



# **Annual Report for FY2016**

# COAL ENERGY S.A., ANNUAL REPORT FY2016 REPORT

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# COAL ENERGY S.A., ANNUAL REPORT FY2016 REPORT

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**Dear Shareholders,**

Herewith we are presenting our annual consolidated FY2016 financial report containing unaudited financial data. As disclosed in the current report no.15/2016 dated September 8, 2016 the Company postponed annual audit procedure until the armed unrests in the region of operations are resolved and access to assets as well as to documentation is safe. The Company will duly inform the Shareholders and investment society through current reports, its web page and other available means of communications about any changes for the renewal of the audit in case situation would improve and it would be possible to hold the required audit procedures.

In 2016 financial year the Company still operated in continued military conflict in the region of Company's location. Despite political negotiations and initiatives on conflict resolution (Minsk-2 Agreements) a sustainable breakthrough in conflict resolution has not yet occurred. Though active clashes were observed mostly within demarcation line negative consequences of conflict for businesses were often associated with major logistic issues like transportation of goods, materials and products through the demarcation line. In 2016FY Management remained concentrated on cost cutting, managing accounts receivable and restructuring of the existing loan facilities. The Company seeking constant dialog with its creditors on settlement of outstanding loan facilities and potential restructuring of the loan portfolio .

In FY2016 the Company managed to increase level of production, as well to improve its financial position as compared to the previous financial year. Nevertheless as situation in the region of assets location remains uncertain and controversial the results of 4 quarter demonstrated certain decline in operational and financial results.

Summarized highlights of the 4Q FY2016 and full FY2016 are presented below:

- ❖ **Mining output.** Mining output of thermal and coking coal in the 4Q FY2016 reached 57.1 thousand tonnes, as opposed to 91.4 thousand tonnes in 3Q FY2016 or decreased by 37.5% q-o-q followed by increased military clashes in the region of conflict. Annual mining underground output in FY2016 reached 389.3 thousand tonnes as compared to 112.2 thousand tonnes in FY2015, increasing by 247.0% y-o-y.
- ❖ **Coal volume sales.** In the 4Q FY2016 total coal volume sales reached 84.8 thousand tonnes demonstrating 22.1% decrease q-o-q from 108.8 thousand tonnes in 3Q FY2016 in line with reduced volume of production. Annual coal volume sales totaled 522.4 thousand tonnes, demonstrating considerable increased by 152.1% y-o-y.
- ❖ **Revenue from coal sales.** In the 4Q FY2016 generated coal sales revenue reached US\$3.3 million (decreased by 21.4% q-o-q from US\$4.2 million). Annual FY2016 coal sales revenue reached US\$22.9 million as opposed to US\$13.3 million in FY2015 increasing by 72.2% y-o-y.
- ❖ **EBITDA.** EBITDA in 4Q FY2016 comprised US\$1.4 remaining almost flat q-o-q. For the 12 months FY2016 the Company recorded US\$9.6 million EBITDA as compared to negative result for FY2015 amounted to US\$5.2 million.

Company's business recovery is highly dependent on resolution of military conflict, further macroeconomic and political stabilization in Ukraine. Management very much relies on effective realization of political initiatives and diplomatic solution of the conflict.

*Viktor Vyshnevetsky*

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

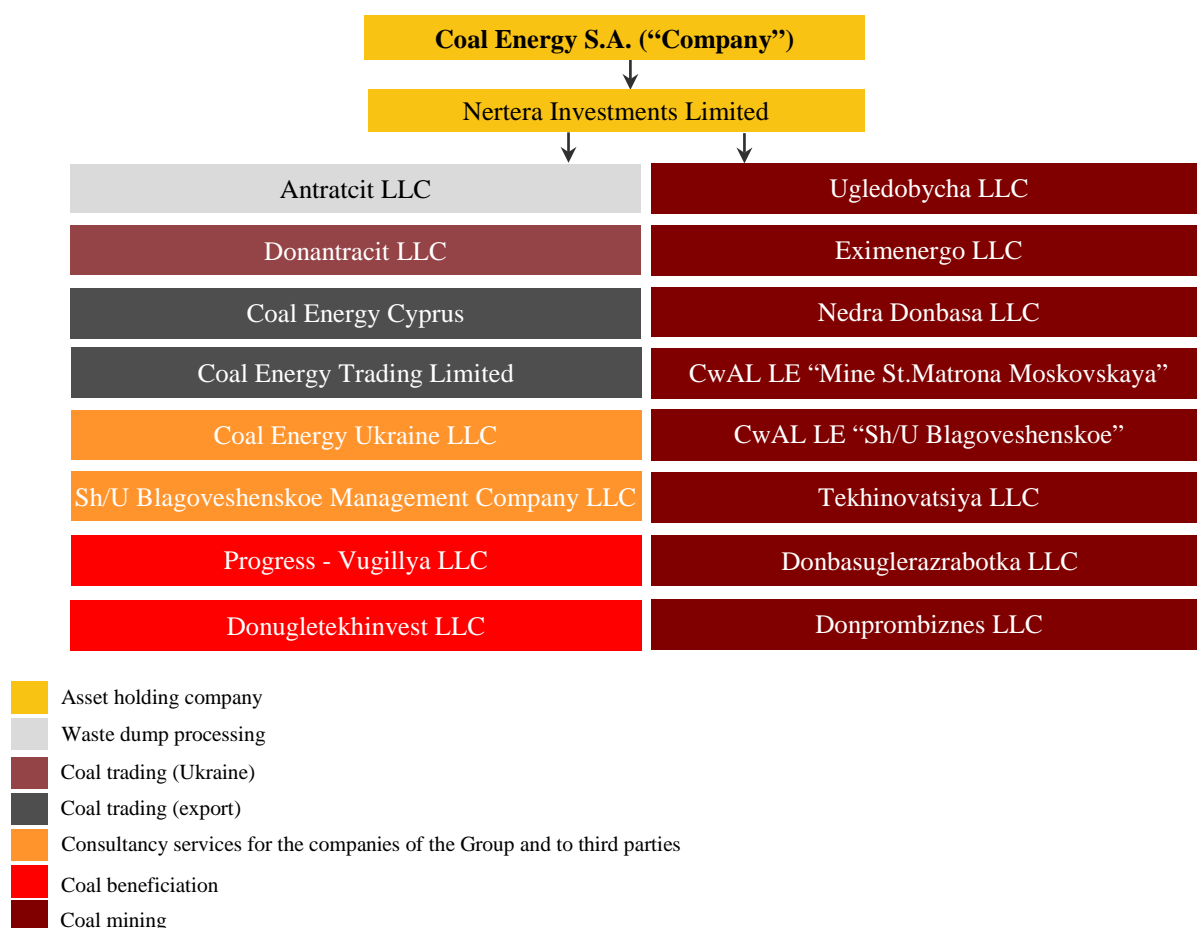
## *Business overview*

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## Business overview

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

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



Coal Energy holds mining license through eight subsidiary companies located in Ukraine’s largest coal basin – Donbas. The Group’s principal business comprises the following segments: underground coal mining, processing of coal waste dumps, beneficiation and sale of thermal and coking coals and coal trading. Coal Energy’s coal reserves allow producing of a wide range of coal grades, such as anthracite, low and high volatility thermal coal and coking coal.

## Production overview

During the FY2016 the Company managed to increase its production output on operating assets that were not idled or in sustain mode. Total thermal and coking coal output from mining and waste processing segments composed 433.9 thousand tonnes represents increase x3.1 times as compared to 139.7 thousand tonnes of coal produced in FY2015.

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

The assets have incurred various levels of damage including damage of buildings electrical substations and cables, some of power lines are broken thus some of underground workings are gassy and water is not pumped. The risk of mine-laying as well as of unexploded ordnance is high. Under the conditions of maintaining the cease-fire mode the Company is making every effort to restore assets and performing reconstruction works and mine neutralization on the territory of assets.

### Coal mining

In FY2016 mining output resulted in 389 thousand tonnes of coal as compared to 112 thousand tonnes of coal mined in FY2015, or increased by 247.3% y-o-y. Thermal coal output reached 288 thousand tonnes in FY2016 versus 34 thousand tonnes in FY2015, or 8.5 times. Coking and dual purpose coal output composed 101 thousand tonnes in FY2016 increasing from 78 thousand tonnes in FY2015, or by 29.5% y-o-y.

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

<i>in thousand of tonnes</i>	Coal type	FY2016	FY2015
Donbasuglerazrabotka LLC	Thermal	-	-
Donprombiznes LLC	Thermal	-	-
Eximenergo LLC	Thermal	288	32
Ugledobycha LLC	Thermal	-	2
CwAL LE "Sh/U Blagoveshenskoe"	Thermal	-	-
<i>Sub-total thermal</i>		<i>288</i>	<i>34</i>
Nedra Donbasa LLC	Coking	-	-
Tekhinovatsiya LLC	Dual-purpose	27	24
CwAL LE "Mine St.Matrona Moskovskaya"	Coking	74	54
<i>Sub-total coking and dual-purpose</i>		<i>101</i>	<i>78</i>
<b>Total mining</b>		<b>389</b>	<b>112</b>

As the current events unfold and in case of successful implementation of Minsk Agreement the Company will consider and evaluate the additional relevant investments, needed in order to renew the production on mines.

### Processing of coal waste dumps

Coal waste processing plant Prepodobnih Antoniia and Feodosiia of Kievo-Pechersk (LLC Antracit) is located in Snezhnoe city at one of the three coal waste piles in ownership of the Company. The city is situated directly in the zone of active military conflict. The plant ceased its production in August 2014 facing shelling and shooting in the surrounding area. The plant was put into operation in the second half of January 2015, but due to significant difficulties with the organization in order to ensure the stability and security of transportation it started to operate consistently only from May 2015. Further since February 2016 due to significant difficulties

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with logistics in the zone of military conflict operations of the waste-processing plant were out of the breakeven zone. Prior stabilization of the external environment and improvement in logistic issues the factory is closed down ( idled).

The table below summarizes production results of waste processing business segment (numbers are rounded):

<i>in thousand of tonnes</i>	FY2016	FY2015
<b>Total coal from waste processing</b>	<b>44</b>	<b>27</b>

Total production of coal concentrate in this segment increased by 63.0% in FY2016 y-o-y.

### **Coal beneficiation**

The Company is running its coal beneficiating business at Postnikovskaya beneficiation plant (LLC Donugletekhinvest) in the Shahtyorsk city. The plant ceased its production in August 2014 facing shelling and shooting in the surrounding area. The plant was launched further in June 2015. However, since May 2016 due to significant difficulties with logistics in the zone of military conflict operations of the plant were out of the breakeven zone thus the plant was closed down (idled).

### **Our markets (based on available statistical information)**

FY2016 was marked with variable economic conditions under increasing political and business risks and intensified uncertainty, related to military conflict. While in the 1H FY2016 (2H 2015 calendar year) certain signs of macroeconomic stabilization, intensification of industrial activity were observed in the 2H FY2016 (1H 2016 calendar year) economic recovery still remained fragile despite the improvement seen in GDP. In second quarter of 2016 calendar year (4Q FY2016) Ukraine's GDP increased by 1.3% y-o-y. Experts claimed that devaluation of national currency, reduced demand on world commodity markets, trade wars and unresolved military conflict were the fundamental factors that might influence Ukraine's economy in 2016 calendar year. Over the first six months of 2016 calendar year (2H FY2016) Ukrainian industrial output increased by 0.2% y-o-y, however revealed negative dynamics by the end of the period on monthly basis (in June 2016 calendar year industrial output dropped by 3.4% m-o-m).

