



**Coal Energy – a leading Ukrainian coal mining company**

**CC Group Small & MidCap Conference 3<sup>rd</sup> Edition**

March 2013

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# 1. Company Overview

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# Coal Energy – Key Indicators

## Semi-annual Indicators (1H FY2013)<sup>(1)</sup>

Resources <sup>(2)</sup>	235.5 mln. t
Reserves <sup>(3)</sup>	151.2 mln. t
Production <sup>(4)</sup>	1.0 mln. t
Sales	0.9 mln. t
Revenue	US\$ 86.7 mln.
EBITDA	US\$ 24.1 mln.
Net Income	US\$ 11.9 mln.
Domestic / export sales <sup>(5)</sup>	92% / 8%
Thermal / coking coal sales <sup>(5) (6)</sup>	80% / 20%
Net Debt <sup>(7) (8)</sup>	US\$ 36.0 mln.
Net debt/EBITDA <sup>(7) (8)</sup>	0.7

## Location of Operating Assets



- ▲ Mining companies
- ▲ Coal beneficiation plant
- ▲ Waste dumps processing units
- ▲ Coal-bearing waste dumps
- Headquarters

(1) The Group's 1H of financial year ends at 31 December 2012

(2) Total in-place resources under JORC

(3) Proved and probable recoverable reserves under JORC

(4) Production output includes 920,8 thousand metric tonnes (kt) of mined run-of-mine (ROM) coal and 88,5 of coal concentrate produced from waste processing segment

(5) Sales breakdown in value terms for export / domestic and by coal types

(6) Here and onwards in presentation coking coal segment includes fat (coking) and gas (dual-purpose) coal, thermal segment – anthracite, lean and long-bituminous gas coal.

(7) As of 31 December 2012 net debt includes interest-free financial liabilities and obligations under finance lease.

(8) In order to calculate Net debt/EBITDA ratio EBITDA for 1H FY13 is taken for the last four consecutive quarters

# Investment Highlights Summary

1

## Significant reserves with growth potential

- #3 by reserves and among top 5 by production in Ukraine among private coal producers<sup>(1)</sup>;
- 235 mln.t of in-place coal resources under JORC, 151 mln.t of proven and probable coal reserves under JORC<sup>(2)</sup>;
- 2x reserves growth potential.

2

## Integrated business model and wide range of products

- Vertical production chain of coal mining, beneficiation, waste processing and trading ensures higher operating margin for Coal Energy compared to its competitors;
- Wide range of coal grades, such as anthracite, low and high volatility thermal and coking coals offered to a variety of industries both in Ukraine and abroad.

3

## Brownfield expansion strategy

- The strategy is to commercialize significant unexploited coal reserves and increase profitability utilizing existing mines infrastructure and achieving significant economy on further CAPEX as well as by leveraging Coal Energy's advantageous logistics position;
- FY16 production goal – to mine 3.8 mln.t of saleable coal from underground mining, c. 2.4x increase from FY12 mining level

4

## Solid financial performance

- Sales growth by 18.4% during 1H FY13 as compared to 1H FY12 in volume terms;
- EBITDA composed US\$24.1 million
- Net debt/EBITDA <sup>(3)</sup> ratio comprised 0.7 in 1H FY13.

5

## Diversified customer base and favorable location

- Blue-chip customer base;
- More than 90% of sales are supplied to customers located within 200 km of the Group's facilities;

6

## Listed on the WSE with high-quality corporate governance in place

- Listed on the WSE on Aug. 4, 2011 (ticker: CLE PW);
- BoD with six directors, three of which are INEDs. Audit committee is in place;
- The founder and CEO has more than 16 years of experience in mining and mining machine building.

(1) Private producer means not state owned or controlled; rating calculated based on 2012 calendar year production volumes

(2) Does not include license of Nadra Donbassa LLC dated 27 December 2011 issued for 20 years for 24.8 mln.t reserves of coking coal (valued under Ukrainian methodology)

(3) In order to calculate Net debt/EBITDA ratio EBITDA for 1H FY13 is taken for the last four consecutive quarters

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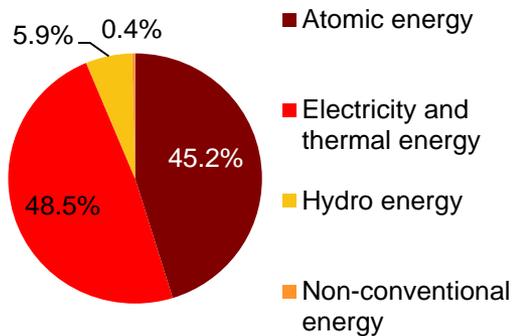
## **2. Coal Mining Market Overview**

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# Thermal coal market: weak demand on the domestic market ...

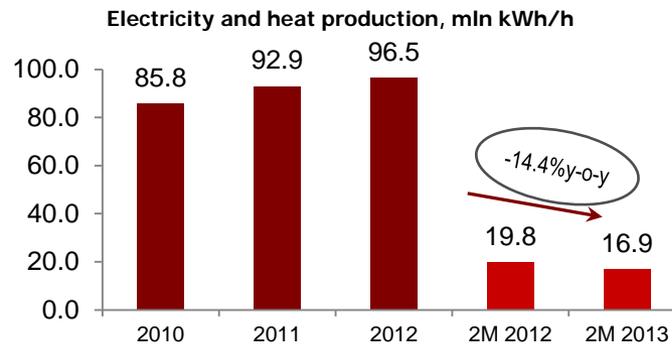
- Thermal coal accounts for almost 100% of fuel for the domestic power and heating power plants
- Although nuclear and hydro power plants produce cheaper electricity than thermal, they already operate at close to capacity, leaving thermal power generation as the only reliable source to satisfy any demand growth
- Despite slowdown in the energy consumption in the 2M 2013 the expectation is that energy production will grow at the level of 2012 (2.1% p.a.). Share of heat and power generation comprised 48.5% of total generation

