>						
Equity holders of the parent		(58,350)	(50,142)	(16,600)	5,116	(6,678)
Non-controlling interests		(621)	(530)	(177)	72	(40)
		<b>(58,971)</b>	<b>(50,672)</b>	<b>(16,777)</b>	<b>5,188</b>	<b>(6,718)</b>
Weighted average number of ordinary shares outstanding		45,011,120	45,011,120	45,011,120	45,011,120	45,011,120
<b>BASIC (LOSS)/EARNINGS PER ORDINARY SHARE</b>		<b>(58.15)</b>	<b>(39.91)</b>	<b>(37.15)</b>	<b>11.39</b>	<b>(14.84)</b>

*(expressed in USD cents)*

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

**Notes on pages 9 to 31 are an integral part of these consolidated financial statements.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014**
*(in thousands USD, unless otherwise stated)*

	Note	As at 31 March 2014 (unaudited)	As at 30 June 2013 (audited)	As at 31 March 2013 (unaudited)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	15	102,776	139,604	129,946
Intangible assets	16	5,519	7,914	8,095
Financial assets	17	2,662	4,203	4,034
Deferred tax assets	14	813	1,132	1,677
Deposit	23	20,000	20,000	-
		<b>131,770</b>	<b>172,853</b>	<b>143,752</b>
<b>Current assets</b>				
Inventories	18	13,196	17,614	19,950
Trade and other receivables	19	26,934	33,277	34,671
Prepayments and prepaid expenses	20	7,037	2,814	2,362
Financial assets	17	8,753	11,259	22,496
Other taxes receivables	22	1,470	3,318	3,045
Cash and cash equivalents	23	2,676	3,278	48,277
		<b>60,066</b>	<b>71,560</b>	<b>130,801</b>
<b>TOTAL ASSETS</b>		<b>191,836</b>	<b>244,413</b>	<b>274,553</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	24	450	450	450
Share premium		77,578	77,578	77,578
Retained earnings		6,831	33,006	56,707
Effect of foreign currency translation		(38,799)	(6,624)	(6,624)
<b>Equity attributable to equity holders of the parent</b>		<b>46,060</b>	<b>104,410</b>	<b>128,111</b>
Non-controlling interest		(374)	247	514
<b>TOTAL EQUITY</b>		<b>45,686</b>	<b>104,657</b>	<b>128,625</b>
<b>Non-current liabilities</b>				
Loans and borrowings	25	59,500	59,500	59,539
Finance lease liabilities	26	4,775	6,541	6,542
Defined benefit obligation		15,678	20,835	15,915
Trade and other payables	28	15	226	296
Other tax payable	22	108	194	207
Provisions	27	4,967	6,295	6,659
Deferred tax liabilities	14	3,063	3,036	3,787
		<b>88,106</b>	<b>96,627</b>	<b>92,945</b>
<b>Current liabilities</b>				
Loans and borrowings	25	38,200	30,018	38,288
Finance lease liabilities	26	964	1,280	1,280
Trade and other payables	28	15,462	7,363	9,450
Income tax payables	14	1,082	1,152	785
Other tax payables	22	2,336	3,316	3,180
		<b>58,044</b>	<b>43,129</b>	<b>52,983</b>
<b>TOTAL LIABILITIES</b>		<b>146,150</b>	<b>139,756</b>	<b>145,928</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>191,836</b>	<b>244,413</b>	<b>274,553</b>

Notes on pages 9 to 31 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 MARCH 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 (restated)</b>	450	77,578	49,595	(6,613)	121,010	424	121,434
Profit for the period	-	-	(16,724)	-	(16,724)	(175)	(16,899)
Other comprehensive income	-	-	135	(11)	124	(2)	122
<b>As at 30 June 2013</b>	450	77,578	33,006	(6,624)	104,410	247	104,657
Profit for the period	-	-	(26,175)	-	(26,175)	(268)	(26,443)
Other comprehensive income	-	-	-	(32,175)	(32,175)	(353)	(32,528)
<b>As at 31 March 2014</b>	450	77,578	6,831	(38,799)	46,060	(374)	45,686

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 MARCH 2013**
*(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 2011</b>	338	-	14,642	(6,558)	8,422	(1,076)	7,346
Profit for the period	-	-	35,940	-	35,940	2,495	38,435
Other comprehensive income	-	-	-	(56)	(56)	-	(56)
<b>Total comprehensive income</b>	-	-	35,940	(56)	35,884	2,495	38,379
Increase in share capital	112	80,541	-	-	80,653	-	80,653
Expenses related to IPO	-	(2,963)	-	-	(2,963)	-	(2,963)
Changes in share in subsidiaries	-	-	999	-	999	(977)	22
<b>As at 30 June 2012</b>	450	77,578	51,581	(6,614)	122,995	442	123,437
Profit for the period	-	-	5,126	-	5,126	73	5,199
Other comprehensive income	-	-	-	(10)	(10)	(1)	(11)
<b>As at 31 March 2013</b>	450	77,578	56,707	(6,624)	128,111	514	128,625

Notes on pages 9 to 31 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOW FOR THE NINE MONTHS ENDED 31 MARCH 2014**
*(in thousands USD, unless otherwise stated)*