Despite the declared reforms, privatization and modernization programs coal industry remained under crisis in 2016FY. Experts consider that currently the following signs and risks indicate challenging situation in Ukrainian coal industry: most of coal mining assets located in the territory which is not under control of Ukrainian authorities; there are no sustainable production results in coal output (both for private and state-owned companies); capital investments programs were cut or reduced due to lack of financing; logistical problems, connected with transportation of coal and materials through demarcation line, break of inter-sectoral links and business contacts. For the first 6 months of 2016 calendar year (2H FY2016) coal mining enterprises of Ukraine produced 19.0 million tonnes of ROM coal demonstrating decline by 2.6% y-o-y, including state-owned mines that produced only 3.1 million tonnes for the same period, demonstrating decrease by 12.2% y-o-y. Ukraine still has to import considerable amounts of coal, in January-June 2016 import supplies amounted to 7.8 million tonnes, increasing by 6.8% y-o-y.

According to the energy balance planned for 2016 calendar year by Ukrainian Ministry of Energy and Coal Industry maximum utilization of cheap and clean energy generation capacities (nuclear power plants, hydropower plants) is in priority, together with reduction of share of

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combined heat and power facilities that are using natural gas and decreasing of combustion of anthracite coals on thermal power plants. At the same time, currently Ukrainian thermal power plants (TPP) consume circa 25.0 million tonnes of coals (of different types) annually, for the 1H 2016 calendar year TPP's accounted for 35.1% in electricity generation structure. At the same time over the first half of 2016 calendar year (2H FY2016) electricity production declined by 5.7% y-o-y.

Certainly, crisis in the coal mining industry caused negative consequences for coking and metallurgy sectors as most facilities that produced coking coal and were considered as the base for the steel industry are now not accessible or idled, while enterprises that are operating with decreased volume of output.

According to statistics, in January-June 2016 calendar year (2H FY2016) the volume of supplies of coking coals to the coke-chemical plants totaled 9.1 million tonness (24.0% increase y-o-y), The share of imported coal in the total volume increased from 63.0% to 67.0% y-o-y.

Coking coal market is closely correlates with the steel production and perspectives of the Ukrainian metal industry. Certain stabilization on foreign markets led to some improvement in steel output. For the first six-month of 2016 steel production in Ukraine amounted to 12.5 million tonnes, increasing by 11.0% y-o-y. Steel production was highest over the past two years and reached its peak in May 2016. However railway workers strike which lasted almost month in June blocked delivery of raw materials and finished goods to a number of metallurgical and coke plants, which led to significant reduction in production volumes subsequently. At the same time in the 1H 2016 calendar year revenues from export of metal production decreased by 22.0% y-o-y under decline in prices on foreign markets (approximately by 28.0% y-o-y). Experts suggest that downward trend in export will last till the end of 2016 calendar year. At the same time according to Worldsteel forecasts in 2016 calendar year local steel consumption in Ukraine could increase by 30.0% in y-o-y up to 4.4 million tonnes.

General economic outlook for 2016 calendar year by IMF for Ukraine suggests GDP growth on 1.5% and average annual inflation rate around 15.1%. While expectations for 2017 calendar year according to IMF are as follows: GDP will make up 2.5% and inflation is estimated circa 11.0%.

### People

In FY2016 the Group employed 1,217 employees (weighted average headcount) representing a decrease by 29.0% y-o-y. As some of the operations facilities were in the sustained mode number of mining personnel decreased more considerably. Also under social problems in the region of military conflict many specialists left their ordinary places of living and their work. Additional information concerning the average number of the Group's employees by category for FY2016 and FY2015 is set forth in the table below:

	FY2016	FY2015
Mining	193	424
Support production	701	819
Administrative and sales personnel	323	471
<b>Total</b>	<b>1,217</b>	<b>1,714</b>



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## Summary of payments to the Ukrainian authorities

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

<i>in million of US\$</i>	<b>FY2016</b>	<b>FY2015</b>
Social Insurance Funds employer	0.08	0.6
Social Insurance Funds individual	0.02	0.2
Concession fee	0.03	-
Income tax	-	-
Natural resources payment	0.09	-
VAT	0.2	-
Environmental tax payments	0.01	-
Fee for licenses area extension	-	-
<b>Total</b>	<b>0.4</b>	<b>0.8</b>

## *Financial overview*

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## Overview

Business of the Company was adversely affected by the military conflict in 2016FY. Damaged facilities were idled, logistic challenges with transportation of products and materials through demarcation line, actual absence of financial system in the region of conflict, deficiency of investment opportunities (Ukrainian banks and institutions are not working in the anti-terroristic zone territory) significantly influenced financial position of the company. Nevertheless the Company managed to improve its situation as compared to previous financial year reducing its losses and improving operational results y-o-y.

Minsk Agreements on the de-escalation of the military actions and peaceful resolution of the conflict on the East of Ukraine were prolonged on 2016 calendar year. While in the 1H FY2016 Ukrainian economy demonstrated certain signs of improvement coal and energy industry still operated in crisis, facing problems with supplies of deficit coals from the zone of conflict, risks, related to energy independence and lack of effective implementation of the necessary reforms.

In FY2016 the Company reported total revenue of US\$23.9 million, representing improvement by 51.3% y-o-y. The profitability ratios improved under certain recovery in operating and financial performance of the Company.

The following table summarizes the Group's key margins and ratios for FY2016 and FY2015 (numbers are rounded):

<i>in million of US\$</i>	FY2016	FY2015	Relative change y-o-y
Revenue	23.9	15.8	51.3%
Gross profit	10.2	2.5	308.0%
EBIT	5.6	(11.3)	n/a
EBITDA	9.6	(5.2)	n/a
Net loss/profit	(6.5)	(36.5)	n/a
<i>as a percentage of revenue</i>	<i>Δ percentage points</i>		
Gross margin %	42.7%	15.8%	26.9
EBIT %	23.4%	(71.5%)	94.9
EBITDA %	40.2%	(32.9%)	73.1
Net earnings %	(27.2%)	(231.0%)	203.8
<b>Ratios:</b>			
EBITDA/Finance costs	0.6	(0.2)	
Debt*/EBITDA	7.6	(14.3)	
Net debt/EBITDA	7.6	(14.3)	

\*-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")

## Revenue

For the FY2016 total revenue composed US\$23.9 million as compared to the US\$15.8 million for the FY2015 thus revealing considerable growth by 51.3% y-o-y on the back of increased sales volumes.

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Revenues in FY2016 are presented in the table below:

<i>in thousand of US\$, except percentages</i>	FY2016	FY2015	change in %
<b>Revenue</b>			
Coal from own mining and waste processing	18,548	7,453	148.9%
Trade activity	4,725	8,012	(41.0%)
Other activity	602	295	104.1%
<b>Total revenue</b>	<b>23,875</b>	<b>15,760</b>	<b>51.5%</b>

Revenue from exports composed 0.4% in FY2016 in total revenue as compared to 5.3% in FY2015. While local revenues demonstrated growth by 59.4% y-o-y export revenues declined due to the logistic problems.

<i>in thousand of US\$, except percentages</i>	FY2016	FY2015	change in %
Ukraine	23,771	14,917	59.4%
Export	104	843	(87.7%)
<b>Total</b>	<b>23,875</b>	<b>15,760</b>	<b>51.5%</b>

Coal sales volumes are presented in the table below:

<i>in thousand tonnes</i>	FY2016	FY2015	change in %
Thermal	424	121	250.4%
Coking	98	86	14.0%
<b>Total</b>	<b>522</b>	<b>207</b>	<b>152.2%</b>

Traditionally structure of coal sales demonstrated predominance of thermal coal grades. Thermal coal sales comprised 81.2% of total coal sales volumes in the reporting year versus 58.5% in the FY2015.

In line with increase of production volumes thermal coal sales for FY2016 grew x3.5 times y-o-y. Coking coal sales comprised 98.0 thousand tonnes in FY2016 demonstrating improvement by 14.0% y-o-y. Still Company's sales results remained under high transportation risks in the region of military conflict. Company did not perform coal export operations in the 4Q FY2016.

Company's average sales prices were flat during 12 months of FY2016. For thermal coal being in the range of 1025-1075 UAH/tonne , for coking coal in the range of 839-906 UAH/tonne.

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## *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 FY2016 and the FY2015:

<i>in thousand of US\$</i>	<b>FY2016</b>	<b>FY2015</b>
<b>Cost of sales</b>	<b>13,652</b>	<b>13,240</b>
Less:		
Cost of merchandising inventory	(2,952)	(6,020)
Goods obtained from returns	-	682
Change in inventories	1,158	(139)
Cost of other services	(22)	(25)
Depreciation and amortization	(1,816)	(1,346)
<b>Total cash cost of production</b>	<b>10,020</b>	<b>6,392</b>
<i>Including:</i>		
Total cash cost of mining	9,687	6,079
Total cash cost of beneficiation	-	55
Total cash cost of waste dumps processing	333	258
<i>in US\$ per tonne</i>		
Cash cost of mining per 1 tonne of ROM coal	24.9	54.2
Cash cost of beneficiation per 1 tonne of ROM coal	-	25.2
Cash cost of waste processing per 1 tonne of saleable coal from waste dumps	7.6	9.4

In order to provide fair view on the financial statements, all expenses related to idle assets were allocated to the group Idle. During FY2016 Management took every effort to optimize the cost structure, which gave the relatively favorable effect of the Cash cost of mining and Cash cost of coal waste processing. At the same time increased volume of production also positively affected fixed costs allocation. Thus, cash cost of mining in FY2016 decreased by 54.1% as opposed to FY2015. Cash cost of coal waste processing in FY2016 lowered by 19.1% as compared to FY2015.

The Company did not perform beneficiation operations in FY2016.

## ***Gross profit***

Gross profit comprised US\$10.2 million for the reporting FY2016 as compared to US\$2.5 million for the FY2015 thus demonstrating considerable increase by 308.0% y-o-y in line with increased amount of sales.

## ***Operating expenses***

### *General and administrative expenses*

General and administrative expenses continued to decrease y-o-y, composing US\$0.9 million in FY2016 as compared to the same period of the previous financial year in amount of US\$1.3 million revealing decline by 30.8% y-o-y, followed by continued reduction of headcount of administrative personnel and local currency devaluation effect.

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## *Selling and distribution expenses*

Selling and distribution expenses increased insignificantly from US\$0.8 million in FY2015 up to US\$0.9 million for the reported period of FY2016, demonstrating an increase by 12.5% y-o-y reflecting difficulties with transportation in the region of assets location and thus increased delivery costs.

## *Other operating income/ expenses*

The Company recorded other operating income in amount of US\$0.1 million in FY2016 as opposed to US\$4.4 million of other operating expenses in FY2015.

## *Idle capacity expenses*

Idle capacity expenses declined considerably and comprised US\$2.9 million for the FY2016 as the Company managed to increase production on its operating assets, focusing on business preservation and restoration.

## *Operating profit/ loss*

For the FY2016 the Company recorded US\$5.6 million of operating profit, as opposed to US\$11.3 million of operating loss for the FY2015.

## *Financial income*

For the FY2016 the Company recorded US\$2.7 million of financial income, as compared to US\$6.3 million of financial income for the FY2015. During 2016FY exchange rate of Ukrainian hryvnia to USD stabilized and was less volatile as compared to previous financial year.

## *Financial costs*

For the FY2016 financial costs composed US\$16.2 million compared to US\$32.6 million in the FY2015 under decline of loss from non-operational exchange differences.

## *Net loss / profit*

The Company recorded US\$6.5 million of net losses for FY2016 as opposed to US\$36.5 million of losses for the FY2015, while for the 4Q FY2016 the Company recorded profit of US\$1.4 million versus US\$4.5 million of loss for the 3Q FY2016.

## *Cash Flow*

The following table summarizes the Group's statement of cash flow for the financial years ended June 30, 2016 and 2015, respectively:

<i>in thousand of US\$</i>	<b>FY2016</b>	<b>FY2015</b>
Net cash flow from operating activity	1,326	(294)
Net cash flow from investing activity	(1,323)	583
Net cash flow from financial activity	(53)	(1,409)
<b>Net cash flows</b>	<b>(50)</b>	<b>(1,120)</b>

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### *Net cash flow from operating activity*

Net cash inflow from operating activity amounted US\$1.3 million in FY2016 as opposed to negative cash-flow of US\$0.3 million in FY2015.