## Energy balance structure for 2M 2013 did not change from 2012 full year structure



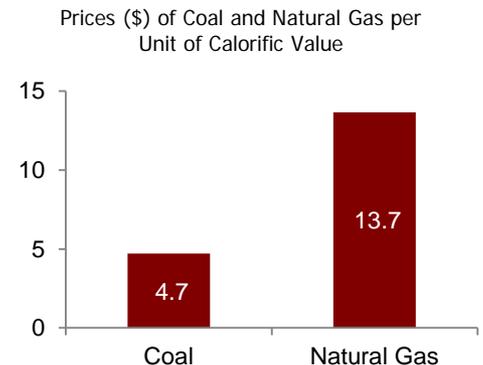
Source: Energobusiness

## Short-term factors determined 2M 2013 industrial output decline by 6% y-o-y (electricity consumption down by 8%)



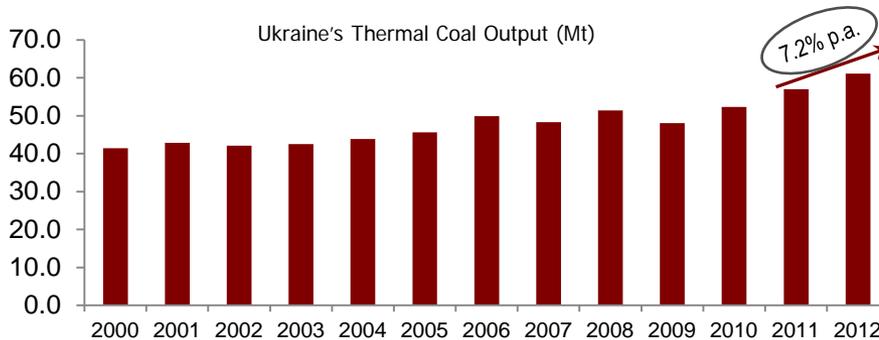
Source: Energobusiness

## Coal is cheaper than natural gas for Ukrainian consumers



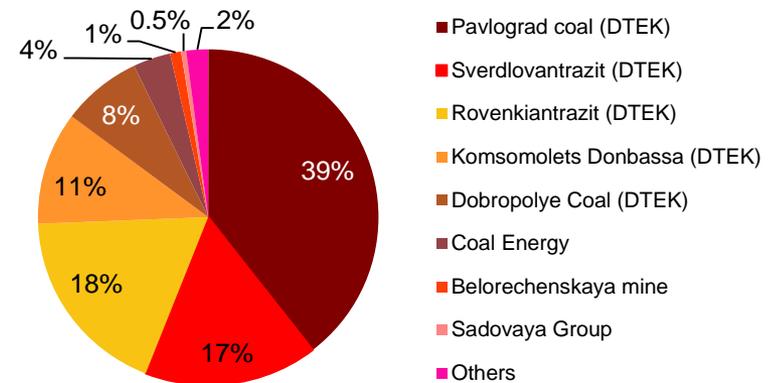
Source: Energobusiness

## The growth in the total coal output is connected with growing supply from as well as CAPEX from private mining companies



Source: SSC, Coal Energy's estimations

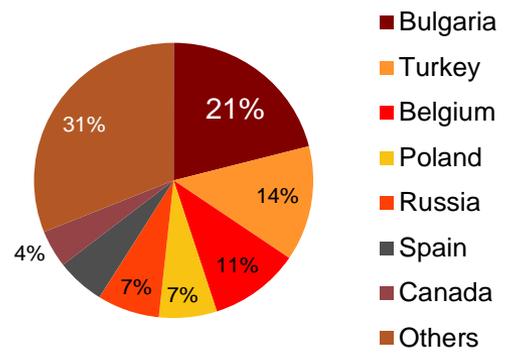
## Private mining companies dominate in volume of mining terms (2012)



# Thermal coal market: .... as well as on export destinations

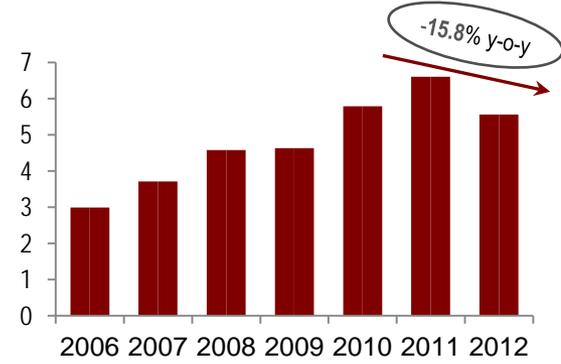
The geography of export sales remain almost unchanged but export volumes decrease due to oversupply in the global markets

Thermal Coal Export Breakdown (2012)

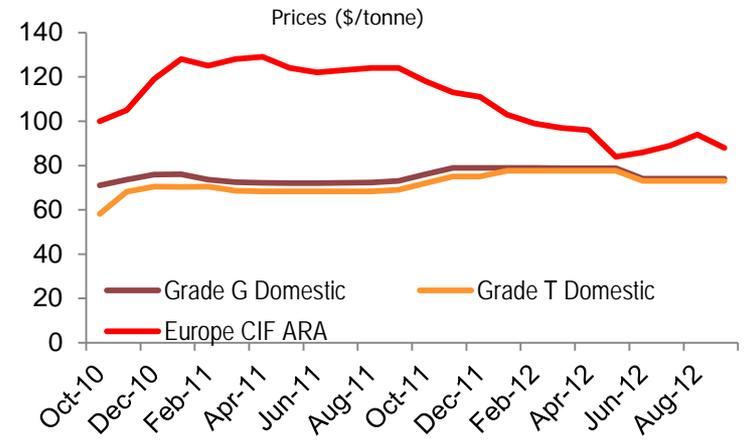


Source: SSC

Thermal Coal Exports from Ukraine (Mt)



Prices remain stable in the 2H 2012 and 1Q 2013



Source: McCloskeys, the Group's data

Proximity to Eastern Europe gives Ukrainian coal logistical advantages for delivery to its main export destinations



- Power plants
- Coking plants
- Cement plants
- Railway transportation routes
- - Marine transportation routes

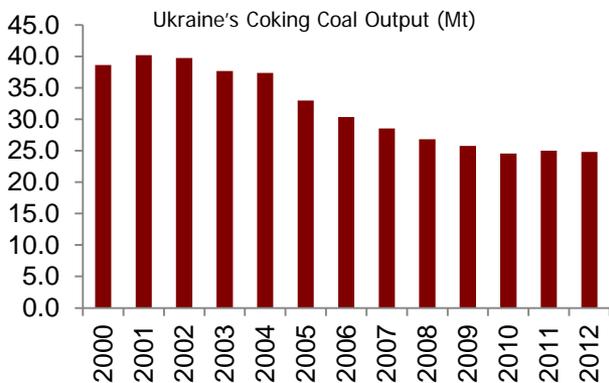
- Transportation costs from Donetsk/Luhansk mines to the border with Poland or Slovakia range from \$15-20/t and transportation to sea ports costs \$5-10/t
- Anthracite, which is used for power generation, in ferroalloy production and for household needs in Bulgaria, Turkey, Moldova and Poland, accounted for 91% of Ukrainian coal exports in 2012
- Being the main player on the local coal market, DTEK has an incentive to elevate the prices for thermal coal, with inflated electricity production costs to be passed on to consumers through a hike in electricity prices

