Kuzbasskaya Toplivnaya Company

COAL: F.A.Q.

ANNUAL REPORT 2010

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ANNUAL REPORT 2010

APPROVED
By the Annual General Shareholders Meeting
of OJSC Kuzbasskaya Toplivnaya Company on 23 June 2011
(Protocol № n/a, 23 June 2011)

PRELIMINARY APPROVED
By the Board of Directors
of OJSC Kuzbasskaya Toplivnaya Company on 16 May 2011
(Protocol № 14/03, 16 May 2011)

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THE COMPANY TODAY

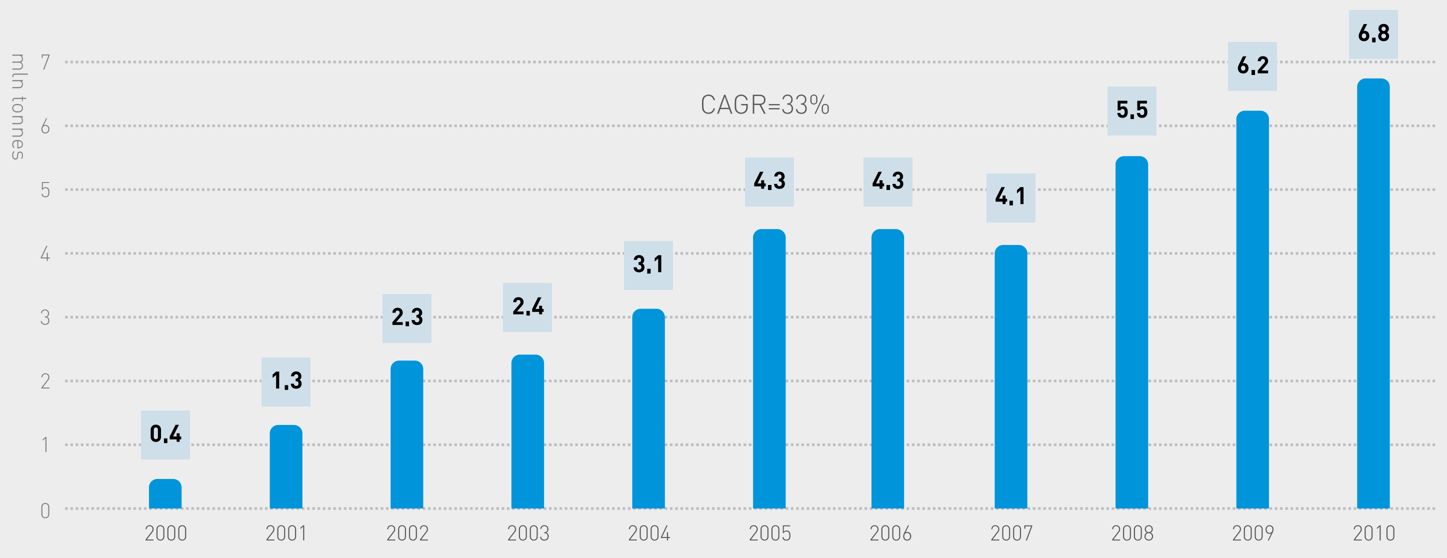
Kuzbasskaya Toplivnaya Company OJSC (KTK or the Company) is one of the fastest growing thermal coal producers in Russia. The Company, including a new enrichment plant, produced 6.8 million tonnes of coal in 2010, making it the seventh largest producer of thermal coal in Russia. The Company, which mines coal in the Kemerovo Region, had JORC resources of 402 million tonnes as of December 31, 2010, including 185 million tonnes of probable and proved reserves.

The Company was founded in 2000 on the initiative of the Kemerovo regional administration to provide coal to residential customers and public utilities.

Over the subsequent decade the Company launched three open-pit mines: Karakansky-South, Vinogradovsky and, in 2008, Cheremshansky, with combined design capacity of 11 million tonnes per year. The Company in 2010 launched its first enrichment plant, Kaskad, with capacity of 2 million tonnes of coal per year.