### *Net cash flow from investing activity*

The Company ended FY2016 with negative cash-flow from investing activity amounting to US\$1.3 million in FY2016 versus cash inflow of US\$0.6 million in FY2015. During 2016FY most investment undertakings were concentrated on support of current level of production and measures on ensuring safety of workers.

### *Net cash flow from financial activity*

Net cash outflow from financial activity comprised US\$0.05 million in FY2016 as opposed to US\$1.4 million in FY2015.

### *Risks and uncertainties*

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

The Company's business is dependent on the global market price of coal. Sale prices and volumes in the worldwide coal market depend predominantly on the prevailing and expected levels of demand for and supply of coal, mainly from energy and steel manufacturers. Though Ukrainian coal market is a bit isolated, still global financial and economic crises may influence the Ukrainian coal prices.

To mitigate the price risk and risk of lowering demand, the Company endeavours to diversify its customer base both on local and export markets and aims to sign long-term framework contracts for coal supply. While prices are beyond control of the Company we constantly strive to lower and maintain low cost of production with the same level of operations quality.

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

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

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

The Company's main production expenses are energy costs, salaries and consumables. Changes in costs of the Group's mining and processing operations could occur as a result of unforeseen events and consequently result in changes in profitability or the feasibility and cost expectations in mining and processing existing reserves. Many of these changes may be beyond the Company's control.

Cost of mining operations per tonne as conditionally fixed (energy, water drainage, ventilation system, etc.) can not be reduced proportionally with the reduction of coal sales as the case may be. These costs need to be incurred in order to maintain certain safety of operations and to secure

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the Company's ability to increase production after the market revival. If sales for some particular coal grades from a particular asset are not expected to regain back their volume and price the Company may take decision to postpone mining operations on that asset and incur repairing and supportive works and hence incurring idle capacity expenses. Returning to the previous production levels may require additional capital investments amount of which can not be estimated reliably at the moment.

The risk has been realized as most of the Company's assets incurred various levels of damage due to military conflict in the region of assets location. Hence various level of reconstruction for renovation of mining and coal waste processing will be needed. Exact amounts are still to be estimated.

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

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

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

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

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

The risk has been realized: during the recent years local currency has devaluated significantly. Such situation caused huge instability and uncertainty in banking sector; new loan facilities are very limited. Company maintains a constant dialog with its existing creditors. The majority of existing loan facilities is either in the process of restructuring or in the "on hold" status (creditors recognize the restructuring necessity but the terms could be determined only after the cease-fire in the region).

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

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



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

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

### *Liquidity risk*

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

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

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

*Corporate Governance Report*

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

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

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securities are traded	
<p>5. A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.</p>	<p>Currently, the Company does not have a remuneration policy adopted. The Company does not exclude that the remuneration policy will be adopted by the General Meeting in the future</p>
<p>6. A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>7. Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular:</p> <ul style="list-style-type: none"> <li>- refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments;</li> <li>- raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the company.</li> </ul>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>8. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities</p>	<p>Complies</p>
<p>9. The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business</p>	<p>Currently, the Company does not comply with this recommendation. The Company supports this recommendation however the members of the Board of Directors are appointed by the General Meeting of Shareholders and therefore the compliance with this recommendation depends on the shareholders' future decisions</p>

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<p>10. If a company supports different forms or artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, it is good practice to publish, in a mode adopted by the company, the rules of its activity in this area.</p>	<p>Complies</p>
<p>11. As part of a listed company's due care for the adequate quality of reporting practice, the company should take a position, expressed in a communication published on its website, unless the company considers other measures to be more adequate, wherever with regard to the company:</p> <ul style="list-style-type: none"> <li>- published information is untrue or partly untrue from the beginning or at a later time;</li> <li>- publicly expressed opinions are not based on material objective grounds from the beginning or as a result of later circumstances.</li> </ul> <p>This rule concerns opinions and information expressed publicly by company representatives in the broad sense or by other persons whose statements may have an opinion-making effect, whether such information or opinions contain suggestions advantageous or disadvantageous to the company</p>	<p>Complies</p>
<p>A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.</p>	<p>Currently, the Company complies with this recommendation partially. Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling electronic communication. The Company however supports its shareholders to exercise their voting rights by authorizing the proxies who are bound by instruction or a third party. The Company does not preclude the possibility of providing shareholders with electronic communication tools during General Meetings in the future.</p>
<p><b>II. Best Practice for Management Boards of Listed Companies</b></p>	
<p>1. A company should operate a corporate website and publish on it, in addition to information required by legal regulations:</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>

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<p>1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;</p> <p>2) professional CVs of the members of its governing bodies;</p> <p>2a) on an annual basis, in the fourth quarter – information about the participation of women and men respectively in the Management Board and in the Supervisory Board of the company in the last two years;</p> <p>3) current and periodic reports;</p> <p>4) <i>deleted</i></p> <p>5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;</p> <p>6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the internal control system and the significant risk management system submitted by the Supervisory Board;</p> <p>7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;</p> <p>8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;</p> <p>9) information about breaks in a General Meetings and the grounds of those breaks;</p> <p>9a) a record of the General Meeting in audio or video format;</p> <p>10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make</p>	<p>Currently, the Company has not adopted rules of changing the company authorized to audit financial statements - rule II.1.14). The Company does not exclude that the rules will be adopted in the future.</p> <p>The Company has not implemented registration of General Meetings in audio or video format, nonetheless the Company does not exclude that such rule will be adopted in the future.</p>
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<p>investment decisions;</p> <p>11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;</p> <p>12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from its introduction;</p> <p>13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;</p> <p>14) information about the content of the company's internal rule of changing the company authorized to audit financial statements or information about the absence of such rule.</p>	
<p>2. A company should ensure that its website is also available in English, at least to the extent described in section II.1.</p>	<p>Complies</p>
<p>3. Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake.</p>	<p>Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>4. A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company. The Articles of Association address the conflict of interest issue in article 14.</p>
<p>6. A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>

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<p>7. A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.</p>	<p>Complies</p>
<p>8. If a company's Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2-4 of the Code of Commercial Partnerships and Companies, the company's Management Board shall immediately perform the actions it is required to take in connection with organizing and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorization given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies.</p>	<p>Complies with the reservation that the Code of Commercial Partnerships and Companies is not applicable to the Luxembourg based companies and according to the Luxembourg corporate law there is a single board structure in the Company. Nonetheless the Articles of Association in article 15.3. states that shareholders representing one tenth of the subscribed share capital may, in compliance with the law of 10 August, as amended, on commercial companies, request the Board of Directors to call a General Meeting of shareholders.</p>
<p><b>III. Best Practice for Supervisory Board Members</b></p>	
<p>1. In addition to its responsibilities laid down in legal provisions the Supervisory Board should:</p> <p>1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system;</p> <p>2) <i>deleted</i></p> <p>3) review and present opinions on issues subject to resolutions of the General Meeting.</p>	<p>Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company. The Board of Directors reports are available together with the auditor report and the annual accounts prior to the Annual General Meeting.</p>
<p>2. A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.</p>	<p>Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>3. A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.</p>	<p>Complies</p>
<p>4. A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company. The Articles of Association address the conflict of</p>



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<p>the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.</p>	<p>interest issue in article 14.</p>
<p>5. A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p>6. At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the <i>Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board</i>. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.</p>	<p>Complies with the reservation that according to the Luxembourg corporate law there is a single board structure in the Company. 3 members of the Board of Directors are independent.</p>
<p>8. Annex I to the <i>Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors...</i> should apply to the tasks and the operation of the committees of the Supervisory Board.</p>	<p>Complies partially. The Board of Directors established from among its members the Audit Committee. The Company did not establish the Remuneration Committee. The tasks and duties contemplated by a remuneration committee and selection and appointment committee were performed by the entire Board of Directors</p>
<p>9. Execution by the company of an agreement/ transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.</p>	<p>Not applicable. According to the Luxembourg corporate law there is a single board structure in the Company.</p>
<p><b>IV. Best Practices of Shareholders</b></p>	
<p>1. Presence of representatives of the media should be allowed at General Meetings.</p>	<p>Complies</p>
<p>2. The rules of General Meetings should not restrict the participation of shareholders in</p>	<p>Complies</p>

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<p>General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.</p>	
<p>4. A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.</p>	<p>Complies</p>
<p>5. Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.</p>	<p>Complies</p>
<p>6. The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.</p>	<p>Complies</p>
<p>7. A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfillment must take place before the date of setting the right to dividend.</p>	<p>Complies</p>
<p>9. A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.</p>	<p>Complies</p>
<p>10. A company should enable its shareholders to participate in a General Meeting using electronic communication means through:</p> <ol style="list-style-type: none"> <li>1) real-life broadcast of General Meetings;</li> <li>2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.</li> </ol>	<p>Currently, the Company complies with this recommendation partially. Articles of Association of the Company provide that all the meetings take place in Luxembourg, in the place specified in the convening note and the Company has not implemented the technology enabling real-life broadcasting or real-time bilateral communication. The Company however supports its shareholders to exercise their voting rights by authorizing the proxies who are bound by instruction or a third party. The company does not preclude the possibility of providing shareholders with real-time</p>

# COAL ENERGY S.A., ANNUAL REPORT FY2016 REPORT

	bilateral communication during General Meetings in the future.
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## Board of Directors

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

In FY2016 Company's Board of Directors composed of 6 directors. The information below sets forth the names, positions, election date, and terms of office of the members of the Board of Directors, discharging their responsibilities as for reporting date of 30th June 2016.

Name	Position/ Function	Class
Viktor Vyshnevetsky	Chairman of the Board of directors, executive director	Class A director
Pavlo Moiseyenko	Executive director	Class A director
Oleksandr Rezyk	Executive director	Class A director
Arthur David Johnson	Non-executive director	Class A director
Gwenaëlle Bernadette Andr�e Dominique Cousin	Non-executive director	Class B director
Jacob Mudde	Non-executive director	Class B director

As of May 26, 2015 Mr. Roman Kovalkov – member of the Company's Board of Directors (executive director), Chief Operating Officer submitted his resignation from the mentioned positions due to personal reasons.

As of 11 April 2016 Mrs. Cousin and Mr. Mudde submitted their resignation from the mentioned positions. Subsequently on 1<sup>st</sup> August 2016 Mr. Diyor Yakubov was appointed as Independent non-executive class B Director.

The business address of Messrs. Vyshnevetsky, Rezyk, Moiseyenko and Johnson is: 64/16 Antonovich (Gorky) str. Kiev, Ukraine, 03150

The business address for Mr. Diyor Yakubov is: 8, Rue de la Greve, Luxembourg, L-1643.

## *Committees of the Board of Directors*

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

## General Meeting of Shareholders

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

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

## COAL ENERGY S.A., ANNUAL REPORT FY2016 REPORT

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

If all shareholders are present or represented and consider themselves as being duly convened and informed of the agenda, the General Meeting may take place without notice of meeting. The General Meeting of shareholders shall appoint a chairman and be chaired by the chairman who shall preside over the meeting. The General Meeting shall also appoint a secretary who shall be charged with keeping minutes of the meeting and a scrutineer. All General Meetings of shareholders shall be conducted in English. The shareholders may not decide on subjects that were not listed on the agenda (which shall include all matters required by law) and business incidental to such matters, unless all shareholders are present or represented at the meeting. Each share is entitled to one vote at all General Meetings of shareholders. Blank votes are considered null and void. A shareholder may act at any General Meeting of shareholders by giving a written proxy to another person, who need not be a shareholder. Unless otherwise provided by law resolutions of the General Meeting are passed by a majority of more than one-half of all voting rights present or represented.

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

As at the report's publication date and on the June 30, 2016, share capital of Coal Energy S.A. comprised 45,011,120 shares.