**Growth factors for coal production output and energy demand:**

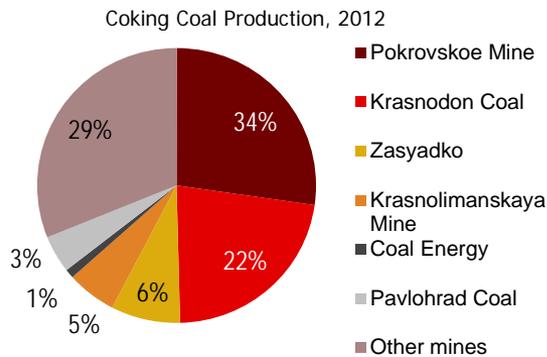
- Government intends to construct several coal gasification plants in Eastern Ukraine. Techno-economic parameters should be ready by July 2013
- Already announced import quotas for coking coal to be introduced will create additional demand for domestic thermal coal substituting dual-purpose coal.
- Re-launching of ferroalloy plants in the 2<sup>nd</sup> half of year halted end of 2012 due to inability to agree the electricity tariffs
- Launching of the newly privatized Odessa oil refinery
- Privatization of the power and heat generations opens opportunities for private coal producers for the new sales streams

# Coking coal market: price correction on the back of significant deferred demand

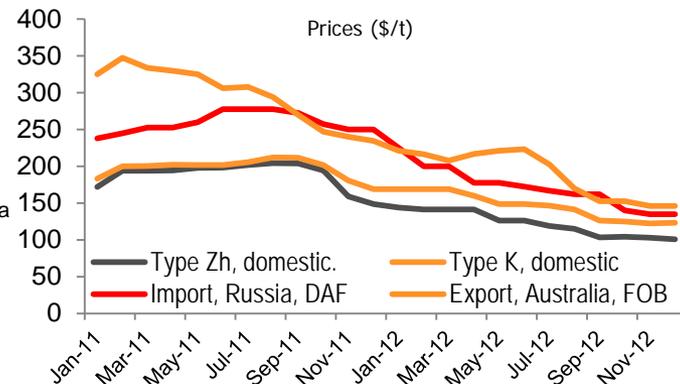
## Extraction has been falling since 2001...



## Local private mining companies dominate in volume of extraction

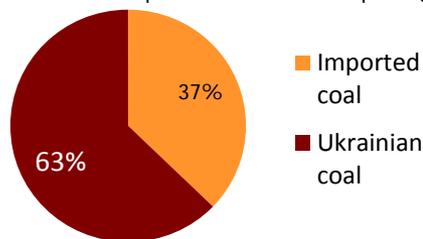


## Price correction is caused by volatility on the steel market



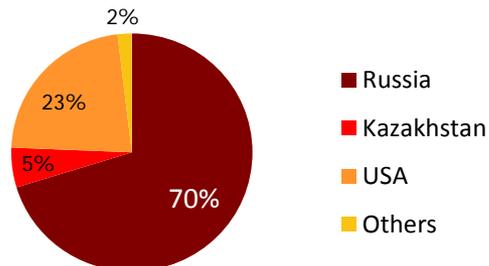
## ... contributing to growth of imports...

The Share of Imported Coal in Consumption (2012)



## ... mainly from Russia

Key import destinations (2012)



Source: SSC

Source: *Energobusiness*, Coal Energy calculations

Source: *Metal Courier*, Bloomberg

- Despite local private mining companies dominate the market, extraction of coking coal is falling due to depletion of coking coal seams and subsequent shift to thermal coal extraction at several mines; accidents which permanently or temporarily reduced production capacity; and underinvestment and mismanagement at state-owned mines.
- As global steel markets are expected to grow in 2013 hence strengthening demand for coke (MEPS International Ltd, UK, global demand to rise by 4.7% y-o-y in 2013). We estimate steel production to grow by 2% in 2013
- Prices for coking coal in Ukraine are highly dependent on global trends due to insufficient domestic production and significant imports of the commodity. We expect relatively strong foreign demand and domestic shortages to keep coking coal prices robust in 2012-13. Additional factors that will support prices globally in 2012-16 are high development costs for new mines, and growth in operating costs at existing mines due to extraction being forced deeper underground
- The currently observed trend in falling prices, which will probably be seen in the beginning of 2012, is caused by steel market volatility. We believe the decline will stabilize in 1H 2013.

## Growth factors for coal production output:

- Import quotas for coking coal are expected to be introduced shortly at the level of 10.2 mln. tonnes of annual import. Import of coking and dual purpose coal in 2012 comprised appr. 14.8 mln. tonnes. The initiative is expected to create additional demand for the Zh coal grade of Coal Energy and consequently for thermal types of coal. Other steps of the government to support the metallurgic sector are underway