	9 months ended 31 March 2014 (unaudited)	Year ended 30 June 2013 (audited)	9 months ended 31 March 2013 (unaudited)
<b>OPERATING ACTIVITIES</b>			
(Loss)/Profit before tax	(25,041)	(12,437)	8,955
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortization expenses	9,097	11,490	8,478
Finance income	(2,089)	(3,151)	(2,762)
Finance costs	21,314	18,643	5,373
(Recovery of doubtful debts) / Expenses for doubtful debts	(5)	115	(12)
(Income)/Loss from sale of property, plant and equipment	(58)	221	(181)
(Income)/Expenses attributable to allowance for receivables on sale of property, plant and equipment	(116)	2,197	1,622
Writing-off of non-current assets	204	599	623
(Profit)/loss from exchange differences	(64)	(3)	(1)
Income from writing-off of account payables	(7)	(12)	(9)
Movements in defined benefits plan obligations	618	2,712	13
Shortages and losses from impairment of inventory	20	300	-
Income from current assets received free of charge	(245)	(501)	(333)
	<b>3,628</b>	<b>20,173</b>	<b>21,766</b>
Working capital adjustments:			
Change in trade and other receivables	(5,542)	(935)	(2,239)
Change in advances made and deferred expenses	(6,654)	(2,050)	(1,598)
Change in inventories	119	(8,422)	(10,626)
Change in trade and other payables	12,409	(1,963)	397
Change in other tax balances	1,134	(2,333)	(2,232)
	<b>5,094</b>	<b>4,470</b>	<b>5,468</b>
Income tax paid	(255)	(1,686)	(1,494)
<b>Net cash flow from operating activity</b>	<b>4,839</b>	<b>2,784</b>	<b>3,974</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment and intangible assets	(10,297)	(63,232)	(49,633)
Proceeds from sale of property, plant and equipment and intangible assets	146	390	379
Purchase of financial assets	(40)	-	-
Proceeds from financial assets	310	2,202	2,034
Proceeds from interest free financial liabilities	-	-	44
Increase in deposit	-	(20,000)	-
Interest received	1,734	1,312	755
<b>Net cash flow from investing activity</b>	<b>(8,147)</b>	<b>(79,328)</b>	<b>(46,421)</b>
<b>FINANCIAL ACTIVITIES</b>			
Proceeds from loans and borrowings	50,052	108,652	103,679
Repayment of loans and borrowings	(35,554)	(23,900)	(11,129)
Repayment of interest free financial liabilities and notes issued	-	(56)	-
Interest paid	(10,895)	(10,103)	(7,046)
<b>Net cash flow from financial activity</b>	<b>3,603</b>	<b>74,593</b>	<b>85,504</b>
<b>NET CASH FLOWS</b>	<b>295</b>	<b>(1,951)</b>	<b>43,057</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>3,278</b>	<b>5,226</b>	<b>5,226</b>
Effect of translation to presentation currency	(897)	3	(6)
<b>Cash and cash equivalents at the end of the period</b>	<b>2,676</b>	<b>3,278</b>	<b>48,277</b>

Notes on pages 9 to 31 are an integral part of these consolidated financial statements.

**Notes to consolidated financial statements for the nine months ended 31 March 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	
		31 March 2014	31 March 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
Donbasuglerazrabotka 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	-

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 26 May 2014.

**2 Basis of preparation of the interim 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 interim 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 interim 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 interim consolidated financial statements were as follows:

Currency	31 March 2014	Average for six months ended 31 December 2013	Average for three months ended 31 March 2014	31 March 2013	Average for nine months ended 31 March 2013	30 June 2013
UAH/USD	10.9546	7.9930	8.8627	7.9930	7.9930	7.9930

#### (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 nor 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.

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 **nine months ended 31 March 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	57,113	27,152	435	-	84,700
	<b>57,113</b>	<b>27,152</b>	<b>435</b>	-	<b>84,700</b>
<b>(Loss)/profit before tax of the segment</b>	<b>(26,171)</b>	<b>879</b>	<b>251</b>	-	<b>(25,041)</b>
Depreciation and amortization expenses	(9,097)	-	-	-	(9,097)
Defined benefits plan obligations expenses	(618)	-	-	-	(618)
<b>Operational assets</b>	<b>172,259</b>	<b>3,119</b>	<b>84</b>	<b>16,374</b>	<b>191,836</b>
<b>Operational liabilities</b>	<b>(128,934)</b>	<b>(8,553)</b>	<b>(115)</b>	<b>(8,548)</b>	<b>(146,150)</b>
<b>Disclosure of other information</b>					
Capital expenditure	11,138	-	-	-	11,138

Information about the segments of business for the **three months ended 31 March 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	8,531	8,422	132	-	17,085
	<b>8,531</b>	<b>8,422</b>	<b>132</b>	-	<b>17,085</b>
<b>(Loss)/profit before tax of the segment</b>	<b>(18,303)</b>	<b>576</b>	<b>97</b>	-	<b>(17,630)</b>
Depreciation and amortization expenses	(2,709)	-	-	-	(2,709)
Defined benefits plan obligations expenses	(312)	-	-	-	(312)
<b>Operational assets</b>	<b>172,259</b>	<b>3,119</b>	<b>84</b>	<b>16,374</b>	<b>191,836</b>
<b>Operational liabilities</b>	<b>(128,934)</b>	<b>(8,553)</b>	<b>(115)</b>	<b>(8,548)</b>	<b>(146,150)</b>
<b>Disclosure of other information</b>					
Capital expenditure	1,177	-	-	-	1,177

As at 31 March 2014 assets of segments do not include financial assets (USD 11,415 thousand), cash (USD 2,676 thousand), other taxes receivable (USD 1,470 thousand), as well as deferred tax assets (USD 813 thousand), since management of these assets is carried out at the Group's level.

As at 31 March 2014 liabilities of segments do not include deferred tax liabilities (USD 3,063 thousand), other taxes payable (USD 2,444 thousand), income tax payables (USD 1,082 thousand), provision on tax liabilities (USD 1,959 thousand), since management of these liabilities is carried out at the Group's level.