The following changes in the ownership structure occurred during FY2016:

Ownership structure of significant blocks of shares (at least 5% of the total number of votes at the Shareholder Meeting of Coal Energy S.A.) as of the date of releasing this financial report, i.e. October 31, 2016, is as follows:





**2016FY**

CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR ENDED  
JUNE 30, 2016



**Coal Energy S.A.**

2016FY

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**Statement of Management responsibility**

To the best of our knowledge, consolidated financial statements as of 30 June 2016 of Coal Energy S.A. which have been prepared in accordance with the international financial reporting standards, give a true and fair view of the assets, liabilities, financial position and result of its operations for the year ended 30 June 2016 as required under article 4(3) of the Law. The annual management report includes a fair review of the information required under article 4(4) of the Law.

While preparing these consolidated financial statements, the Management bears responsibility for the following issues:

- selection of the appropriate accounting policies and their consistent application;
- making judgments and estimates that are reasonable and prudent;
- adherence to IFRS concepts or disclosure of all material departures from IFRS in the consolidated financial statements;
- preparation of the consolidated financial statements on the going concern basis.

Management confirms that it has complied with the above mentioned principles in preparing the consolidated financial statements of the Group.

The Management is also responsible for:

- keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;
- taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of management

Directors A:

Directors B:

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

\_\_\_\_\_  
 Independent Non-executive Director  
 Diyor Yakubov

\_\_\_\_\_  
 Chief Operating Director  
 Pavlo Moiseyenko

\_\_\_\_\_  
 Business Development Director  
 Oleksandr Reznyk

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

Luxembourg, 31 October 2016

**Coal Energy S.A.**

**Management report for the year ended 30 June 2016**

Management of the Company hereby presents its consolidated financial statements for the year ended on 30 June 2016.

1. Results and developments during the year ended on 30 June 2016.

For the year ended on 30 June 2016 the Group recorded EBITDA profit of USD 9,567 thousand (EBITDA loss for the year ended 30 June 2015 USD 5,233 thousand). After depreciation, amortization, finance costs and finance income the final loss for the year ended 30 June 2016 after taxation was USD 6,487 thousand (loss for the year ended 30 June 2015 USD 36,517 thousand).

2. Future developments of the Group.

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

3. Activity in the field of research and development.

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

4. Own shares.

During the period ended 30 June 2016, the Company and its affiliates have not repurchased shares of Coal Energy S.A.

5. Group's internal control.

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

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

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

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

6. Risk Management.

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

7. Other information.

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

The Group does not use hedging derivatives.

For Coal Energy S.A.:

Directors A:

Directors B:

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

\_\_\_\_\_  
Independent Non-executive Director  
Diyor Yakubov

\_\_\_\_\_  
Chief Operating Director  
Pavlo Moiseyenko

\_\_\_\_\_  
Business Development Director  
Oleksandr Reznyk

\_\_\_\_\_  
Independent Non-executive Director  
Arthur David Johnson  
Luxembourg, 31 October 2016



**Coal Energy S.A.**

Société anonyme  
 Registered address: 14a, Rue des Bains L-1212 Luxembourg,  
 the Grand Duchy of Luxembourg  
 R.C.S. Luxembourg: B 154144  
 (the "Company")

**Corporate Governance Statement**

Directors:

Name	Date of Appointment	Date of Resignation
Vyktor Vyshnevetsky – Director A	17 May 2011	
Roman Kovalkov – Director A	24 September 2013	26 May 2015
Oleksandr Reznik – Director A	17 May 2011	
Arthur David Johnson – Director A	10 June 2011	
Gwenaelle, Bernadette, Andree, Dominique Cousin – Director B	17 May 2011	11 April 2016
Jacob Mudde – Director B	17 May 2011	11 April 2016
Diyor Yakubov - Director B	1 August 2016	

Audit Committee:

Name	Date of Appointment	Date of Resignation
Arthur David Johnson – Director A	10 June 2011	
Jacob Mudde – Director B	10 June 2011	11 April 2016
Gwenaelle, Bernadette, Andree, Dominique Cousin – Director B	10 June 2011	11 April 2016

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

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

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

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

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

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

There are no restrictions on voting rights.

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

In order to ensure, that established controls over financial reporting system worked effectively during the year ended 30 June 2016, a summary of the work performed by the internal audit department was reviewed by the Audit Committee.

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

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

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

*Powers of Directors*

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

*Rights of the shareholders*

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

*Transfer of shares*

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

Directors A:

Directors B:

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

\_\_\_\_\_  
Independent Non-executive Director  
Diyor Yakubov

\_\_\_\_\_  
Chief Operating Director  
Pavlo Moiseyenko

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

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

Luxembourg, 31 October 2016

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016**
*(in thousands USD, unless otherwise stated)*

	Note	Year ended 30 June 2016 (unaudited)	Year ended 30 June 2015 (unaudited)
Revenue	5	23,875	15,760
Cost of Sales	6	(13,652)	(13,240)
<b>GROSS PROFIT/(LOSS)</b>		<b>10,223</b>	<b>2,520</b>
General and administrative expenses	7	(909)	(1,327)
Selling and distribution expenses	8	(896)	(785)
Other operational (expenses)/income	9	139	(4,394)
Idle capacity expenses	9.1	(2,919)	(7,323)
<b>OPERATING PROFIT/(LOSS)</b>		<b>5,638</b>	<b>(11,309)</b>
Other non-operating (expenses)/income	10	676	253
Financial income	12	2,719	6,324
Financial costs	13	(16,219)	(32,610)
<b>LOSS BEFORE TAX</b>		<b>(7,186)</b>	<b>(37,342)</b>
Income tax expenses	14	699	825
<b>LOSS FOR THE PERIOD</b>		<b>(6,487)</b>	<b>(36,517)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS):</b>			
Effect of foreign currency translation		(569)	(25,048)
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>		<b>(569)</b>	<b>(25,048)</b>
<b>TOTAL COMPREHENSIVE LOSS:</b>		<b>(7,056)</b>	<b>(61,565)</b>
<b>LOSS FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Equity holders of the parent		(6,544)	(36,177)
Non-controlling interests		57	(340)
		<b>(6,487)</b>	<b>(36,517)</b>
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>			
Equity holders of the parent		(7,100)	(61,004)
Non-controlling interests		44	(561)
		<b>(7,056)</b>	<b>(61,565)</b>
Weighted average number of ordinary shares outstanding		45,011,120	45,011,120
<b>BASIC (LOSS)/EARNINGS PER ORDINARY SHARE</b>		<b>(14.54)</b>	<b>(80.37)</b>

*(expressed in USD cents)*

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

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016**
*(in thousands USD, unless otherwise stated)*

	Note	As at 30 June 2016 (unaudited)	As at 30 June 2015 (unaudited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	40,996	48,803
Intangible assets	16	1,756	2,427
Financial assets	17	8	8
Deferred tax assets	14	1,161	686
		<b>43,921</b>	<b>51,924</b>
<b>Current assets</b>			
Inventories	18	17,230	8,200
Trade and other receivables	19	19,365	13,353
Prepayments and prepaid expenses	20	967	554
Financial assets	17	-	-
Other taxes receivables	22	132	258
Cash and cash equivalents	23	77	151
		<b>37,771</b>	<b>22,516</b>
<b>TOTAL ASSETS</b>		<b>81,692</b>	<b>74,440</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	24	450	450
Share premium		77,578	77,578
Retained earnings		(49,922)	(43,378)
Effect of foreign currency translation		(70,053)	(69,497)
<b>Equity attributable to equity holders of the parent</b>		<b>(41,947)</b>	<b>(34,847)</b>
Non-controlling interest		(1,054)	(1,098)
<b>TOTAL EQUITY</b>		<b>(43,001)</b>	<b>(35,945)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	25	23,450	41,679
Finance lease liabilities	26	2,103	2,487
Defined benefit obligation		9,038	9,523
Trade and other payables	28	396	423
Other tax payable	22	-	18
Provisions	27	2,085	2,334
Deferred tax liabilities	14	827	1,101
		<b>37,899</b>	<b>57,565</b>
<b>Current liabilities</b>			
Loans and borrowings	25	47,019	29,760
Finance lease liabilities	26	420	497
Trade and other payables	28	32,905	15,689
Income tax payables	14	1,459	1,751
Provisions	27	2,042	2,164
Other tax payables	22	2,949	2,959
		<b>86,794</b>	<b>52,820</b>
<b>TOTAL LIABILITIES</b>		<b>124,693</b>	<b>110,385</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>81,692</b>	<b>74,440</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016**
*(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 2014</b>	<b>450</b>	<b>77,578</b>	<b>(7,201)</b>	<b>(44,670)</b>	<b>26,157</b>	<b>(537)</b>	<b>25,620</b>
Loss for the period	-	-	(36,177)	-	(36,177)	(340)	(36,517)
Other comprehensive income/(loss)	-	-	-	(24,827)	(24,827)	(221)	(25,048)
<b>As at 30 June 2015</b>	<b>450</b>	<b>77,578</b>	<b>(43,378)</b>	<b>(69,497)</b>	<b>(34,847)</b>	<b>(1,098)</b>	<b>(35,945)</b>
Loss for the period	-	-	(6,544)	-	(6,544)	57	(6,487)
Other comprehensive loss	-	-	-	(556)	(556)	(13)	(569)
<b>As at 30 June 2016</b>	<b>450</b>	<b>77,578</b>	<b>(49,922)</b>	<b>(70,053)</b>	<b>(41,947)</b>	<b>(1,054)</b>	<b>(43,001)</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2016**
*(in thousands USD, unless otherwise stated)*

	Year ended 30 June 2016 (unaudited)	Year ended 30 June 2015 (unaudited)
<b>OPERATING ACTIVITIES</b>		
Loss before tax	(7,186)	(37,342)
Adjustments to reconcile profit before tax to net cash flows		
Depreciation and amortization expenses	3,939	6,092
Finance income	(2,719)	(6,324)
Finance costs	16,219	32,610
Expenses for doubtful debts	(83)	4,984
(Income)/Loss from sale of property, plant and equipment	(61)	(47)
(Income)/Expenses attributable to allowance for receivables on sale of property, plant and equipment	69	(435)
Writing-off of non-current assets	93	5
Profit from exchange differences	(3)	(7)
Income from writing-off of account payables	(20)	(21)
Movements in defined benefits plan obligations	1,023	1,396
Shortages and losses from impairment of inventory	1	3
Income from current assets received free of charge	49	(112)
	<b>11,321</b>	<b>802</b>
Working capital adjustments:		
Change in trade and other receivables	(8,610)	335
Change in advances made and deferred expenses	(524)	2,269
Change in inventories	(10,816)	1,416
Change in trade and other payables	9,414	(7,071)
Change in other tax balances	541	1,959
	<b>1,326</b>	<b>(290)</b>
Income tax paid	-	(4)
<b>Net cash flow from operating activity</b>	<b>1,326</b>	<b>(294)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and intangible assets	(1,366)	(336)
Proceeds from sale of property, plant and equipment and intangible assets	10	88
Purchase of financial assets	-	(119)
Proceeds from financial assets	33	302
Interest received	-	648
<b>Net cash flow from investing activity</b>	<b>(1,323)</b>	<b>583</b>
<b>FINANCIAL ACTIVITIES</b>		
Proceeds from loans and borrowings	(53)	1,703
Repayment of loans and borrowings	-	(912)
Interest paid	-	(2,200)
<b>Net cash flow from financial activity</b>	<b>(53)</b>	<b>(1,409)</b>
<b>NET CASH FLOWS</b>	<b>(50)</b>	<b>(1,120)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>151</b>	<b>1,616</b>
Effect of translation to presentation currency	(24)	(345)
<b>Cash and cash equivalents at the end of the period</b>	<b>77</b>	<b>151</b>

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

Notes to consolidated financial statements for the year ended 30 June 2016

1 General information

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

Parent company and its subsidiaries	Country of incorporation	Group shareholding, % as at	
		30 June 2016	30 June 2015
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	100,00
Coal Energy Trading Limited	British Virgin Islands	100,00	100,00
Donbasuglerazrobotka LLC	Ukraine	99,00	99,00
Donugletekhinvest LLC	Ukraine	99,00	99,00
Nedra Donbasa LLC	Ukraine	99,00	99,00
Donprombiznes LLC	Ukraine	99,00	99,00
Ugledobycha LLC	Ukraine	99,99	99,99
Donantracit LLC	Ukraine	99,99	99,99
Tekhinovatsiya LLC	Ukraine	99,99	99,99
Eximenergo LLC	Ukraine	99,00	99,00
Antracit LLC	Ukraine	99,00	99,00
CwAL LE “Sh/U Blagoveshenskoe”	Ukraine	99,00	99,00
CwAL LE “Mine St.Matrona Moskovskaya”	Ukraine	99,00	99,00
Coal Energy Ukraine LLC	Ukraine	99,99	99,99
Progress-Vugillya LLC	Ukraine	99,99	99,99
Sh/U Blagoveshenskoe Management Company LLC	Ukraine	99,99	99,99

The parent company, Coal Energy S.A., was incorporated in Luxembourg as a joint stock company on 17 June 2010. The registered office is located at 14a, Rue des Bains L-1212 Luxembourg and the Company number with the Registre de Commerce is B 154144.