The Company produces coal by open-pit mining, which is generally safer than underground mining. Kuzbasskaya Toplivnaya Company now has modern, developed infrastructure that will enable it to achieve design capacity without major capital outlays. The mines, integrated office complex and machinery maintenance and service centers are all within about 5 km of one another, making operations more efficient and significantly reducing in-house transport costs. The Company produced 43.2 million tonnes of coal in its first decade, with output growing by an average of about 33% per year. The Company produces D-rank coal in three varieties: raw, sorted and, starting in 2010, enriched. In addition to marketing its own coal on the domestic market, the Company exports it and resells coal supplied by other producers.

Kuzbasskaya Toplivnaya Company coal production



Source: Kuzbasskaya Toplivnaya Company OJSC

The Company also includes the following subsidiaries:

> **LLC Meret Freight Forwarding Company (TEKM)**, which has its own fleet of locomotives, more than 70 km of railroad approach lines and loading and sorting depots, carries 100% of the coal mined at the Company's pits to the RZD – Meret railroad junction and provides similar services to neighboring coal mines.

> **OJSC Kaskad-Energo**, a generating company based in Anzhero-Sudzhensk, Kemerovo Region, is a reliable supplier of thermal energy and electricity to the local housing and utilities sector, social infrastructure and industrial enterprises.

> **CJSC Kaskad Management Company**, Kuzbasskaya Toplivnaya Company's export agent, also resells third-party coal and provides export support services to other companies.

> **LLC Kaskad Geo** manages Kuzbasskaya Toplivnaya Company's land resources.

The largest retail coal distribution network in Western Siberia:

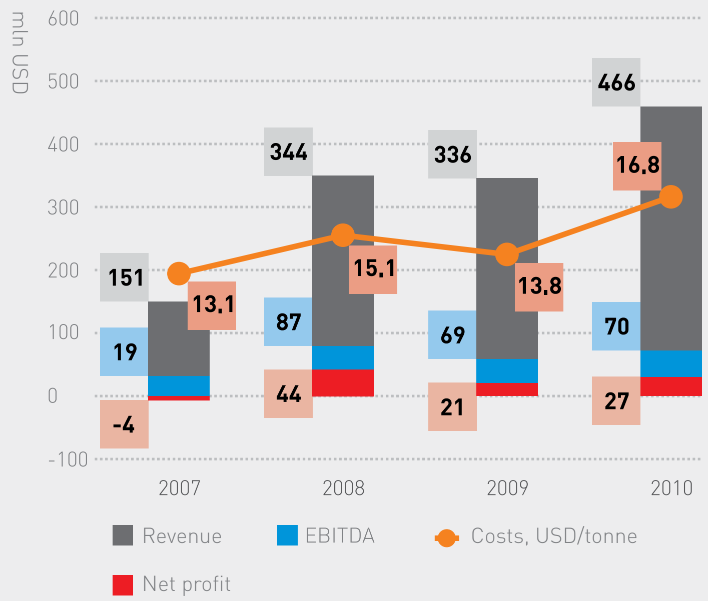
> **OJSC Kuzbasstoplivosbyt** – retail coal sales in Kemerovo Region