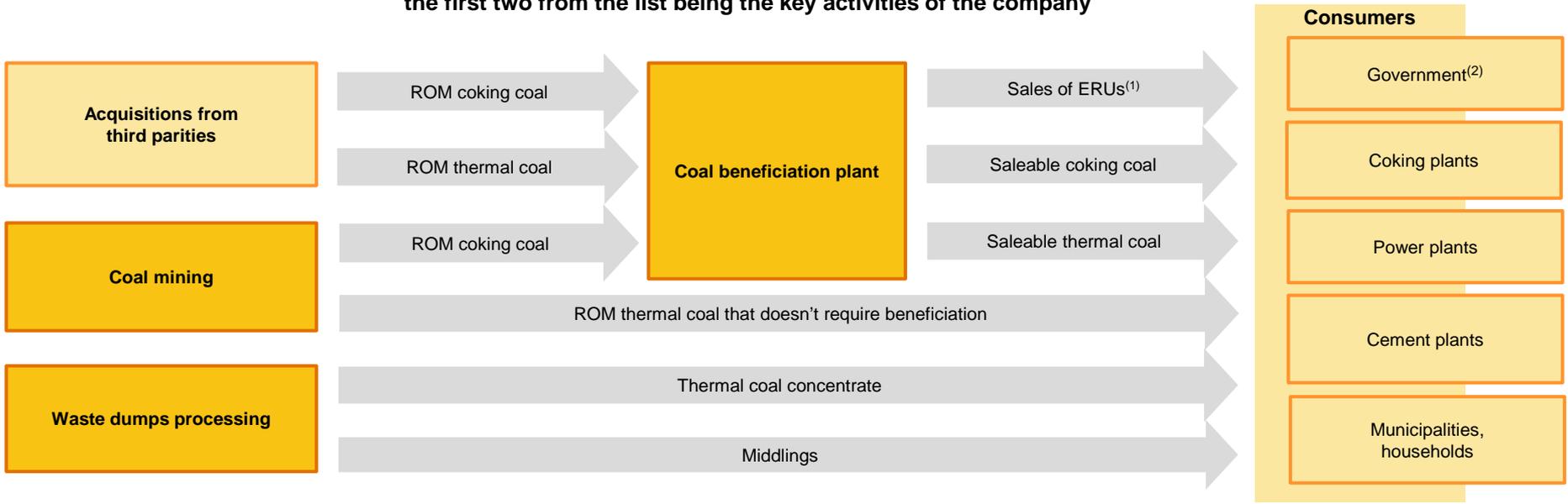
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## **3. 1H FY13 and 2Q FY13 Performance Overview**

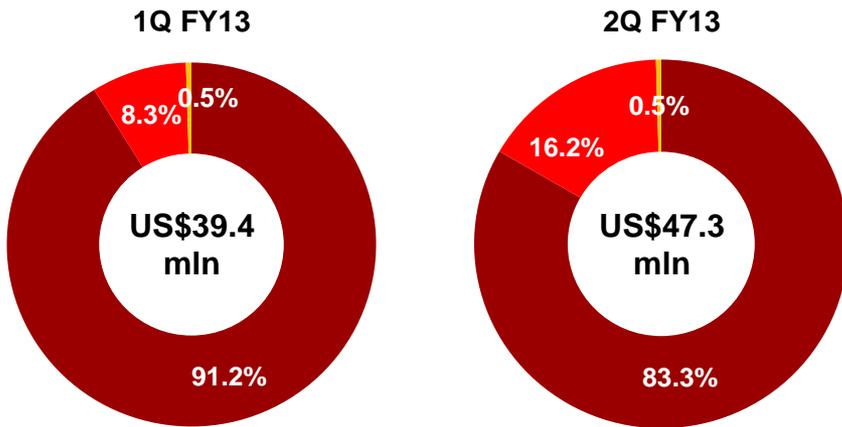
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# Integrated Business Model

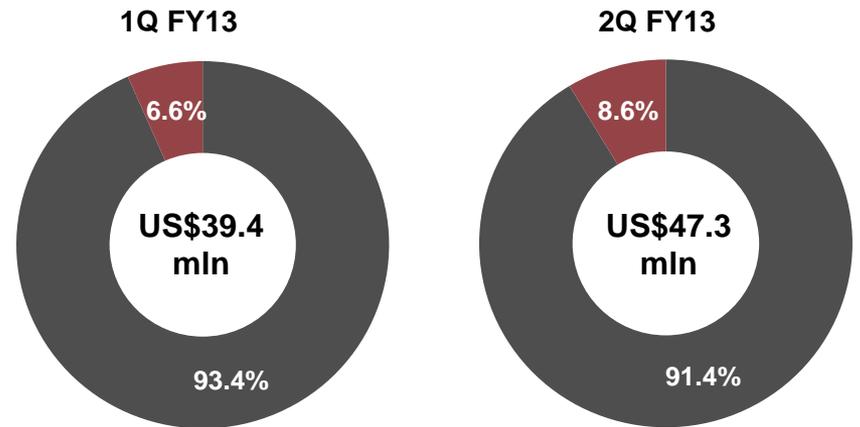
Coal Energy activities include all stages of coal production, waste dumps processing, coal beneficiation and trading, the first two from the list being the key activities of the company



Sales by segments, \$US mln



Sales by Destination, \$US mln

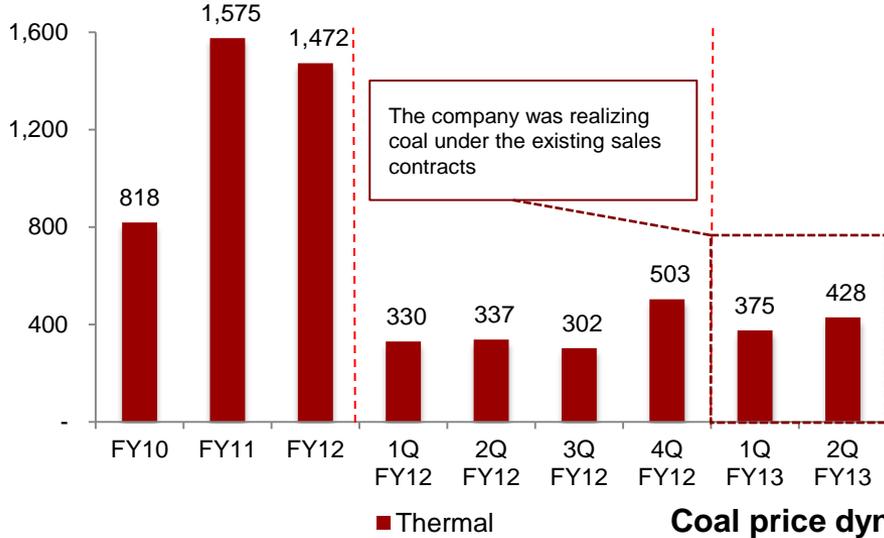


■ Coal from own mining and waste processing ■ Trading activities ■ Other activities