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

These consolidated financial statements were authorized by the Board of Directors as at 31 October 2016.

2 Basis of preparation of the annual consolidated financial statements

2.1 Basis of preparation

The preparation of financial statements in accordance to International Financial Accounting Standards (IFRS) as adopted by European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying of the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

These consolidated financial statements are presented in thousands of USD, unless otherwise stated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

2.3 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income. Costs, appeared in connection with the purchase of subsidiaries are recognized as expenses.

Inter-Group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Subsequent to the loss of control of a subsidiary the value of remained share is revalued at fair value that influences the amount of income/loss from the disposal.

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

Financial statements of Parent company and its Subsidiaries, which are used while preparing the consolidated financial statements, should be prepared as at the same date on the basis of consistent application of accounting policy for all companies of the Group.

### (b) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. The result of disposals to non-controlling interests being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary are reflected in statements of changes in equity. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

Non-controlling interests are derecognized when purchased, a subsidiary sold or liquidated and profit or loss on de-recognition is recorded in the consolidated statements of changes in equity.

### 2.4 Changes in accounting policy and disclosures

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The adoption of other new or revised standards did not have any material effect on the consolidated financial position or performance of the Group and any disclosures in the Group's consolidated financial statements.

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 (effective for annual period beginning on or after):

IFRS 9 Financial Instruments: Classification and Measurement - accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement (effective from 1 January 2018), not yet adopted in the EU.

IFRS 15 Revenue from contracts with customers - establishes the principles for the disclosure of useful information in the financial statements in respect of contracts with customers (effective from 1 January 2017), not yet adopted in the EU.

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

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

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

The Group anticipates that the adoption of these standards and amendments in future periods will have no material impact on its financial statements. The Group currently does not plan early application of the above standards and interpretations.



### 3 Summary of significant accounting policies

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

#### 3.1 Currency translation

##### (a) Functional and presentation currency

All items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate (the "functional currency"). The national currency of Ukraine, Ukrainian Hryvnia ("UAH") is the functional currency for the Group's entities that operate in Ukraine. For the entities that operate in Cyprus, Luxembourg and British Virgin Islands (BVI) the functional currency is US dollar ("USD"). These consolidated financial statements are presented in thousands of US dollars, unless otherwise stated.

##### (b) Foreign currency transactions

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

	UAH/USD
As at:	
- 30 June 2016	24.8544
- 30 June 2015	21.0154
- 30 June 2014	11.8233
Average for the:	
- three months ended 30 June 2016	25.2618
- three months ended 31 March 2016	25.6537
- three months ended 31 December 2015	22.8491
- three months ended 30 September 2015	21.7219
- three months ended 30 June 2015	21.6115
- three months ended 31 March 2015	21.1157
- three months ended 31 December 2014	14.4336
- three months ended 30 September 2014	12.5772

##### (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.

#### 3.2 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 Summary of significant accounting policies (continued)**

**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.

**3.4 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 Summary of significant accounting policies (continued)

#### 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.

#### 3.8 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.

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

#### (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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, loans issued where the carrying amount is reduced through the use of an allowance for impairment. When a trade or other or loans issued receivables is considered uncollectible, it is written off against the allowance. On basis of the facts confirming that receivables or loans issued, previously recognized as doubtful, at the reporting date are not doubtful, the amount of previously charged reserve is reflected in income of the reporting period. Except for available-for-sale assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss reverses directly through profit and loss account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

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

##### (4) Derecognition of financial assets

The Group derecognizes financial assets when:

- the assets are redeemed or the rights to cash flows from the assets have otherwise expired;
- or the Group has transferred substantially all the risks and rewards of ownership of the assets;
- or the Group has neither transferred not retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

#### 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 production 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.

#### 3.15 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.

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

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

#### 3.17 Provisions

Provisions are recognized when the Group has legal or constructive obligations as the result of past event for which it is probable that an outflow of economic benefits can be required to settle the obligations, and the amount of the obligations can be reliably estimated. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Use of discounting results in recognition of financial expenses and increase in provision.

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

#### 3.18 Environmental obligations

Environmental obligations include decommissioning and land restoration costs. The Group evaluates the provisions associated with ecological problems separately on every occasion taking into account the requirements of the relevant legislative acts.

Future decommissioning costs, discounted to net present value, are capitalized and the corresponding decommissioning obligations are raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the comprehensive income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset. The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in profit or loss.

Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Change in provision and unwinding of discount on land restoration are recognized in the consolidated statements of comprehensive income. Ongoing rehabilitation costs are expensed when incurred.

#### 3.19 Financial guarantee contracts

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

### 4 Significant accounting judgments, estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, estimates and assumptions, which have the most significant effect on the amounts recognized in these consolidated financial statements:

#### (a) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recognized in the statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the recognized fair value of financial instruments.

#### (b) Remaining useful life of property, plant and equipment

Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets bring economic benefit to the Group.

#### (c) Impairment of non-current assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the growth rate used for extrapolation purposes (coal price, sales volume) and to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

#### (d) Defined benefits plan obligations

For the purpose of estimation of defined benefit obligation, the projected unit credit method was used, which includes the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

**4 Significant accounting judgments, estimates (continued)**

In determining the appropriate discount rate, management considers the interest rates of high-quality government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates.

(e) Environmental obligations

The Group's mining and processing activities are susceptible to various environmental laws and regulations changes. The Group estimates environmental obligations based on management's understanding of the current legal requirements, terms of the license agreements and internally generated estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

(f) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position and results of operations may be negatively affected.

(g) Idle capacity expenses

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

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

## 5 Information on operational segments

The group defines the following business segments that include goods and services distinguished by the level of risk and terms of acquisition of income:

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

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

Information about the segments of business for the year ended 30 June 2016:

	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	18,548	4,725	602	-	23,875
	<b>18,548</b>	<b>4,725</b>	<b>602</b>	-	<b>23,875</b>
<b>(Loss)/profit before tax of the segment</b>	<b>(9,627)</b>	<b>1,860</b>	<b>581</b>	-	<b>(7,186)</b>
Depreciation and amortization expenses	(3,939)	-	-	-	(3,939)
Defined benefits plan obligations expenses	(1,023)	-	-	-	(1,023)
<b>Operational assets</b>	<b>78,657</b>	<b>1,616</b>	<b>41</b>	<b>1,378</b>	<b>81,692</b>
<b>Operational liabilities</b>	<b>(115,683)</b>	<b>(1,518)</b>	<b>(215)</b>	<b>(7,277)</b>	<b>(124,693)</b>
<b>Disclosure of other information</b>					
Capital expenditure	3,749				3,749

As at 30 June 2016 assets of segments do not include financial assets (USD 8 thousand), cash (USD 77 thousand), other taxes receivable (USD 132 thousand), as well as deferred tax assets (USD 1,161 thousand), since management of these assets is carried out at the Group's level.

As at 30 June 2016 liabilities of segments do not include deferred tax liabilities (USD 827 thousand), other taxes payable (USD 2,949 thousand), income tax payables (USD 1,459 thousand), provision on tax liabilities (USD 2,042 thousand), since management of these liabilities is carried out at the Group's level.

Information about the segments of business for the year ended 30 June 2015:

	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	7,453	8,012	295	-	15,760
	<b>7,453</b>	<b>8,012</b>	<b>295</b>	-	<b>15,760</b>
<b>(Loss)/Profit before tax of the segment</b>	<b>(39,444)</b>	<b>1,833</b>	<b>269</b>	-	<b>(37,342)</b>
Depreciation and amortization expenses	(6,092)	-	-	-	(6,092)
Defined benefits plan obligations expenses	(1,396)	-	-	-	(1,396)
<b>Operational assets</b>	<b>71,464</b>	<b>1,852</b>	<b>21</b>	<b>1,103</b>	<b>74,440</b>
<b>Operational liabilities</b>	<b>(100,068)</b>	<b>(1,181)</b>	<b>(1,095)</b>	<b>(8,041)</b>	<b>(110,385)</b>
<b>Disclosure of other information</b>					
Capital expenditure	647				647

As at 30 June 2015 assets of segments do not include financial assets (USD 8 thousand), cash (USD 151 thousand), other taxes receivable (USD 258 thousand), as well as deferred tax assets (USD 686 thousand), since management of these assets is carried out at the Group's level.

As at 30 June 2015 liabilities of segments do not include deferred tax liabilities (USD 1,101 thousand), other taxes payable (USD 2,977 thousand), income tax payables (USD 1,751 thousand), provision on tax liabilities (USD 2,212 thousand), since management of these liabilities is carried out at the Group's level.



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

	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
Revenue received from sale of finished goods	18,548	7,453
Revenue from trading activity	4,725	8,012
Revenue from other activity	602	295
	<b>23,875</b>	<b>15,760</b>

**Geographic information**

<b>Revenue from external customers</b>	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
Ukraine	23,771	14,917
Countries other than Ukraine and CIS	104	843
	<b>23,875</b>	<b>15,760</b>

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

**6 Cost of sales**

	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
Cost of merchandising inventory	(2,952)	(6,020)
Raw materials*	(5,598)	(1,428)
Wages and salaries of operating personnel	(1,644)	(1,968)
Change in finished goods	1,158	(139)
Energy supply	(1,068)	(1,107)
Depreciation and amortization expenses	(1,816)	(1,346)
Subcontractors services	(1,470)	(966)
Other expenses	(262)	(266)
	<b>(13,652)</b>	<b>(13,240)</b>

\* - "raw materials" line includes goods obtained from cost of sales returns in 2015 financial year amounted to USD 682 thousands due to inability of customers to carry out production from company's warehouse.

**7 General and administrative expenses**

	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
Wages and salaries of administrative personnel	(191)	(345)
Subcontractors services	(647)	(797)
Bank services	(16)	(83)
Depreciation and amortization expenses	(48)	(85)
Other expenses	(7)	(17)
	<b>(909)</b>	<b>(1,327)</b>

**8 Selling and distribution expenses**

	<b>Year ended 30 June 2016</b>	<b>Year ended 30 June 2015</b>
Delivery costs	(702)	(510)
Subcontractors services	(135)	(186)
Wages and salaries of distribution personnel	(32)	(19)
Depreciation and amortization expenses	(19)	(70)
Other expenses	(8)	-
	<b>(896)</b>	<b>(785)</b>

**9 Other operating income/expenses**

	Year ended 30 June 2016	Year ended 30 June 2015
Doubtful debts expenses	(143)	(4,984)
Writing-off of VAT	(69)	(57)
Profit from exchange differences	3	7
Income from changes in unused vacation reserve	109	624
Other operating expenses	-	-
Other operating income	239	16
	<b>139</b>	<b>(4,394)</b>

**9.1 Idle capacity expenses**

	Year ended 30 June 2016	Year ended 30 June 2015
Depreciation and amortization expenses	(2,046)	(4,575)
Wages and salaries	(660)	(1,864)
Energy supply	(200)	(652)
Raw materials	(3)	(51)
Other expenses	(10)	(181)
	<b>(2,919)</b>	<b>(7,323)</b>

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

	Year ended 30 June 2016	Year ended 30 June 2015
Wages and salaries of non-operating personnel	(7)	(34)
Social sphere expenses	(74)	(40)
Writing-off of non-current assets	(93)	(5)
Recognized penalties, fines, charges	(77)	(88)
Depreciation of non-operating property, plant and equipment	(10)	(16)
Income/(Expenses) attributable to allowance for receivables on sale of property, plant and equipment	69	435
Income from sale of property, plant and equipment	61	47
Other non-operating income <sup>(1)</sup>	987	140
Other non-operating expenses	(180)	(186)
	<b>676</b>	<b>253</b>

<sup>(1)</sup> Increase in Other non-operating income is determined by implementation of norms of statutory regulations. Certain legislative acts of the government regulate business in the region of military conflict. According to the "Law on temporary measures for the period of anti-terrorist operation" (№ 1669-VII 02-September-2014) entities that operate in the territory of the antiterrorist operation are released from obligatory payments for use of state land plots and municipal property together with cancellation of rent for use of state and municipal property and moratorium on charging penalties for late payments for utility services.