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

 Information about the segments of business for the **nine months ended 31 March 2013:**

	Business segments				Total
	Mineral resource and processing industry	Trade activity	Other activity	Assets and liabilities not included in segments	
<b>Revenue</b>					
Sales to external customers	89,474	14,075	548	-	104,097
	<b>89,474</b>	<b>14,075</b>	<b>548</b>	-	<b>104,097</b>
<b>Profit before tax of the segment</b>	<b>8,463</b>	<b>254</b>	<b>238</b>	-	<b>8,955</b>
Depreciation and amortization expenses	(8,478)	-	-	-	(8,478)
Defined benefits plan obligations expenses	(13)	-	-	-	(13)
<b>Operational assets</b>	192,108	2,478	438	79,529	274,553
<b>Operational liabilities</b>	(35,838)	(1,232)	(296)	(108,562)	(145,928)
<b>Disclosure of other information</b>					
Capital expenditure	48,559	-	-	-	48,559

 Information about the segments of business for the **three months ended 31 March 2013:**

	Business segments				Total
	Mineral resource and processing industry	Trade activity	Other activity	Assets and liabilities not included in segments	
<b>Revenue</b>					
Sales to external customers	14,091	3,135	145	-	17,371
	<b>14,091</b>	<b>3,135</b>	<b>145</b>	-	<b>17,371</b>
<b>Profit before tax of the segment</b>	<b>(6,088)</b>	<b>(143)</b>	<b>38</b>	-	<b>(6,193)</b>
Depreciation and amortization expenses	(2,869)	-	-	-	(2,869)
Defined benefits plan obligations expenses	(53)	-	-	-	(53)
<b>Operational assets</b>	192,108	2,478	438	79,529	274,553
<b>Operational liabilities</b>	(35,838)	(1,232)	(296)	(108,562)	(145,928)
<b>Disclosure of other information</b>					
Capital expenditure	13,429	-	-	-	13,429

As at 31 March 2013 assets of segments do not include financial assets (USD 26,530 thousand), cash (USD 48,277 thousand), other taxes receivable (USD 3,045 thousand), as well as deferred tax assets (USD 1,677 thousand), since management of these assets is carried out at the Group's level.

As at 31 March 2013 liabilities of segments do not include deferred tax liabilities (USD 3,787 thousand), non-current loans and borrowings (USD 59,539 thousand), current loans and borrowings (USD 38,288 thousand), other taxes payable (USD 3,387 thousand), income tax payables (USD 785 thousand), provision on tax liabilities (USD 2,776 thousand), since management of these liabilities is carried out at the Group's level.

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Revenue received from sale of finished goods	57,113	8,531	89,474	14,091
Revenue from trading activity	27,152	8,422	14,075	3,135
Revenue from other activity	435	132	548	145
	<b>84,700</b>	<b>17,085</b>	<b>104,097</b>	<b>17,371</b>
<b>Geographic information</b>				
<b>Revenue from external customers</b>	<b>9 months ended 31 March 2014</b>	<b>3 months ended 31 March 2014</b>	<b>9 months ended 31 March 2013</b>	<b>3 months ended 31 March 2013</b>
Ukraine	80,359	15,592	94,556	14,511
Countries other than Ukraine and CIS	4,140	1,474	9,493	2,812
Countries of the CIS	201	19	48	48
	<b>84,700</b>	<b>17,085</b>	<b>104,097</b>	<b>17,371</b>

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

Specific of the Group's activity implies that the Clients, revenue from which is more than 10% of Group's Revenue composed USD 70,081 thousand for the period ended 31 March 2014 and presented in table below:

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Client 1	43,948	9,652	25,220	146
Client 2	22,463	2,098	12,872	1,961
Client 3	3,670	449	31,629	6,167
	<b>70,081</b>	<b>12,199</b>	<b>69,721</b>	<b>8,274</b>

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

**6 Cost of sales**

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Cost of merchandising inventory	(26,273)	(7,847)	(13,821)	(3,278)
Wages and salaries of operating personnel	(12,072)	(3,635)	(27,054)	(7,577)
Change in finished goods	(10,116)	1,001	10,171	7,610
Raw materials	(9,805)	(1,491)	(21,887)	(6,071)
Energy supply	(5,149)	(1,630)	(9,811)	(3,210)
Depreciation and amortization expenses	(4,414)	(1,413)	(8,206)	(2,755)
Subcontractors services	(2,399)	(863)	(4,726)	(1,566)
Other expenses	(714)	(197)	(2,010)	(637)
	<b>(70,942)</b>	<b>(16,075)</b>	<b>(77,344)</b>	<b>(17,484)</b>

**7 General and administrative expenses**

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Wages and salaries of administrative personnel	(2,802)	(932)	(3,690)	(1,159)
Subcontractors services	(1,097)	(344)	(1,336)	(603)
Bank services	(144)	(45)	(375)	(130)
Depreciation and amortization expenses	(75)	(32)	(111)	(36)
Other expenses	(121)	(13)	(125)	(46)
	<b>(4,239)</b>	<b>(1,366)</b>	<b>(5,637)</b>	<b>(1,974)</b>

**8 Selling and distribution expenses**

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Delivery costs	(2,659)	(674)	(5,167)	(1,257)
Subcontractors services	(370)	(134)	(311)	(40)
Wages and salaries of distribution personnel	(364)	(106)	(439)	(123)
Depreciation and amortization expenses	(111)	(34)	(108)	(36)
Other expenses	(62)	(12)	(66)	(20)
	<b>(3,566)</b>	<b>(960)</b>	<b>(6,091)</b>	<b>(1,476)</b>

**9 Other operating income/expenses**

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Writing-off of VAT	(95)	(24)	(281)	4
Income from Emission Reduction Units sale	-	-	227	-
Profit from exchange differences	63	63	1	-
(Expenses)/Reversal of doubtful debts expenses	6	1	12	212
Other operating expenses	(381)	-	(16)	(5)
Other operating income	204	82	228	13
	<b>(203)</b>	<b>122</b>	<b>171</b>	<b>224</b>

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

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Wages and salaries of non-operating personnel	(392)	(70)	(688)	(209)
Social sphere expenses	(371)	(141)	(364)	(88)
Writing-off of non-current assets	(204)	(1)	(623)	(74)
Recognized penalties, fines, charges	(54)	(26)	(91)	(17)
Depreciation of non-operating property, plant and equipment	(45)	(16)	(53)	(42)
Income/(Expenses) attributable to allowance for receivables on sale of property, plant and equipment	116	63	(1,622)	(400)
Income from sale of property, plant and equipment	152	38	181	38
Other non-operating income	264	195	365	69
Other non-operating expenses	(440)	(170)	(317)	(83)
	<b>(974)</b>	<b>(128)</b>	<b>(3,212)</b>	<b>(806)</b>