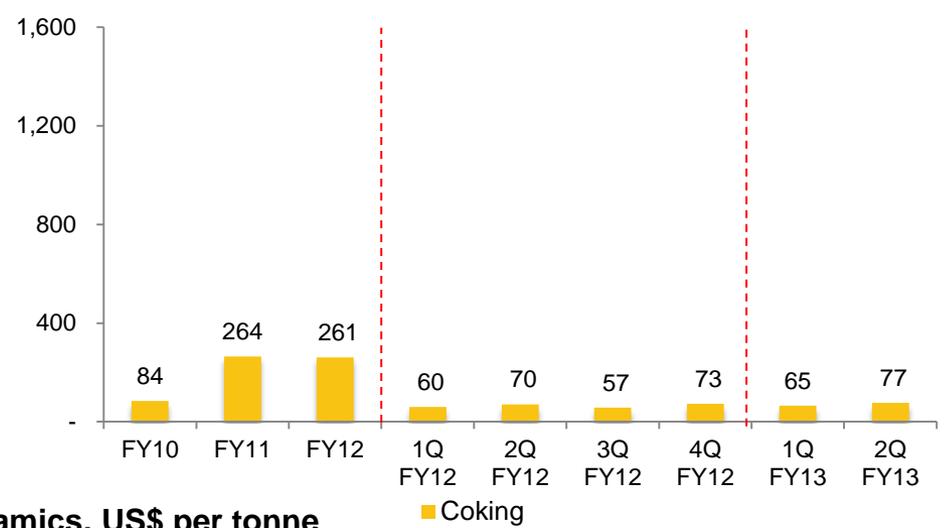
■ Domestic ■ Export

# Key Company Sales Indicators

### Thermal coal sales volumes, kt

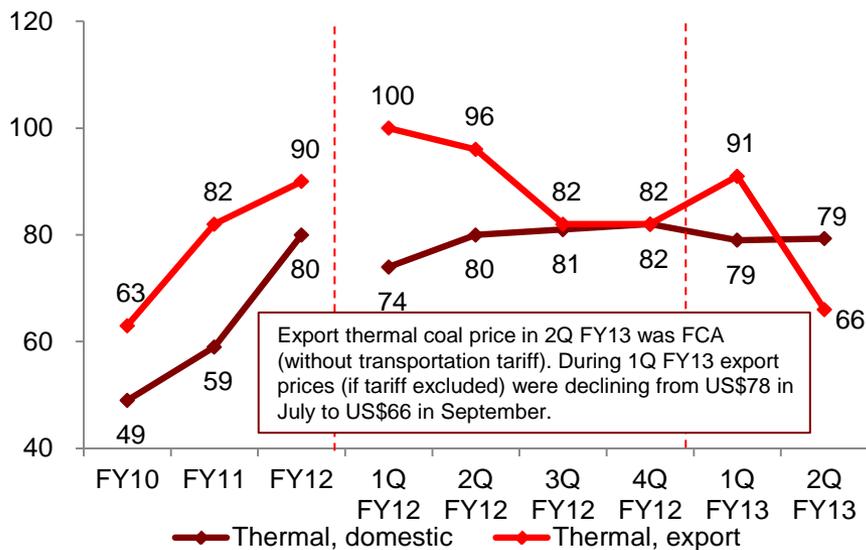


### Coking coal sales volume, kt

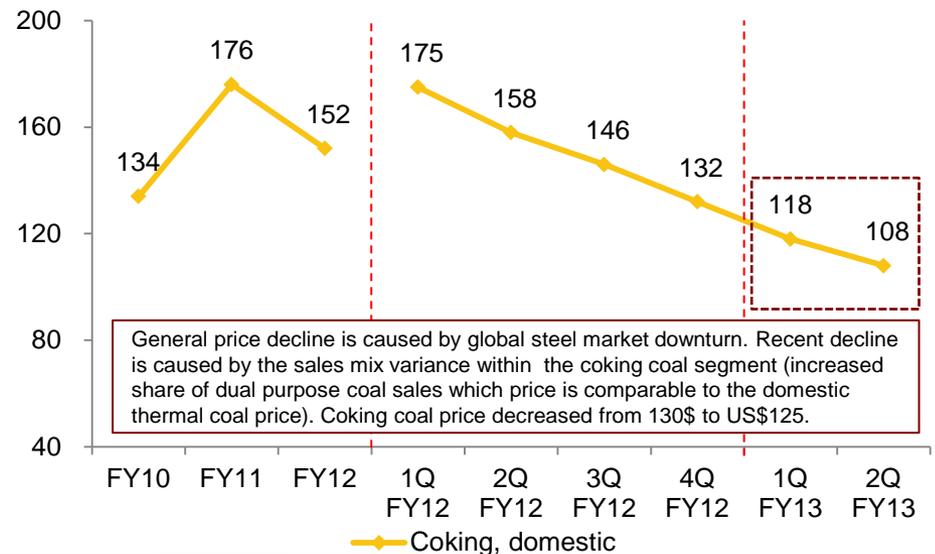


### Coal price dynamics, US\$ per tonne

#### Thermal coal price dynamics, USD/tonne:

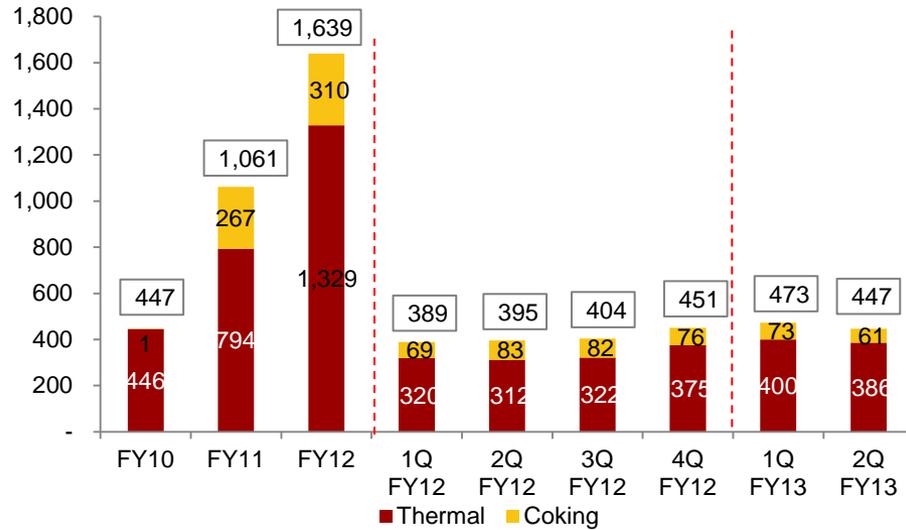