**11 Depreciation and amortization expenses**

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Depreciation</b>		
Idle capacity: depreciation expenses	(1,749)	(4,142)
Cost of sales	(1,796)	(1,315)
Selling and distribution expenses	(19)	(70)
General and administrative expenses	(48)	(85)
Depreciation of non-operating property, plant and equipment	(10)	(16)
	<b>(3,622)</b>	<b>(5,628)</b>
<b>Amortization</b>		
Idle capacity: amortization expenses	(297)	(433)
Cost of sales	(20)	(31)
	<b>(317)</b>	<b>(464)</b>
	<b>(3,939)</b>	<b>(6,092)</b>

**12 Financial income**

	Year ended 30 June 2016	Year ended 30 June 2015
Gain from non-operational exchange differences	2,564	5,525
Income from disposal of notes	121	-
Income from measurement of financial assets at amortized cost	34	151
Interest income	-	648
	<b>2,719</b>	<b>6,324</b>

**13 Financial costs**

	Year ended 30 June 2016	Year ended 30 June 2015
Interest expenses	(7,989)	(8,589)
Loss from non-operational exchange differences	(7,866)	(19,352)
Impairment loss of loans issued	-	(6)
Finance lease expenses	(22)	(972)
Unwinding of discount expenses	(339)	(2,022)
Expenses from measurement of financial liabilities at amortized cost	(9)	(17)
Expenses from measurement of financial assets at amortized cost	6	(1,652)
	<b>(16,219)</b>	<b>(32,610)</b>

**14 Income tax expenses**

	Year ended 30 June 2016	Year ended 30 June 2015
Current income tax	(3)	(5)
Deferred tax	702	830
<b>Income tax expenses</b>	<b>699</b>	<b>825</b>
<b>At the beginning of the period</b>	<b>(1,751)</b>	<b>(1,752)</b>
Current income tax charge	(3)	(5)
Amount paid in the period	-	4
Effect of translation to presentation currency	295	2
<b>At the end of the period</b>	<b>(1,459)</b>	<b>(1,751)</b>
<b>Effect</b>		
Loss before tax	(7,186)	(37,342)
Income tax	1,293	6,722
Effect of different statutory tax rates of overseas jurisdictions	150	175
Tax effect of permanent differences	(744)	(6,072)
Income tax income/(expenses)	<b>699</b>	<b>825</b>

According to the Tax Code, a tax rate of 18% is applied starting from 1 January 2014.

When estimating deferred taxes as at 30 June 2016, the Group accounted for income tax rate and other implications of the Tax Code.

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

	30 June 2015	Recognized in profit (loss)	Effect of translation to presentation currency	30 June 2016
<b>Effect of temporary differences on deferred tax assets</b>				
Property, plant and equipment, intangible assets	58	99	(14)	143
Inventories	101	(17)	(12)	72
Provisions	411	28	(64)	375
Defined benefit plan obligations	1,709	184	(267)	1,626
Charged vacation expenses	25	(1)	(5)	19
Folded on individual Companies' level	(1,618)			(1,074)
<b>Total deferred tax assets</b>	<b>686</b>	<b>293</b>	<b>(362)</b>	<b>1,161</b>
<b>Effect of temporary differences on deferred tax liabilities</b>				
Property, plant and equipment, intangible assets	(2,717)	408	409	(1,900)
Financial instruments	(2)	1	-	(1)
Folded on individual Companies' level	1,618			1,074
<b>Total deferred tax liabilities</b>	<b>(1,101)</b>	<b>409</b>	<b>409</b>	<b>(827)</b>
<b>Net deferred tax asset/(liability)</b>	<b>(415)</b>	<b>702</b>	<b>47</b>	<b>334</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 2014	Recognized in profit (loss)	Effect of translation to presentation currency	30 June 2015
<b>Effect of temporary differences on deferred tax assets</b>				
Property, plant and equipment, intangible assets	59	32	(33)	58
Inventories	335	(91)	(143)	101
Provisions	540	105	(234)	411
Defined benefit plan obligations	2,691	251	(1,233)	1,709
Charged vacation expenses	220	(163)	(32)	25
Folded on individual Companies' level	(2,798)	-	-	(1,618)
<b>Total deferred tax assets</b>	<b>1,047</b>	<b>134</b>	<b>(1,675)</b>	<b>686</b>
<b>Effect of temporary differences on deferred tax liabilities</b>				
Property, plant and equipment, intangible assets	(5,782)	688	2,377	(2,717)
Financial instruments	(13)	8	3	(2)
Folded on individual Companies' level	2,798	-	-	1,618
<b>Total deferred tax liabilities</b>	<b>(2,997)</b>	<b>696</b>	<b>2,380</b>	<b>(1,101)</b>
<b>Net deferred tax asset/(liability)</b>	<b>(1,950)</b>	<b>830</b>	<b>705</b>	<b>(415)</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 2014</b>	<b>79,147</b>	<b>17,369</b>	<b>24,164</b>	<b>1,343</b>	<b>660</b>	<b>122,683</b>
Additions	134	8	403	99	-	644
Disposals	-	-	(243)	(37)	-	(280)
Effect of translation to presentation currency	(34,668)	(7,604)	(10,686)	(596)	(288)	(53,842)
<b>as at 30 June 2015</b>	<b>44,613</b>	<b>9,773</b>	<b>13,638</b>	<b>809</b>	<b>372</b>	<b>69,205</b>
Additions	156	2,542	416	31	597	3,742
Disposals	-	(19)	(267)	(17)	-	(303)
Effect of translation to presentation currency	(6,898)	(1,757)	(2,141)	(123)	(138)	(11,057)
<b>as at 30 June 2016</b>	<b>37,871</b>	<b>10,539</b>	<b>11,646</b>	<b>700</b>	<b>831</b>	<b>61,587</b>
<b>Accumulated depreciation</b>						
<b>as at 30 June 2014</b>	<b>(9,521)</b>	<b>(4,623)</b>	<b>(13,456)</b>	<b>(1,109)</b>	-	<b>(28,709)</b>
Depreciation for the period	(2,583)	(646)	(2,287)	(112)	-	(5,628)
Disposals	-	-	107	30	-	137
Effect of translation to presentation currency	4,870	2,190	6,230	508	-	13,798
<b>as at 30 June 2015</b>	<b>(7,234)</b>	<b>(3,079)</b>	<b>(9,406)</b>	<b>(683)</b>	-	<b>(20,402)</b>
Depreciation for the period	(1,614)	(441)	(1,517)	(49)	-	(3,621)
Disposals	-	7	144	14	-	165
Effect of translation to presentation currency	1,150	489	1,523	105	-	3,267
<b>as at 30 June 2016</b>	<b>(7,698)</b>	<b>(3,024)</b>	<b>(9,256)</b>	<b>(613)</b>	-	<b>(20,591)</b>
<b>Net book value</b>						
<b>as at 30 June 2015</b>	<b>37,379</b>	<b>6,694</b>	<b>4,232</b>	<b>126</b>	<b>372</b>	<b>48,803</b>
<b>as at 30 June 2016</b>	<b>30,173</b>	<b>7,515</b>	<b>2,390</b>	<b>87</b>	<b>831</b>	<b>40,996</b>

As at 30 June 2016 loans and borrowings of the Group were pledged by the property, plant and equipment with carrying amount of USD 6,408 thousand (30 June 2015 – USD 7,633 thousand): Note 25 "Loans and borrowings".

During the year ended 30 June 2016 any borrowing costs were capitalized as property, plant and equipment.

During the year ended 30 June 2016 any research and development costs were capitalized as property, plant and equipment. The Group's mining activity in current financial year relates to exploitation of the existing mines and mined beds.

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

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

**16 Intangible assets**

	Licenses, special permissions and patent rights	Other intangible assets	Other projects and permissions	Total
<b>Cost</b>				
<b>as at 30 June 2014</b>	<b>7,293</b>	<b>33</b>	<b>86</b>	<b>7,412</b>
Additions	-	-	3	3
Disposals	-	(1)	(10)	(11)
Effect of translation to presentation currency	(3,190)	(12)	(38)	(3,240)
<b>as at 30 June 2015</b>	<b>4,103</b>	<b>20</b>	<b>41</b>	<b>4,164</b>
Additions	2	1	5	8
Disposals	-	-	-	-
Effect of translation to presentation currency	(635)	(4)	(6)	(645)
<b>as at 30 June 2016</b>	<b>3,470</b>	<b>17</b>	<b>40</b>	<b>3,527</b>
<b>Accumulated depreciation</b>				
<b>as at 30 June 2014</b>	<b>(2,381)</b>	<b>(18)</b>	<b>(53)</b>	<b>(2,452)</b>
Amortization charge for the period	(449)	(5)	(10)	(464)
Disposal	-	-	8	8
Effect of translation to presentation currency	1,138	9	24	1,171
<b>as at 30 June 2015</b>	<b>(1,692)</b>	<b>(14)</b>	<b>(31)</b>	<b>(1,737)</b>
Amortization charge for the period	(312)	(2)	(3)	(317)
Disposals	-	-	-	-
Effect of translation to presentation currency	276	2	5	283
<b>as at 30 June 2016</b>	<b>(1,728)</b>	<b>(14)</b>	<b>(29)</b>	<b>(1,771)</b>
<b>Net book value</b>				
<b>as at 30 June 2015</b>	<b>2,411</b>	<b>6</b>	<b>10</b>	<b>2,427</b>
<b>as at 30 June 2016</b>	<b>1,742</b>	<b>3</b>	<b>11</b>	<b>1,756</b>

As at 30 June 2016 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 218 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 667 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 579 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 166 thousand (Nedra Donbasa LLC).

As at 30 June 2016 there are no pledged intangible assets.

As at 30 June 2016 there are no contractual commitments as for intangible assets of the Group.

**17 Financial assets**

	<u>As at 30 June 2016</u>	<u>As at 30 June 2015</u>
<b>Non-current financial assets</b>		
Held-to-maturity investments	8	8
	<u>8</u>	<u>8</u>
<b>Current financial assets</b>		
Loans issued	7,027	8,340
Allowance for loans issued	(7,027)	(8,340)
	<u>-</u>	<u>-</u>

Held-to maturity investments are non-interest notes, issued generally by third parties. These notes are discounted using effective annual interest rate 18% for the year ended 30 June 2016, 2015 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.

**18 Inventories**

	<u>As at 30 June 2016</u>	<u>As at 30 June 2015</u>
Merchandise	3,683	3,957
Finished goods	2,564	1,753
Raw materials	9,067	692
Spare parts	757	429
Goods on commission	1,132	1,349
Other inventories	27	20
	<u>17,230</u>	<u>8,200</u>

As at 30 June 2016 bank loans were secured by finished goods, carrying amount of which is USD 5,500 thousand (as at 30 June 2015 finished goods were pledged as collateral on amount USD 5,500 thousand).