**11 Depreciation and amortization expenses**

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
<b>Depreciation</b>				
Depreciation of property, plant and equipment which are temporarily not used and underproduction	(4,452)	(1,214)	-	-
Cost of sales	(4,203)	(1,365)	(7,515)	(2,601)
Selling and distribution expenses	(111)	(34)	(108)	(36)
General and administrative expenses	(75)	(32)	(111)	(36)
Depreciation of non-operating property, plant and equipment	(45)	(16)	(53)	(42)
	<b>(8,886)</b>	<b>(2,661)</b>	<b>(7,787)</b>	<b>(2,715)</b>
<b>Amortization</b>				
Cost of sales	(211)	(48)	(691)	(154)
	<b>(211)</b>	<b>(48)</b>	<b>(691)</b>	<b>(154)</b>
	<b>(9,097)</b>	<b>(2,709)</b>	<b>(8,478)</b>	<b>(2,869)</b>

**12 Financial income**

	9 months ended 31 March 2014	3 months ended 31 March 2014	9 months ended 31 March 2013	3 months ended 31 March 2013
Interest income	1,734	606	754	469
Income from measurement of financial assets at amortized cost	350	-	1,322	149
Income from measurement of financial liabilities at amortized cost	5	(2)	1	-
Gain from non-operational exchange differences	-	3	685	268
	<b>2,089</b>	<b>607</b>	<b>2,762</b>	<b>886</b>

**13 Financial costs**

	<b>9 months ended 31 March 2014</b>	<b>3 months ended 31 March 2014</b>	<b>9 months ended 31 March 2013</b>	<b>3 months ended 31 March 2013</b>
Interest expenses	(9,824)	(3,540)	(5,138)	(3,341)
Loss from non-operational exchange differences	(9,883)	(9,883)	-	-
Finance lease expenses	(1,117)	(343)	(1,050)	(291)
Unwinding of discount reversal /(expenses)	(491)	(195)	1,676	1,616
Expenses from measurement of financial liabilities at amortized cost	(113)	(28)	(206)	(48)
Expenses from measurement of financial assets at amortized cost	(111)	(111)	(765)	(26)
Impairment (loss)/recovery of loans issued	225	48	110	(431)
	<b>(21,314)</b>	<b>(14,052)</b>	<b>(5,373)</b>	<b>(2,521)</b>

**14 Income tax expenses**

	<b>9 months ended 31 March 2014</b>	<b>3 months ended 31 March 2014</b>	<b>9 months ended 31 March 2013</b>	<b>3 months ended 31 March 2013</b>
Current income tax (rate 21%)	-	-	(1,438)	(810)
Current income tax (rate 19%)	(193)	33	(369)	(369)
Current income tax (rate 18%)	(81)	(81)	-	-
Deferred tax	(1,128)	(464)	(1,949)	654
<b>Income tax expenses</b>	<b>(1,402)</b>	<b>(512)</b>	<b>(3,756)</b>	<b>(525)</b>
<b>At the beginning of the period</b>	<b>(1,152)</b>	<b>(1,199)</b>	<b>(472)</b>	<b>(177)</b>
Current income tax charge (rate 21%)	-	-	(1,438)	(810)
Current income tax charge (rate 19%)	(193)	33	(369)	(369)
Current income tax charge (rate 18%)	(81)	(81)	-	-
Amount paid in the period	255	73	1,494	574
Effect of translation to presentation currency	89	92	-	(3)
<b>At the end of the period</b>	<b>(1,082)</b>	<b>(1,082)</b>	<b>(785)</b>	<b>(785)</b>
<b>Effect</b>				
Profit before tax (rate 21%)	-	-	15,148	-
Loss before tax (rate 19%)	(7,411)	-	(6,193)	(6,193)
Loss before tax (rate 18%)	(17,630)	(17,630)	-	-
Income tax (rate 21%)	-	-	(3,181)	-
Income tax (rate 19%)	1,408	-	1,177	1,177
Income tax (rate 18%)	3,173	3,173	-	-
Effect of different statutory tax rates of overseas jurisdictions	2,310	902	522	(557)
Tax effect of permanent differences	(8,293)	(4,587)	(2,274)	(1,145)
Income tax expenses	<b>(1,402)</b>	<b>(512)</b>	<b>(3,756)</b>	<b>(525)</b>

The Ukrainian Parliament adopted a new Tax Code, which became effective on 1 January 2011. According to the new 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 31 March 2014, the Group accounted for the decrease in the income tax rate and other implications of the new Tax Code.

**14 Income tax expenses (continued)**
**Recognized tax assets and liabilities**

	30 June 2013	Recognized in profit (loss)	Effect of translation to presentation currency	31 March 2014
<b>Effect of temporary differences on deferred tax assets</b>				
Property, plant and equipment, intangible assets	169	(6)	(67)	96
Inventories	1,065	(557)	(96)	412
Provisions	627	104	(190)	541
Defined benefit plan obligations	3,334	488	(1,000)	2,822
Charged vacation expenses	497	(149)	(94)	254
Folded on individual Companies' level	(4,560)			(3,312)
<b>Total deferred tax assets</b>	<b>1,132</b>	<b>(120)</b>	<b>(1,447)</b>	<b>813</b>
<b>Effect of temporary differences on deferred tax liabilities</b>				
Property, plant and equipment, intangible assets	(7,411)	(1,035)	2,180	(6,266)
Financial instruments	(185)	27	49	(109)
Folded on individual Companies' level	4,560			3,312
<b>Total deferred tax liabilities</b>	<b>(3,036)</b>	<b>(1,008)</b>	<b>2,229</b>	<b>(3,063)</b>
<b>Net deferred tax asset/(liability)</b>	<b>(1,904)</b>	<b>(1,128)</b>	<b>782</b>	<b>(2,250)</b>