#### Coking coal price dynamics, USD/tonne:

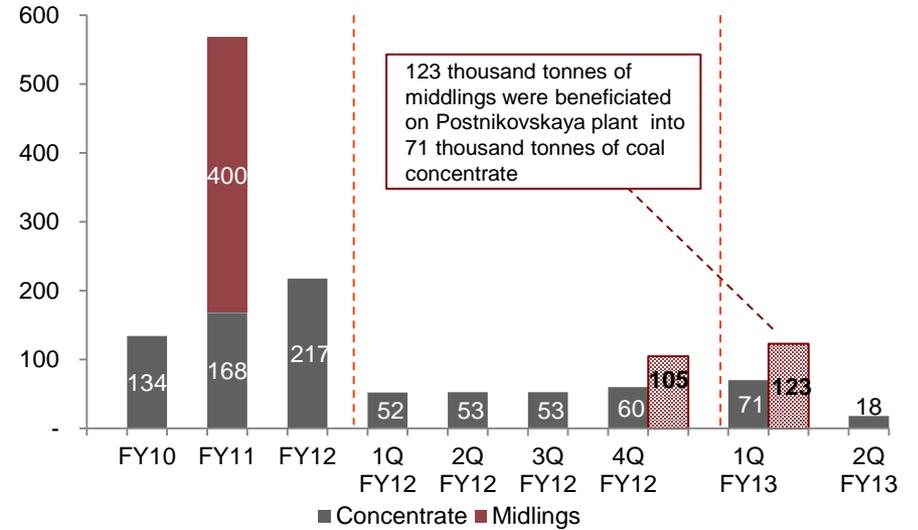


# Financial Performance Overview

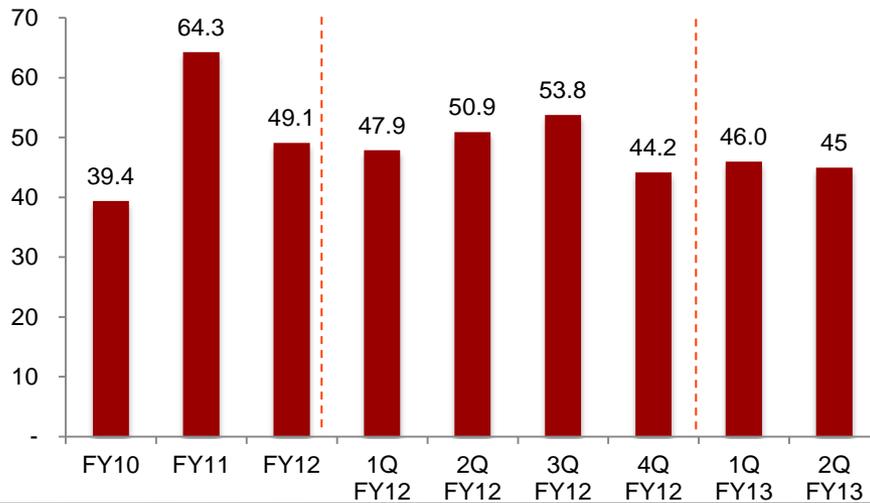
### Underground Mining, kt



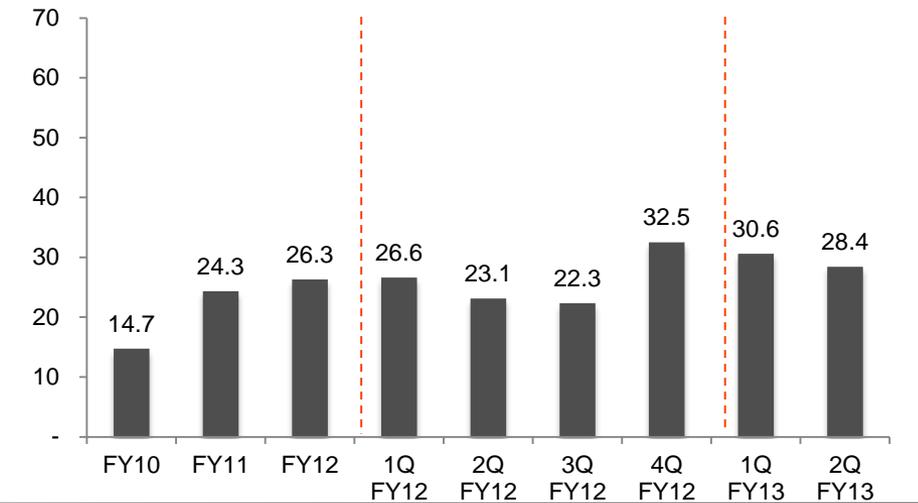
### Waste Processing, kt



### Cash Cost of Mining, US\$ per tonne

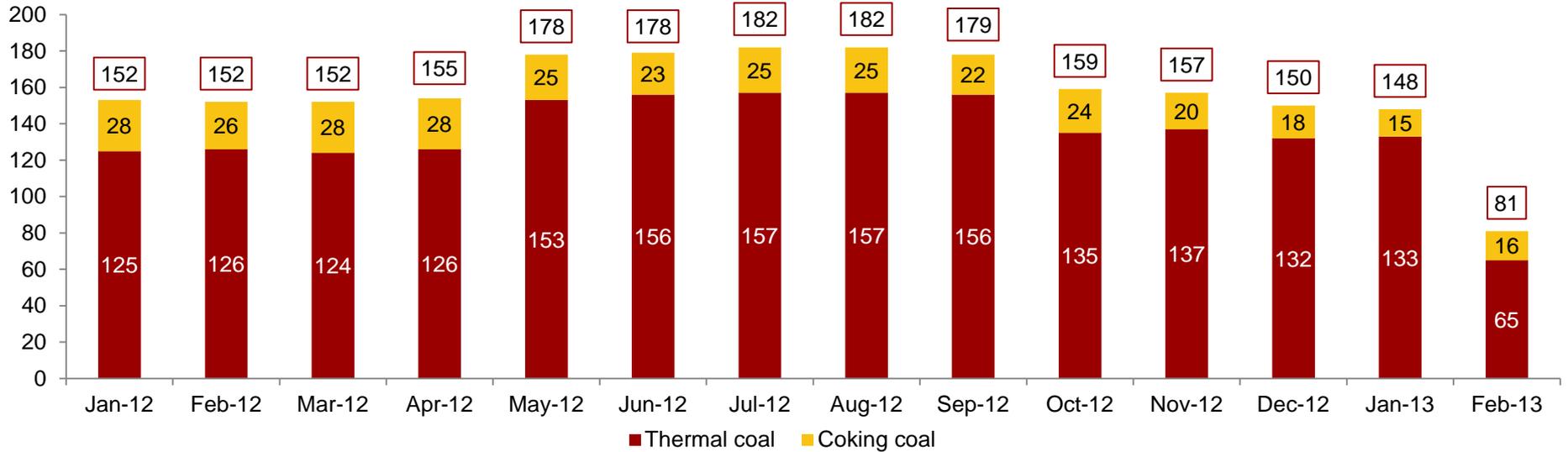


### Cash Cost of Waste Processing, US\$ per tonne of concentrate

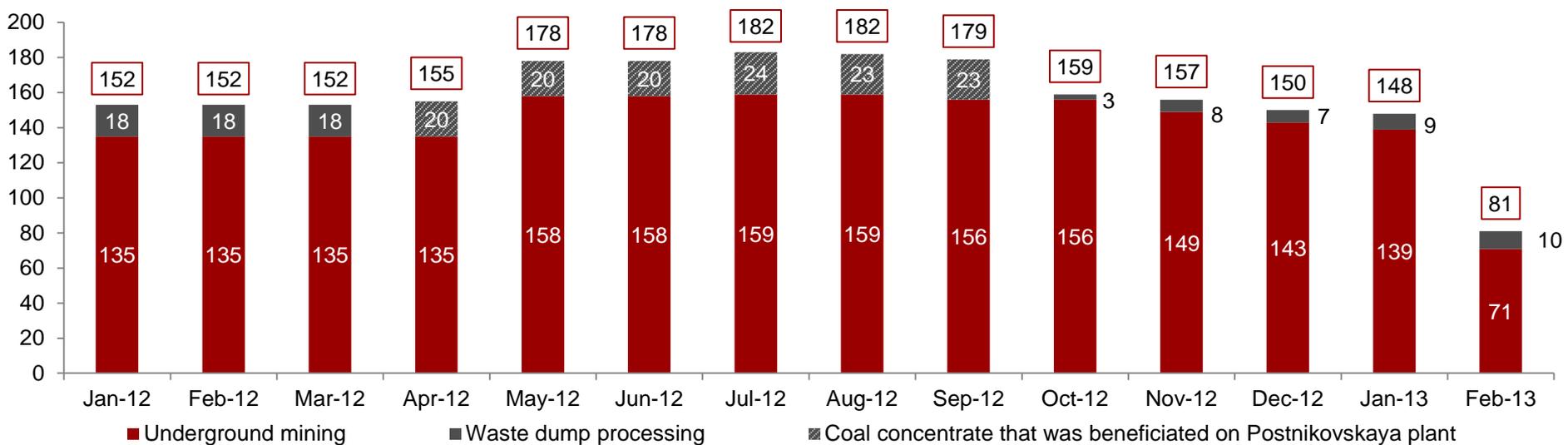