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

**19 Trade and other receivables**

	<u>As at 30 June 2016</u>	<u>As at 30 June 2015</u>
Trade receivables	17,839	13,397
Allowance for trade receivables	(2,403)	(3,098)
Receivables under factoring contracts	1,424	1,746
Receivables on sale of property, plant and equipment	345	374
Allowance for receivables on sale of property, plant and equipment	(308)	(373)
Other receivables	2,563	1,431
Allowance for other receivables	(95)	(124)
	<u>19,365</u>	<u>13,353</u>

As at 30 June 2016 bank loans were secured by trade receivables, carrying amount of which was USD 5,049 thousand (as at 30 June 2015 – USD 6,047 thousand).

**20 Prepayments and prepaid expenses**

	<u>As at 30 June 2016</u>	<u>As at 30 June 2015</u>
Advances paid	3,610	3,756
Allowances for advances paid	(2,644)	(3,203)
Deferred expenses	1	1
	<u>967</u>	<u>554</u>

**21 Changes in allowance made**

	As at 30 June 2016	As at 30 June 2015
<b>Balance as at the beginning of the period</b>	<b>(11,935)</b>	<b>(17,372)</b>
(Accrual)/Reverse	(1)	(3,139)
Use of allowances	245	529
Effect of translation to presentation currency	1,858	8,047
<b>Balance as at the end of the period</b>	<b>(9,833)</b>	<b>(11,935)</b>
	<b>As at 30 June 2016</b>	<b>As at 30 June 2015</b>
Allowance for loans issued	(7,027)	(8,340)
Allowance for receivables on sale of property, plant and equipment	(308)	(373)
Allowance for trade accounts receivable	(2,403)	(3,098)
Allowance for other accounts receivable	(95)	(124)
	<b>(9,833)</b>	<b>(11,935)</b>

**22 Other taxes**

	As at 30 June 2016	As at 30 June 2015
<b>Current taxes receivable</b>		
VAT recoverable	82	207
Prepayments for other taxes	50	51
	<b>132</b>	<b>258</b>
<b>Current taxes payable</b>		
VAT payable	(560)	(1,020)
Payable for wages and salaries related taxes	(1,827)	(1,429)
Payables for other taxes	(562)	(510)
	<b>(2,949)</b>	<b>(2,959)</b>
<b>Non-current taxes payable</b>		
Payables for other taxes	-	(16)
Payable for VAT	-	(2)
	<b>-</b>	<b>(18)</b>

**23 Cash and cash equivalents**

	As at 30 June 2016	As at 30 June 2015
Cash in bank	77	151
	<b>77</b>	<b>151</b>

**24 Share capital**

	As at 30 June 2016		As at 30 June 2015	
	%	Amount	%	Amount
Lycaste Holding Limited *	75	338	75	338
Free float	25	112	25	112
	<b>100</b>	<b>450</b>	<b>100</b>	<b>450</b>

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

During the year ended 30 June 2016 quantity of shares did not change.



**25 Loans and borrowings**

	As at 30 June 2016	As at 30 June 2015
<b>Non-current loans and borrowings</b>		
Loans received	(39,500)	(39,500)
Borrowings received	(20,000)	(20,000)
Payables under factoring contract	(1,424)	(1,746)
	<b>(60,924)</b>	<b>(61,179)</b>
<i>Deducting current portion of long-term borrowings:</i>		
Current portion of long-term loans and borrowings	36,100	19,500
Current portion of payables under factoring contract	1,374	67
<b>Total non-current loans and borrowings</b>	<b>(23,450)</b>	<b>(41,679)</b>
<b>Current loans and borrowings</b>		
Bank loans	(9,545)	(10,193)
Current portion of long-term loans and borrowings	(36,100)	(19,500)
Current portion of payables under factoring contract	(1,374)	(67)
<b>Total current loans and borrowings</b>	<b>(47,019)</b>	<b>(29,760)</b>

**The amount of non-current loans and borrowings as at 30 June 2016 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 the property of Donprombiznes LLC, pledging value of which amounts to USD 70 thousand. Maturity date is on 15 August 2017. As at 30 June 2016 current portion composed USD 4,500 thousand. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of it's banking license.

— loan amounting to USD 20,000 thousand received by CwAL LE "Sh/U Blagoveshenskoe" in USD according to the credit agreement concluded with Barryntello Investments 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 2,562 thousand; the corporate rights in share capital of Donprombiznes LLC and property pledged value of which amounts to USD 3,216 thousand. Maturity date is on 15 September 2017. As at 30 June 2016 current portion composed USD 17,600 thousand.

— 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 35,000 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 560 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. As at 30 June 2016 current portion composed USD 14,000 thousand.

— factoring amounting to USD 1,424 thousand received by Donantracit LLC in UAH according to factoring contract concluded with OJSC "OTP Bank" with credit limit equaling to USD 1,577 thousand. Annual interest rate range to 0,01%. Obligations under this factoring contract are guaranteed by the revenue under the contracts amounting to USD 1,780 thousand, guarantee of CwAL LE "Sh/U Blagoveshenskoe" and Coal Energy S.A. amounting to USD 1,577 thousand. Maturity date is on 31 August 2017. As at 30 June 2016 current portion composed USD 1,374 thousand.

**The amount of current loans and borrowings as at 30 June 2016 comprises the followings borrowings:**

— loan amounting to USD 5,500 thousand received by Eximenergo LLC in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 5,500 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by the finished goods (coal) in turnover pledged value of which amounts to USD 5,500 thousand. Maturity date is on 3 June 2015. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of it's banking license.

— loan amounting to USD 1,468 thousand received by Coal Energy Ukraine LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 1,891 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 1,702 thousand. Maturity date is on 30 January 2015. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of it's banking license.

— loan amounting to USD 1,207 thousand received by Donvuhletekhninvest LLC in UAH according to the credit agreement concluded with OJSC "Delta Bank" (OJSC "Creditprombank") with credit limit USD 1,207 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 1,974 thousand and by the guarantee of Ugledobyvayushie Tehnology LLC amounting to USD 1,207 thousand. Maturity date is on 31 December 2015. According to resolution of National Bank of Ukraine №664 from 2 October 2015 OJSC "Delta Bank" is under procedure of liquidation and withdrawal of it's banking license.

— loan amounting to USD 845 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit equaling to USD 845 thousand. Annual interest rate equals to 21,0%. Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 868 thousand. Maturity date is on 22 December 2014. According to resolution of

**25 Loans and borrowings (continued)**

National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of its banking license.

— loan amounting to USD 525 thousand received by Donantracit LLC in EUR according to the credit agreement concluded with Ukrainian Business Bank with credit limit equaling to USD 1,109 thousand. Annual interest rate equals to 12,0%. Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 699 thousand. Maturity date is on 26 December 2014. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of its banking license.

**The amount of non-current loans and borrowings as at 30 June 2015 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 214 thousand. Maturity date is on 15 August 2017. As at 30 June 2015 current portion composed USD 4,500 thousand. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of its banking license.

— loan amounting to USD 20,000 thousand received by CwAL LE "Sh/U Blagoveshenskoe" in USD according to the credit agreement concluded with Barryntello Investments 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 2,610 thousand; the corporate rights in share capital of Donprombiznes LLC and property pledged value of which amounts to USD 3,947 thousand. Maturity date is on 15 September 2017. As at 30 June 2015 current portion composed USD 8,000 thousand.

— 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 35,000 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 862 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. As at 30 June 2015 current portion composed USD 7,000 thousand.

**The amount of current loans and borrowings as at 30 June 2015 comprises the followings borrowings:**

— loan amounting to USD 5,500 thousand received by Eximenergo LLC in USD according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 5,500 thousand. Annual interest rate equals to 13,0%. Obligations under this credit agreement are guaranteed by the finished goods (coal) in turnover pledged value of which amounts to USD 5,500 thousand. Maturity date is on 3 June 2015. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of its banking license.

— loan amounting to USD 1,736 thousand received by Coal Energy Ukraine LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit USD 2,236 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 2,013 thousand. Maturity date is on 30 January 2015. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of its banking license.

— loan amounting to USD 1,428 thousand received by Donvuhletekhinvest LLC in UAH according to the credit agreement concluded with OJSC "Delta Bank" (OJSC "Creditprombank") with credit limit USD 1,428 thousand. Annual interest rate equals to 22,0%. Obligations under this credit agreement are guaranteed by the property of Ugedobyvayushie Tehnology LLC pledging value of which amounts to USD 2,335 thousand and by the guarantee of Ugedobyvayushie Tehnology LLC amounting to USD 1,428 thousand. Maturity date is on 31 December 2015. According to resolution of National Bank of Ukraine №664 from 2 October 2015 OJSC "Delta Bank" is under procedure of liquidation and withdrawal of its banking license.

— loan amounting to USD 999 thousand received by Donantracit LLC in UAH according to the credit agreement concluded with Ukrainian Business Bank with credit limit equaling to USD 999 thousand. Annual interest rate equals to 21,0%. Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 1,026 thousand. Maturity date is on 22 December 2014. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of its banking license.

— loan amounting to USD 530 thousand received by Donantracit LLC in EUR according to the credit agreement concluded with Ukrainian Business Bank with credit limit equaling to USD 1,120 thousand. Annual interest rate equals to 12,0%. Obligations under this credit agreement are guaranteed by: the revenue under the contracts amounting to USD 826 thousand. Maturity date is on 26 December 2014. According to resolution of National Bank of Ukraine №265 from 23 April 2015 Ukrainian Business Bank is under procedure of liquidation and withdrawal of its banking license.

— factoring amounting to USD 1,746 thousand received by Donantracit LLC in UAH according to factoring contract concluded with OJSC "OTP Bank" with credit limit equaling to USD 1,865 thousand. Annual interest rate range to 0,01%. Obligations under this factoring contract are guaranteed by the revenue under the contracts amounting to USD 2,182 thousand, guarantee of CwAL LE "Sh/U Blagoveshenskoe" and Coal Energy S.A. amounting to USD 1,865 thousand. Maturity date is on 31 August 2017. As at 30 June 2015 non-current portion of current loan composed USD 1,679 thousand and accounted in non-current loans and borrowings. This shift from current to non-current portion is made in accordance with Additional agreement signed with OJSC "OTP Bank" and details are disclose in note "Subsequent events".

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

	Currency	Nominal interest rate, %	As at 30 June 2016	As at 30 June 2015
Non-current loan	USD	6-month LIBOR + 5,85%	(21,000)	(28,000)
Non-current borrowing	USD	11,00	(2,400)	(12,000)
Non-current loan	USD	13,00	-	-
Non-current loan	USD	0,01	(50)	(1,679)
			<b>(23,450)</b>	<b>(41,679)</b>

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

	As at 30 June 2016	As at 30 June 2015
within 1 year	-	-
from 1 to 5 years	(23,450)	(41,679)
more than 5 years	-	-
	<b>(23,450)</b>	<b>(41,679)</b>

**Terms of current loans and borrowings**

	As at 30 June 2016	As at 30 June 2015
On demand	(29,045)	(13,265)
Within 3 months	(2,412)	(1,086)
From 3 to 12 months	(15,562)	(15,409)
	<b>(47,019)</b>	<b>(29,760)</b>

**26 Finance lease liabilities**

	As at 30 June 2016		As at 30 June 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Due within 1 year	461	420	545	496
From 1 to 5 years	1,812	1,075	2,143	1,271
More than 5 years	16,766	1,028	20,364	1,217
	<b>19,039</b>	<b>2,523</b>	<b>23,052</b>	<b>2,984</b>
Future finance charges	(16,516)	-	(20,068)	-
Present value of lease obligation	<b>2,523</b>	<b>2,523</b>	<b>2,984</b>	<b>2,984</b>
<b>Current portion of financial lease liabilities</b>		<b>(420)</b>		<b>(497)</b>
<b>Non-current financial lease liabilities</b>		<b>(2,103)</b>		<b>(2,487)</b>

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

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

According to these contracts, the lessee receives state property for the period of 49 years (current entity name CwAL LE "Sh/U Blagoveshenskoe" - until 11 February 2058, CwAL LE "Mine St.Matrona Moskovskaya" - until 27 April 2059) on fee basis. Such property comprises premises, facilities, mine workings, production equipment, transport, assets under construction and special permissions for subsurface use. Also, as term of agreements, the lessee becomes legal success or of rights and liabilities of GC Shakhtoupravlinnia named after V. I. Chapaeva and GC Novodzerzhynskaya Mine. Additionally, the lessee undertakes current and capital maintenance of property, insurance and dismantling of mines in case of mine stock depletion. Under the agreement of lessor, lessee has a right to give property in to sublease and to transfer own rights and liabilities under this agreement to third parties.