> **LLC Transugol** – retail coal sales in Omsk Region

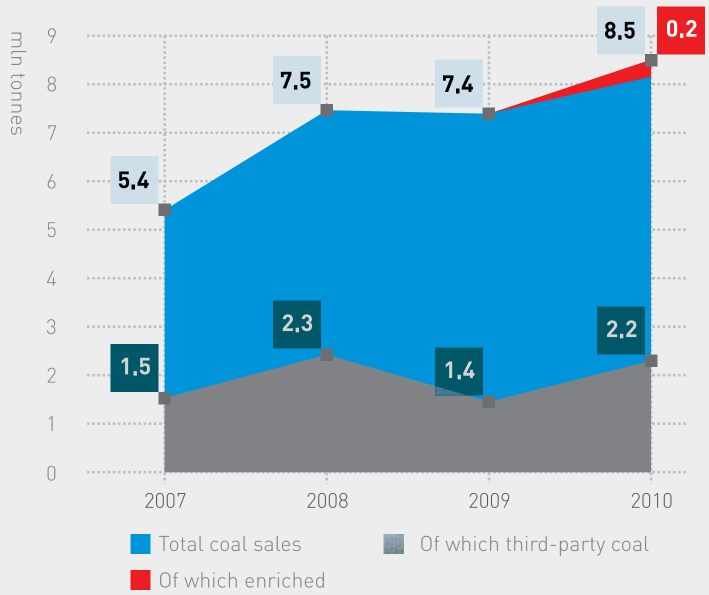
> **LLC Novosibirsk Fuel Corporation** – retail coal sales in Novosibirsk Region

> **OJSC Altay Fuel Company** – retail coal sales in Altay Territory.

Key financial results



Key operating results



Source: Kuzbasskaya Toplivnaya Company OJSC

The IPO increased the free float to

35.3%

The IPO raised about

USD 97 mln

not including related expenses

The Company was valued at

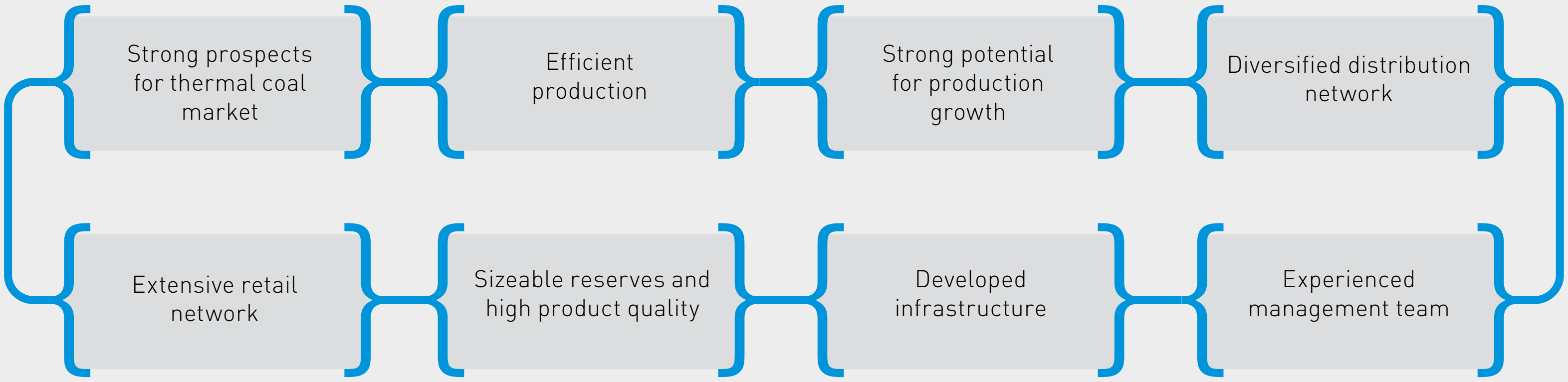
USD 645 mln

after IPO

Kuzbasskaya Toplivnaya Company carried out an initial public offering in April 2010, placing 14 858 955 new shares and 10 868 158 shares held by the Company's controlling shareholders at a price of USD 6.50 per share. The IPO raised about USD 97 million, not including related expenses, and valued the Company at USD 645 million. The IPO increased the free float to 35.3%. At the end of 2010, following a slight decline, the share price in roubles was up 8% from the IPO price.

The Company's shares are listed on the RTS and MICEX exchanges under the symbol KBTK.

Investment highlights



Kuzbasskaya Toplivnaya Company is the first, and so far only, public and independent (not part of a major energy group) thermal coal producer in Russia.

MESSAGE FROM THE GENERAL DIRECTOR

Igor Prokudin

“Coal production grew 11% to 6.8 million tonnes in 2010.”