# Dynamics of Production Results

### Coal output by types of coal, kt



### Coal output by segments, kt



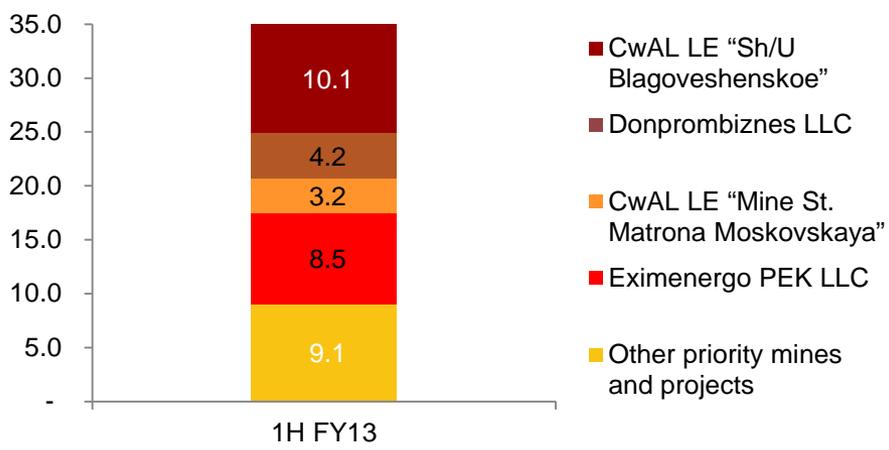
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## **4. Development Strategy for FY13**

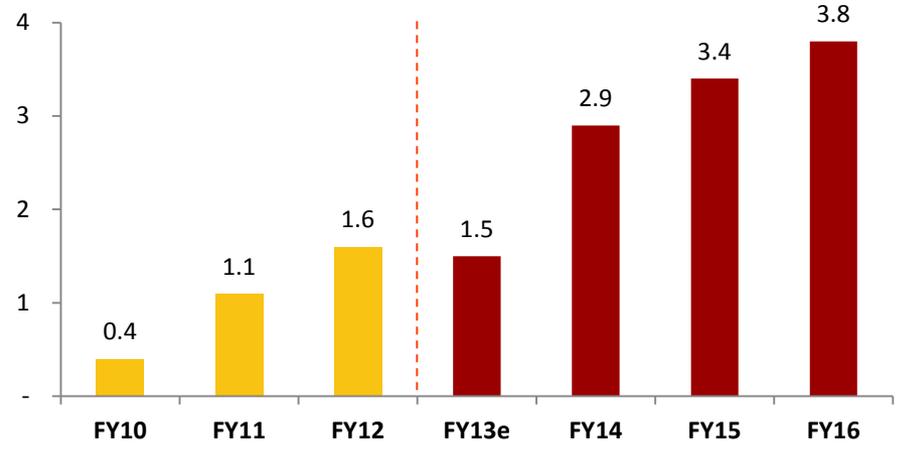
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# Development strategy for remaining FY13: keeping investments in the underground mining