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 translation to presentation currency	31 March 2013
<b>Effect of temporary differences on deferred tax assets</b>				
Property, plant and equipment, intangible assets	337	(64)	1	274
Inventories	562	703	1	1,266
Provisions	607	14	-	621
Defined benefit plan obligations	2,546	2	(2)	2,546
Charged vacation expenses	621	(48)	1	574
Folded on individual Companies' level	(2,579)	-	-	(3,604)
<b>Total deferred tax assets</b>	<b>2,094</b>	<b>607</b>	<b>1</b>	<b>1,677</b>
<b>Effect of temporary differences on deferred tax liabilities</b>				
Property, plant and equipment, intangible assets	(4,470)	(2,690)	(1)	(7,161)
Financial instruments	(364)	134	-	(230)
Folded on individual Companies' level	2,579	-	-	3,604
<b>Total deferred tax liabilities</b>	<b>(2,255)</b>	<b>(2,556)</b>	<b>(1)</b>	<b>(3,787)</b>
<b>Net deferred tax asset/(liability)</b>	<b>(161)</b>	<b>(1,949)</b>	<b>-</b>	<b>(2,110)</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	34,965	7,216	5,840	463	-	48,484
Transfer	341	2,801	871	-	(4,013)	-
Disposals	(43)	(131)	(1,971)	(203)	-	(2,348)
Effect of translation to presentation currency	82	(15)	(76)	(8)	1	(16)
<b>as at 31 March 2013</b>	<b>96,992</b>	<b>26,763</b>	<b>34,853</b>	<b>2,110</b>	<b>142</b>	<b>160,860</b>
<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	8,183	729	1,650	148	-	10,710
Disposals	(32)	(4)	(1,287)	(171)	(94)	(1,588)
Effect of translation to presentation currency	(31,562)	(6,945)	(9,557)	(564)	(274)	(48,902)
<b>as at 31 March 2014</b>	<b>85,320</b>	<b>18,775</b>	<b>25,732</b>	<b>1,513</b>	<b>713</b>	<b>132,053</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	(2,310)	(846)	(4,076)	(555)	-	(7,787)
Disposals	1	30	863	173	-	1,067
Effect of translation to presentation currency	-	1	-	7	-	8
<b>as at 31 March 2013</b>	<b>(8,467)</b>	<b>(5,350)</b>	<b>(15,576)</b>	<b>(1,521)</b>	-	<b>(30,914)</b>
<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	(3,394)	(943)	(3,870)	(199)	-	(8,406)
Disposals	3	2	599	142	-	746
Effect of translation to presentation currency	3,376	1,732	5,066	438	-	10,612
<b>as at 31 March 2014</b>	<b>(9,388)</b>	<b>(4,760)</b>	<b>(13,942)</b>	<b>(1,187)</b>	-	<b>(29,277)</b>
<b>Net book value</b>						
<b>as at 31 March 2013</b>	<b>88,525</b>	<b>21,413</b>	<b>19,277</b>	<b>589</b>	<b>142</b>	<b>129,946</b>
<b>as at 31 March 2014</b>	<b>75,932</b>	<b>14,015</b>	<b>11,790</b>	<b>326</b>	<b>713</b>	<b>102,776</b>

As at 31 March 2014 loans and borrowings of the Group were pledged by the property, plant and equipment with carrying amount of USD 16,742 thousand (31 March 2013 – USD 22,285 thousand): Note 25 "Loans and borrowings".

During the nine months ended 31 March 2014 any borrowing costs were capitalized as property, plant and equipment.

During the nine months ended 31 March 2013 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 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	28	10	37	75
Disposals	-	(2)	(29)	(31)
Effect of translation to presentation currency	(1)	-	-	(1)
<b>as at 31 March 2013</b>	<b>10,359</b>	<b>61</b>	<b>141</b>	<b>10,561</b>
<b>as at 30 June 2013</b>	<b>10,372</b>	<b>56</b>	<b>185</b>	<b>10,613</b>
Additions	401	1	26	428
Disposals	-	(3)	(85)	(88)
Effect of translation to presentation currency	(2,912)	(15)	(34)	(2,961)
<b>as at 31 March 2014</b>	<b>7,861</b>	<b>39</b>	<b>92</b>	<b>7,992</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	(668)	(7)	(16)	(691)
Disposal	-	1	14	15
Effect of translation to presentation currency	-	1	-	1
<b>as at 31 March 2013</b>	<b>(2,389)</b>	<b>(15)</b>	<b>(62)</b>	<b>(2,466)</b>
<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	(659)	(8)	(24)	(691)
Disposals	-	1	23	24
Effect of translation to presentation currency	867	6	20	893
<b>as at 31 March 2014</b>	<b>(2,402)</b>	<b>(18)</b>	<b>(53)</b>	<b>(2,473)</b>
<b>Net book value</b>				
<b>as at 31 March 2013</b>	<b>7,970</b>	<b>46</b>	<b>79</b>	<b>8,095</b>
<b>as at 31 March 2014</b>	<b>5,459</b>	<b>21</b>	<b>39</b>	<b>5,519</b>

As at 31 March 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 573 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 2,133 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 2,007 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 440 thousand (Nedra Donbasa LLC).

As at 31 March 2014 there are no pledged intangible assets.

As at 31 March 2014 there are no contractual commitments as for intangible assets of the Group.

**17 Financial assets**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
<b>Non-current financial assets</b>			
Held-to-maturity investments	2,662	4,203	4,034
	<b>2,662</b>	<b>4,203</b>	<b>4,034</b>
<b>Current financial assets</b>			
Loans issued	16,586	22,432	22,496
Allowance for loans issued	(8,113)	(11,173)	-
Held-to-maturity investments	280	-	-
	<b>8,753</b>	<b>11,259</b>	<b>22,496</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 nine months ended 31 March 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 31 March 2014 and overall uncertainties in the industry, the Company decided to keep conservative approach regarding the financial assets accounting and introduces 50% special allowance on that account in the reporting period.