There are fixed payments on this contract, but each consequent lease payment is determined by correction of previous month lease payment on current month inflation rate.

Amendments, addendums or cancellation of this contract are possible under agreement of both parties.

**Net book value of leased assets:**

	At 30 June 2016	At 30 June 2015
Property, plant and equipment	16,659	19,702
Intangible assets	1,761	2,082
	<b>18,420</b>	<b>21,784</b>

**27 Provisions**

	At 30 June 2016	At 30 June 2015
<b>Non-current provisions</b>		
Provision for land restoration	(1,733)	(1,934)
Provision on tax liabilities	-	(48)
Dismantling provision	(352)	(352)
	<b>(2,085)</b>	<b>(2,334)</b>
<b>Current provisions</b>		
Provision on tax liabilities	(2,042)	(2,164)
	<b>(2,042)</b>	<b>(2,164)</b>

The Group liabilities, connected with environmental restoration, notably decommission of property, plant and equipment and land restoration under waste dumps. Estimation of liability bases on estimated prices of decommissions of property, plant and equipment and land restoration under waste dumps procedures. Discount rate used by the Group is 18%.

Management recognized provision for the payment of potential tax liabilities. However, if the tax authorities classify such transactions as subject to taxation and apply such classification to the companies of the Group, actual taxes and penalties may differ from the Management assessment.

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

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

**Changes in non-current provisions**

	Provision for land restoration	Dismantling provision	Provision on tax liabilities	Total provisions
<b>As at 30 June 2015</b>	<b>(1,934)</b>	<b>(352)</b>	<b>(48)</b>	<b>(2,334)</b>
Unwinding of discount	(98)	(54)	(214)	<b>(366)</b>
Transfer of current portion	-	-	227	227
Revision of provision	-	-	-	-
Effect of translation to presentation currency	299	54	35	<b>388</b>
<b>As at 30 June 2016</b>	<b>(1,733)</b>	<b>(352)</b>	<b>-</b>	<b>(2,085)</b>

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

	As at 30 June 2016	As at 30 June 2015
Trade payables	(12,492)	(7,153)
Interest due	(14,719)	(7,022)
Payables for unused vacations	(106)	(143)
Payables for wages and salaries	(893)	(746)
Other payables	(3,433)	(573)
Payables for acquisition property, plant and equipment	(1,250)	(17)
Advances received	(12)	(35)
	<b>(32,905)</b>	<b>(15,689)</b>

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

	As at 30 June 2016	As at 30 June 2015
Interest due to factoring contract	(396)	(423)
	<b>(396)</b>	<b>(423)</b>

## 29 Related party transactions

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

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

Ultimate controlling party is Mr. Vyshnevetsky V.

The sales of finished goods, merchandises and rendering of the services to related parties are made at terms equivalent to those that prevail in arm's length transactions on market price basis. Provision of loans and operations with notes are made at terms different from the independent parties transactions.

Transactions between related parties attributable to the second category are occasional and not significant, thus, they are not disclosed in these consolidated financial statements.

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

### Items of consolidated statements of comprehensive income

	Year ended 30 June 2016	Year ended 30 June 2015
Income from sales of finished products, goods	18,538	4,664
Income from rendering of services	522	279
Impairment loss of loans issued	26	(74)
Expenses attributable to allowance for trade and other receivables	(1)	(470)
Expenses attributable to allowance for receivables on sale of property, plant and equipment	(8)	(202)
Income from operating lease	7	8
Operating lease expenses	(30)	(37)
Purchases of services	(688)	(838)
Purchases of property, plant and equipment	(349)	(218)
Purchases of inventories	(13,724)	(1,771)

### Items of consolidated statements of financial position

	As at 30 June 2016	As at 30 June 2015
Current loans issued	7,027	8,340
Allowances for loans issued	(7,027)	(8,340)
Trade receivables	11,645	7,808
Allowances for trade receivables	(528)	(686)
Advances paid	562	126
Allowances for advances paid	(30)	(35)
Other receivables	620	523
Allowances for other receivables	(94)	(122)
Receivables on sale of property, plant and equipment	326	358
Allowances for receivables on sale of property, plant and equipment	(294)	(357)
Advances received	(10)	(13)
Other payables	(1,249)	(11)
Payables for acquisition property, plant and equipment	(78)	(12)
Trade payables	(5,088)	(1,186)

### Remuneration of key management personnel

	Year ended 30 June 2016	Year ended 30 June 2015
Wages and salaries	(16)	(28)
Contribution to Pension Fund and other social taxes	(6)	(13)
Dismissal benefits	(3)	(1)
	<b>(25)</b>	<b>(42)</b>
The average number of key management personnel, persons	<b>14</b>	<b>14</b>

For the year ended 30 June 2016 there were no other benefits to key management personnel except above listed.

### Remuneration of personnel

	Year ended 30 June 2016	Year ended 30 June 2015
Wages and salaries of operating personnel	1,644	1,968
Wages and salaries of administrative personnel	191	345
Wages and salaries of distribution personnel	32	19
Wages and salaries of non-operating personnel	7	34
Wages and salaries of personnel involved in production of property, plant and equipment	-	2
Wages and salaries of personnel in the period of idle capacity	660	1,864
<b>The average number of employees, persons</b>	<b>1,217</b>	<b>1,714</b>

### 30 Management of financial risks

#### Operating environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

Ukrainian tax legislation is characterized by frequent changes is subject to controversial interpretations. Tax authorities may be taking a more assertive position in their interpretation of the legislation and tax assessments. Such cases create a taxation risk exposure which considerably exceeds that of the countries with more advanced tax systems. Management believes that its interpretation of the relevant legislation as of 30 June 2014 is appropriate and all of the Group's tax will be sustainable. Though, amount of VAT recoverable, as well as terms of such refunds substantially depends on the position of tax authorities.

The Group is continuing to be subject to reform initiatives in the Ukraine. The future direction and effects of any reforms are the subject of political considerations, which could have a significant but undeterminable, effect on entities operating in the Group.

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group. Risks are managed centrally. This note presents information about Group's exposure of each type of risks, objectives of risk management, policy and procedures of assessment and management, as well as approaches to capital management. Additional qualitative and quantitative information are disclosed through overall consolidated financial statements.

#### Credit risk

Credit risk is a risk of financial loss to the Group, which results from failure of a buyer or a contractor under the financial instrument to fulfill its contractual obligations. Credit risk arises from cash and cash equivalents, deposits in banks as well as credit exposures to customers, including outstanding receivables.

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

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

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

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

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

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

	At 30 June 2016	At 30 June 2015
Trade receivables	15,436	10,299
Other receivables	2,468	1,307
Receivables on sale of property, plant and equipment	37	1
Held-to-maturity investments	8	8
Loans issued	-	-
Cash and cash equivalents	77	151
	<b>18,026</b>	<b>11,766</b>

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

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

Customer reliability is evaluated and approved by following departments:

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

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

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

### 30 Management of financial risks (continued)

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Approach of the Group to the liquidity management lies in providing, as much as possible, permanent availability of the liquid funds, sufficient for the repayment of liabilities in time, not allowing losses and not exposing to risk of the Group.

Liquidity risk management implies maintaining the availability of funding through an adequate amount of committed credit facilities. Management analyses regularly terms of settlement of obligations and receipts from financial assets, monitors the expected cash flows from operating activities.

#### Market risk

Market risk is a risk that fair value of future cash flows from financial instrument will fluctuate as a result of changes in market prices. There are 3 types of market risk within the Group's activity:

- commodity price risk;
- foreign currency risk;
- interest rate risk.

#### Foreign currency risk

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

<i>USD</i>	At 30 June 2016	Increase/decreases in exchange rate	Effect on profit before tax
Cash and cash equivalents	20	20,76%	4
		-20,76%	(4)
Trade receivables	-	20,76%	-
		-20,76%	-
Loan and borrowings received	(78,233)	20,76%	(16,239)
		-20,76%	16,239
Trade payables	(6)	20,76%	(1)
		-20,76%	1
<b>Total effect of change in exchange rate</b>		<b>Increase</b>	<b>(16,236)</b>
		<b>Decrease</b>	<b>16,236</b>

#### Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for mine and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in mining activities and ultimately impact the Group's ability to settle own contractual obligations.

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

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

For the purpose of the commodity price risk assessment Management has used composite index that covers inflation rate, business environment and other factors. Composite index for 2016 financial year was estimated as 15%.

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

Commodity price risk and its influence on main financial indicators for the period ended 30 June 2016 is presented below:

	Current position	Change of composite index	
		+15%	-15%
Revenue	23,875	23,875	23,875
Cost of sales	(13,652)	(14,652)	(12,652)
<b>Gross profit</b>	<b>10,223</b>	<b>9,223</b>	<b>11,223</b>
Administrative expenses	(909)	(909)	(909)
Selling expenses	(896)	(896)	(896)
Other operation income	139	139	139
Idle capacity expenses	(2,919)	(2,949)	(2,889)
<b>Operating Loss</b>	<b>5,638</b>	<b>4,608</b>	<b>6,668</b>
Other non-operating expenses	676	676	676
Financial income	2,719	2,719	2,719
Financial costs	(16,219)	(16,219)	(16,219)
<b>Loss before tax</b>	<b>(7,186)</b>	<b>(8,216)</b>	<b>(6,156)</b>
Income tax	699	699	699
<b>Net loss</b>	<b>(6,487)</b>	<b>(7,517)</b>	<b>(5,457)</b>
<b>EBITDA</b>	<b>9,567</b>	<b>8,537</b>	<b>10,597</b>

**Interest rate risk**

The Group is exposed to the effects of fluctuations in interest rates which may negatively affect the financial results of the Group. Sensitivity analysis attributable to loan attracted with floating interest rate presented below.

	Amount of financial instrument as at 30 June 2016	Effect on profit before tax	
		+1%	-1%
Interest expenses attributable to loan with floating rate (Libor 6m + 5.85%)	35,000	350	(350)

**Financial instruments**

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

	Carrying amount		Fair values	
	at 30 June 2016	at 30 June 2015	at 30 June 2016	at 30 June 2015
<b>Financial assets</b>				
Non-current financial assets				
Notes receivable	8	8	8	8
Current financial assets				
Trade and other receivables	17,230	13,353	17,230	13,353
Cash and cash equivalents	77	151	77	151
<b>Financial liabilities</b>				
Non-current loans and borrowings				
Borrowings received	23,450	41,679	23,450	41,679
Non-current trade and other payables	396	423	396	423
Current loans and borrowings				
Bank loans	45,645	29,693	45,645	29,693
Payables under factoring contracts	1,374	67	1,374	67
Obligation under finance lease	2,523	2,984	2,523	2,984
Trade and other payables	32,905	15,689	32,905	15,689

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

Cash and deposits, trade receivables, trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Receivables are evaluated by the Group based on individual creditworthiness. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at each reporting date, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.



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

The fair value of unquoted instruments, loans from banks, long-term promissory notes issued, obligations under finance leases as well as other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

**31 Contingent assets and liabilities**

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

**32 Off-balance sheet liabilities**

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

- 1) As at 30 June 2016 contracts of guarantee assuring liabilities LLC "Ugletechnic" amount to USD 3,218 thousands.
- 2) As at 30 June 2016 loans and borrowings of CwAL LE "Shahta Putilovska" were pledged by the property, plant and equipment of Group (Eximenergo LLC) with carrying amount of USD 163 thousand.

**33 Subsequent events**

As indicated in current report no.11/2016 dated July 1, 2016 in order to minimize losses and under absence of economic feasibility to maintain further operations Management took the decision to sell LLC Donbasuglerazrobotka.

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