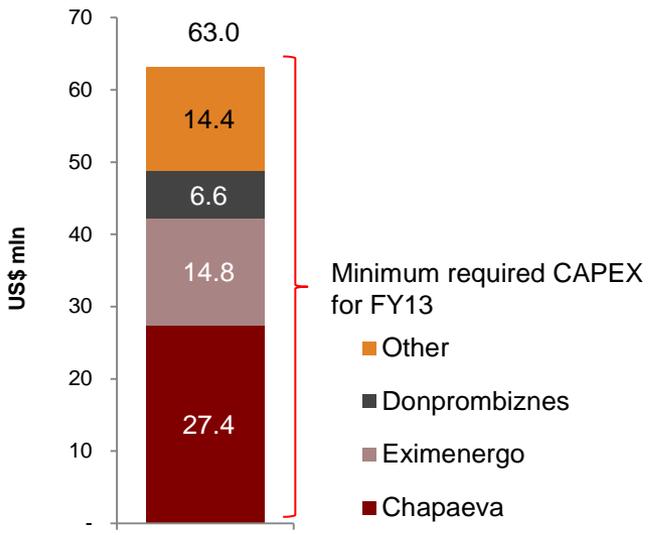
## CAPEX for 1H FY13



## Plan of Group's own coal production growth until FY16

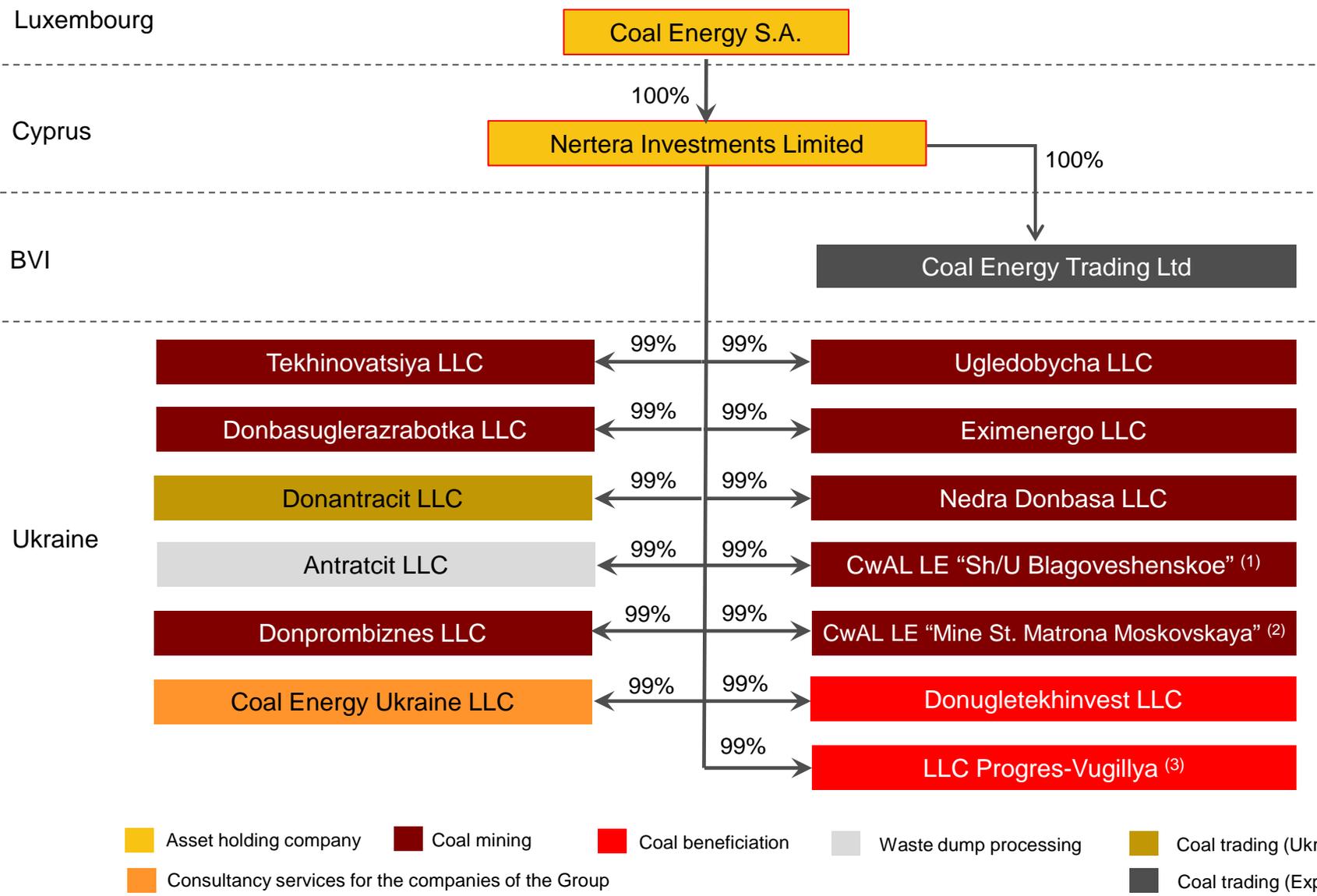


## Budgeted CAPEX for FY13, US\$ mln



- Based on the recently ceased sales opportunities and available coal on stock the Company is currently re-considering its production target for 2H FY13 to 1,5 mln. tonnes in order to avoid increase of its net working capital level. The production downgrade mainly relates to the thermal coal while coking coal production has been less affected. Nevertheless minimum production should not be lower than 240 tonnes p.q.
- Based on the sales opportunities of the Company for the 4Q FY13 and further we consider the situation as temporary. Any increase in sales in the short run is expected to be directed to the disposal of coal on stock. Further revival will allow to increase production volumes to the previous levels. Hence production targets for FY14-FY16 remain unchanged
- The Company continues its investment program into the priority mines as declared previously. All the declared investments in 1H FY13 were fulfilled on time. Timing of realization of the new investments is important
- CwAL LE Sh/U Chapaeva remains the key investment target for the Company. Launching of the new longwalls will be postponed to October 2013 based on the above reasons. Additionally the Company sees opportunities in mechanization of its coking coal mines based on the governmental plans to support the metallurgic industry
- Development strategy will depend on FY13 operating results and working capital development

# Appendix 1. Legal Structure



- Asset holding company
- Coal mining
- Coal beneficiation
- Waste dump processing
- Coal trading (Ukraine)
- Consultancy services for the companies of the Group
- Coal trading (Export)

Source: the Group's data (1) Renamed CwAL LE Sh/U Chapaeva (2) Renamed CwAL LE Novodzerzhynskaya mine (3) LLC Progres-Vugillya is a special purpose company recently incorporated into the Company for the specific EBRD financing purpose of the construction of a new beneficiation plant and other purposes as the case may be.