**18 Inventories**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
Merchandise	7,077	30	151
Finished goods	3,846	15,278	16,021
Raw materials	1,268	1,347	2,022
Spare parts	898	942	1,717
Other inventories	107	17	39
	<b>13,196</b>	<b>17,614</b>	<b>19,950</b>

As at 31 March 2014 bank loans were secured by finished goods, carrying amount of which is USD 7,705 thousand (As at 31 March 2013 finished goods were pledged as collateral on amount USD 5,769 thousand).

**19 Trade and other receivables**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
Trade receivables	24,009	33,202	31,436
Allowance for trade receivables	(194)	(293)	(172)
Receivables under factoring contracts	2,510	-	2,526
Receivables on sale of property, plant and equipment	1,514	2,206	2,164
Allowance for receivables on sale of property, plant and equipment	(1,513)	(2,197)	(1,622)
Other receivables	424	179	160
Allowance for other receivables	(3)	(6)	(7)
Interest receivable	187	186	186
	<b>26,934</b>	<b>33,277</b>	<b>34,671</b>

As at 31 March 2014 bank loans were secured by trade receivables, carrying amount of which if USD 11,473 thousand (As at 31 March 2013 – USD 15,154 thousand).

**20 Prepayments and prepaid expenses**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
Advances paid	6,964	2,711	2,261
Deferred expenses	73	103	101
	<b>7,037</b>	<b>2,814</b>	<b>2,362</b>

**21 Changes in allowance made**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
<b>Balance as at the beginning of the period</b>	<b>(13,669)</b>	<b>(191)</b>	<b>(191)</b>
(Accrual)/Reverse	-	(13,491)	(1,622)
Use of allowances	200	13	12
Effect of translation to presentation currency	3,646	-	-
<b>Balance as at the end of the period</b>	<b>(9,823)</b>	<b>(13,669)</b>	<b>(1,801)</b>
	<b>As at 31 March 2014</b>	<b>As at 30 June 2013</b>	<b>As at 31 March 2013</b>
Allowance for loans issued	(8,113)	(11,173)	-
Allowance for receivables on sale of property, plant and equipment	(1,513)	(2,197)	(1,622)
Allowance for trade accounts receivable	(194)	(293)	(172)
Allowance for other accounts receivable	(3)	(6)	(7)
	<b>(9,823)</b>	<b>(13,669)</b>	<b>(1,801)</b>

**22 Other taxes**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
<b>Current taxes receivable</b>			
VAT recoverable	1,465	3,318	3,044
Prepayments for wages and salaries related taxes	5	-	1
	<b>1,470</b>	<b>3,318</b>	<b>3,045</b>
<b>Current taxes payable</b>			
VAT payable	(1,206)	(1,470)	(1,381)
Payable for wages and salaries related taxes	(885)	(1,462)	(1,349)
Payables for other taxes	(245)	(384)	(450)
	<b>(2,336)</b>	<b>(3,316)</b>	<b>(3,180)</b>
<b>Non-current taxes payable</b>			
Payables for other taxes	(91)	(158)	(166)
Payable for VAT	(17)	(36)	(41)
	<b>(108)</b>	<b>(194)</b>	<b>(207)</b>

As at 31 March 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 231 thousands consist of:

Tax liabilities for dividends: non-current portion presented at amortized cost amounting to USD 11 thousands, date of maturity August 2016.

Tax liabilities for VAT: non-current portion presented at amortized cost amounting to USD 17 thousands, date of maturity November 2016.

Tax liabilities for income tax: non-current portion presented at amortized cost amounting to USD 80 thousands, date of maturity December 2016.

Current portion of non-current tax liabilities amounting to USD 72 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 31 March 2014	As at 30 June 2013	As at 31 March 2013
<b>Non-current deposit</b>			
Deposit	20,000	20,000	-
	<b>20,000</b>	<b>20,000</b>	<b>-</b>
<b>Cash and cash equivalents</b>			
Cash on deposit	-	380	20,000
Cash in bank	2,676	2,898	25,695
Restricted cash	-	-	2,582
	<b>2,676</b>	<b>3,278</b>	<b>48,277</b>

As at 31 March 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 31 March 2014		As at 30 June 2013		As at 31 March 2013	
	%	Amount	%	Amount	%	Amount
Lycaste Holding Limited *	75	338	75	338	75	338
Free float	25	112	25	112	25	112
	<b>100</b>	<b>450</b>	<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 nine months ended 31 March 2014 quantity of shares did not change.

**25 Loans and borrowings**

	As at 31 March 2014		As at 30 June 2013		As at 31 March 2013	
<b>Non-current loans and borrowings</b>						
Loans received		(39,500)		(39,500)		(39,500)
Borrowings received		(20,000)		(20,000)		(20,000)
Notes issued		-		-		(39)
		<b>(59,500)</b>		<b>(59,500)</b>		<b>(59,539)</b>
Deducting current portion of long-term borrowings:						
Current portion of long-term borrowings		-		-		-
<b>Total non-current loans and borrowings</b>		<b>(59,500)</b>		<b>(59,500)</b>		<b>(59,539)</b>
<b>Current loans and borrowings</b>						
Bank loans		(35,690)		(30,018)		(35,718)
Interest free financial liabilities		-		-		(44)
Payables under factoring contracts		(2,510)		-		(2,526)
<b>Total current loans and borrowings</b>		<b>(38,200)</b>		<b>(30,018)</b>		<b>(38,288)</b>

**The amount of non-current loans and borrowings as at 31 March 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 893 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 5,173 thousand; the corporate rights in share capital of Donprombiznes LLC and property pledged value of which amounts to USD 7,916 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 2,127 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 31 March 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 6 June 2014.

— loan amounting to USD 3,330 thousand received by Coal Energy Ukraine LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 4,290 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 3,985 thousand. Maturity date is on 30 January 2015.

— 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 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 2,738 thousand received by Donvuhletekhninvest LLC in UAH according to the credit agreement concluded with OJSC "Deltabank" (former OJSC "Creditprombank") with credit limit USD 2,738 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 4,480 thousand and by the guarantee of Ugledobyvayushie Tehnology LLC amounting to USD 2,738 thousand. Maturity date is on 28 May 2014.

**25 Loans and borrowings (continued)**

— loan amounting to USD 1,917 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit equaling to USD 1,917 thousand. Annual interest rate equals to 21,0%. Obligations under this credit agreement are guaranteed by the revenue under the contracts amounting to USD 2,408 thousand. Maturity date is on 22 December 2014.

— loan amounting to USD 2,205 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with OJSC “Bank Cambio” with credit limit equaling to USD 2,205 thousand. Annual interest rate equals to 25,0%. Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 2,205 thousand, by the property of Uhledobycha LLC pledging value of which amounts to USD 633 thousand, by the finished goods (coal) pledged value of which amounts to USD 2,205 thousand and by the guarantee of Uhledobycha LLC amounting to USD 2,205 thousand. Maturity date is on 29 September 2014.

— factoring amounting to USD 625 thousand received by Donantracit LLC in UAH according to factoring contract concluded with OJSC “OTP Bank” with credit limit equaling to USD 3,578 thousand. Annual interest rate range to 26,5-27,0%. Obligations under this factoring contract are guaranteed by the revenue under the contracts amounting to USD 781 thousand, guarantee of CwAL LE “Sh/U Blagoveshenskoe” and Coal Energy S.A. amounting to USD 3,578 thousand. Maturity date is on 30 June 2015.

— factoring amounting to USD 1,885 thousand received by Donantracit LLC in UAH according to factoring contract concluded with OJSC “FUIB” with credit limit equaling to USD 16,431 thousand. Annual interest rate range to 14,5-24%. Obligations under this factoring contract are guaranteed by the revenue under the contracts amounting to USD 2,094 thousand. Maturity date is on 1 February 2015.

**The amount of non-current loans and borrowings as at 31 March 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 1,761 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 7,547 thousand; the corporate rights in share capital of Donprombiznes LLC and property pledged value of which amounts to USD 8,903 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 3,286 thousand and by 14,99% of total shares in Coal Energy S.A. (6 747 167 shares). Maturity date is on 20 June 2020.

**The amount of current loans and borrowings as at 31 March 2013 comprises the followings borrowings:**

— loan amounting to USD 1,877 thousand received by Donbasuglerazrobotka LLC in UAH according to the credit agreement concluded with OJSC “Creditprombank” with credit limit equal USD 1,877 thousand. Annual interest rate 25,0%. Obligations under this credit agreement are guaranteed by the property of Antracit LLC, pledging value of which amounts to USD 788 thousand; by the guarantee of individuals Vyshnevetsky V.V. and Vyshnevetska M.P. amounting to USD 1,877 thousand. Maturity date is on 12 April 2013. After 31 March 2013 till the date of publication of financial report loan agreement was prolonged until 24 March 2014.

— loan amounting to USD 1,752 thousand was received by Donantracit LLC in UAH according to the credit agreement concluded with OJSC “Creditprombank” with credit limit equaling to USD 1,752 thousand. Annual interest rate 25,0%. Obligations under this credit agreement are guaranteed by the property of Agro-industrial firm “Aval” LLC pledged value of which amounts to USD 1,843 thousand; by the finished goods (coal) pledged value of which amounts to USD 269 thousand, by the guarantee of individuals Vyshnevetsky V.V. and Vyshnevetska M.P. amounting to USD 1,752 thousand, by the guarantee of CwAL LE “Sh/U Blagoveshenskoe” amounting to USD 1,752 thousand. Maturity date is 17 April 2013. After 31 March 2013 till the date of publication of financial report loan agreement was prolonged until 28 April 2014.

— 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 07 June 2013.

— loan amounting to USD 5,121 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 contracts amounting to USD 5,121 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 pledge of the deposit in Ukrainian Business Bank on amount USD 20,000 thousand. Maturity date is on 17 September 2013.

— loan amounting to USD 1,468 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with OJSC “FUIB” with credit limit equaling to USD 5,000 thousand. Annual interest rate equals to 23,75%. Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 7,507 thousand, by the guarantee of CwAL LE “Mine St. Matrona Moskovskaya” and Donprombiznes LLC amounting to USD 5,000 thousand. Maturity date is on 19 December 2013.

— factoring amounting to USD 2,526 thousand received by Donantracit LLC in UAH according to factoring contract concluded with OJSC “OTP Bank” with credit limit equaling to USD 4,904 thousand. Annual interest rate equals to current market rate (23,0%). Obligations under this factoring contract are guaranteed by the revenue under the contracts amounting to USD 2,526 thousand, guarantee of CwAL LE “Sh/U Blagoveshenskoe” and Coal Energy S.A. amounting to USD 4,904 thousand. Maturity date is on 25 December 2013.

**25 Loans and borrowings (continued)**
**Essential terms:**

	Currency	Nominal interest rate, %	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
Non-current loan	USD	6-month LIBOR + 5,85%	(35,000)	(35,000)	(35,000)
Non-current borrowing	USD	11,00	(20,000)	(20,000)	(20,000)
Non-current loan	USD	13,00	(4,500)	(4,500)	(4,500)
			<b>(59,500)</b>	<b>(59,500)</b>	<b>(59,500)</b>

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

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
within 1 year	-	-	-
from 1 to 5 years	(49,000)	(45,500)	(38,556)
more than 5 years	(10,500)	(14,000)	(21,000)
	<b>(59,500)</b>	<b>(59,500)</b>	<b>(59,556)</b>

**Terms of current loans and borrowings**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
On demand	-	-	(44)
Within 3 months	(10,123)	(20,000)	(13,122)
From 3 to 12 months	(28,077)	(10,018)	(25,122)
	<b>(38,200)</b>	<b>(30,018)</b>	<b>(38,288)</b>

**26 Finance lease liabilities**

	As at 31 March 2014		As at 30 June 2013		As at 31 March 2013	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Due within 1 year	1,060	964	1,408	1,280	1,408	1,280
From 1 to 5 years	4,114	2,441	5,633	3,341	5,633	3,342
More than 5 years	40,351	2,334	56,359	3,200	56,711	3,200
	<b>45,525</b>	<b>5,739</b>	<b>63,400</b>	<b>7,821</b>	<b>63,752</b>	<b>7,822</b>
Future finance charges	(39,786)	-	(55,579)	-	(55,930)	-
Present value of lease obligation	<b>5,739</b>	<b>5,739</b>	<b>7,821</b>	<b>7,821</b>	<b>7,822</b>	<b>7,822</b>
<b>Current portion of financial lease liabilities</b>		<b>(964)</b>		<b>(1,280)</b>		<b>(1,280)</b>
<b>Non-current financial lease liabilities</b>		<b>(4,775)</b>		<b>(6,541)</b>		<b>(6,542)</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:**

	As at 31 March 2014	At 30 June 2013	As at 31 March 2013
Property, plant and equipment	38,343	52,485	34,557
Intangible assets	4,141	6,276	6,476
	<b>42,484</b>	<b>58,761</b>	<b>41,033</b>

**27 Provisions**

	As at 31 March 2014	At 30 June 2013	As at 31 March 2013
<b>Non-current provisions</b>			
Provision for land restoration	(2,458)	(3,258)	(3,245)
Provision on tax liabilities	(1,959)	(2,372)	(2,776)
Dismantling provision	(550)	(665)	(638)
	<b>(4,967)</b>	<b>(6,295)</b>	<b>(6,659)</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 1 July 2013</b>	<b>(3,258)</b>	<b>(665)</b>	<b>(2,372)</b>	<b>(6,295)</b>
Unwinding of discount	(80)	(64)	(303)	(447)
Effect of translation to presentation currency	880	179	716	1,775
<b>As at 31 March 2014</b>	<b>(2,458)</b>	<b>(550)</b>	<b>(1,959)</b>	<b>(4,967)</b>

**28 Trade and other payables**
**Current trade and other payables:**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
Trade payables	(10,304)	(1,206)	(2,465)
Payables for unused vacations	(1,408)	(2,625)	(3,020)
Interest due	(1,246)	(613)	(859)
Payables for wages and salaries	(1,155)	(1,804)	(1,834)
Advances received	(693)	(5)	(29)
Other payables	(511)	(1,019)	(943)
Payables for acquisition property, plant and equipment	(134)	(91)	(203)
Interest due to factoring contract	(11)	-	(97)
	<b>(15,462)</b>	<b>(7,363)</b>	<b>(9,450)</b>

**Non-current trade and other payables:**

	As at 31 March 2014	As at 30 June 2013	As at 31 March 2013
Other payables	(15)	(226)	(296)
	<b>(15)</b>	<b>(226)</b>	<b>(296)</b>

As at 31 March 2014 CwAL LE "Mine St.Matrona Moskovskaya" has non-current liabilities against SE "Regionalnye Elektricheskie Seti" on total nominal value amounting to USD 126 thousands. Non-current liability presented at amortized cost amounting to USD 15 thousands.

Current portion of non-current liability amounting to USD 98 thousands includes in current other payables. Date of maturity is May 2015.

Management of the Group states that there were no other trade and other non-current payables. Discount rate used by the Group is 18%.

**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.

**29 Related party transactions (continued)**

Details of transactions between entities - related parties under common control with the Companies of the Group are disclosed below:

**Items of consolidated statements of comprehensive income**

	<b>9 months ended 31 March 2014</b>	<b>Year ended 30 June 2013</b>	<b>9 months ended 31 March 2013</b>
Income from sales of finished products, goods	1,762	1,622	1,392
Income from rendering of services	184	230	186
Impairment reversal/(Impairment loss) of loans issued	172	(10,884)	110
Expenses attributable to allowance for receivables on sale of property, plant and equipment	35	(1,503)	(1,097)
Income from operating lease	11	145	133
Income from sale of property, plant and equipment	8	78	71
Operating lease expenses	(217)	(347)	(263)
Purchases of services	(828)	(1,581)	(1,328)
Purchases of property, plant and equipment	(1,044)	(5,431)	(4,255)
Purchases of inventories	(4,249)	(13,413)	(11,172)

**Items of consolidated statements of financial position**

	<b>As at 31 March 2014</b>	<b>As at 30 June 2013</b>	<b>As at 31 March 2013</b>
Current loans issued	16,155	22,281	22,308
Allowances for loans issued	(8,058)	(11,098)	-
Trade receivables	3,063	2,887	2,650
Allowances for trade receivables	(79)	(108)	-
Held-to-maturity investments	3,141	3,795	3,641
Advances paid	76	709	270
Other receivables	306	-	-
Prepayments for property, plant and equipment	-	-	98
Receivables on sale of property, plant and equipment	1,072	1,513	1,464
Allowances for receivables on sale of property, plant and equipment	(1,071)	(1,503)	(1,097)
Advances received	(642)	-	-
Other payables	(22)	(56)	(5)
Payables for acquisition property, plant and equipment	(125)	(70)	(165)
Trade payables	(925)	(253)	(244)
Current borrowings received from related parties	-	-	(44)

**30 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.

**31 Off-balance sheet liabilities**

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

As at 31 March 2014 contracts of guarantee assuring liabilities LLC "Ugletechnic" amount to USD 7,303 thousands. Maturity date is 15 August 2014.

**32 Subsequent events**

Management of the Group states that after the closing date there were no events, for which these consolidated financial statements would require adjustments.