Dear shareholders, clients, partners and colleagues,

I am very pleased to present Kuzbasskaya Toplivnaya Company's annual report for 2010, our first as a public company. Last year the Company continued to pursue its strategic development plans and achieved strong operating and financial results.

We are, above all, pleased with the Company's production results, and can report that we have met all of our operating targets to the kilogram.

Coal production grew 11% to 6.8 million tonnes in 2010, and sales increased by 15% to 8.5 million tonnes. Exports surged 39% to 3.7 million tonnes, increasing their share of total sales to 44% from 36%. The export growth fuelled a 56% increase in resale of third-party coal.

The Company worked steadily throughout the year on improving the quality of its coal and increased the proportion of high value-added product in total sales. Sorting with mobile crushing and screening units grew by 33% compared to 2009 and reached a record 4.1 million tonnes.

We completed construction of and launched the Kaskad enrichment plant, with annual capacity of 2 million tonnes, in the third quarter of 2010, exactly on schedule. This enabled the Company to begin processing diluted run-of-mine and high-ash coal, which was previously dumped as a production loss. The new plant produced 0.2 million tonnes of enriched coal in 2010.

We are now making preparations to build a second enrichment plant with annual capacity of 3.6 million tonnes, which is to be launched at the Vinogradovsky mine in 2012, and finalizing project development for a third plant with capacity of 4.5 million tonnes per year, to be launched at the Cheremshansky mine in 2013.

The Company consistently met targets for overburden removal in 2010 and the stripping ratio of 7.3 was within our forecasts.

We continued to modernize and expand our fleet of mining and transport equipment, giving preference to new, high performance equipment from the world's leading companies. These efforts accounted for 40% of the investment budget for 2010. In 2011, we intend to acquire options to purchase mining machinery and equipment in order to guarantee delivery on schedule and as a hedge against potential price fluctuations in future.

An important development in 2010 was the formation of LLC Kuzbass Transport Company, a joint venture with a leading Russian freight carrier. The acquisition of a 45% stake in this company has enabled us to secure coal transport services at a price that will be fixed for a period of 10 years, based on the lease rate per car. It will also guarantee constant availability of cars for export coal amid a market shortage caused by the transfer of Russian Railways' (RZD) car fleet to the First Freight Company and Second Freight Company. Kuzbass

Consolidated revenue grew 33% to 14.2 billion roubles in 2010. EBITDA amounted to 2.1 billion roubles and net profit rose to 0.8 billion roubles.

Transport Company operated a fleet of 2 200 cars at the end of 2010, compared to 1 400 at the end of the first half of the year. The Company plans to expand its fleet to 5 500 cars in 2011-2012 in order to fully meet Kuzbasskaya Toplivnaya Company's current export needs.

We are also investing continually in our own railroad infrastructure, which carries coal from our mines to RZD's public lines. In 2011 we plan to modernize our Uba sorting depot to expand its capacity and accelerate turnaround of rolling stock.

Another major development was Kuzbasskaya Toplivnaya Company's IPO in April 2010, a milestone that has lifted the Company to a new level of development. The proceeds from the placement of shares among a broad circle of investors were used to finance the construction of the enrichment plant, as well as to reduce and optimize the Company's debt portfolio, which included a large proportion of expensive loans raised in 2009.

The Company now has no problems with raising credit resources. The status of a public company, transparency, rigorous fulfilment of obligations and a low net debt/EBITDA ratio have helped us to build a high level of trust with banks and enable us to count on low borrowing costs. The Company pursues a conservative financial policy and in future we do not intend to exceed a net debt/EBITDA ratio of 2. At the end of 2010 this ratio stood at just 0.8.

The Company's achievements in 2010 also included strong financial results.

Consolidated revenue grew 33% to 14.2 billion roubles in 2010. EBITDA amounted to 2.1 billion roubles and net profit rose to 0.8 billion roubles.

Operating costs per tonne of coal amounted to 509 roubles, which was within the scope of management forecasts. The Company's costs are low compared to the majority of its Russian and international competitors. Controlling costs has been and will remain one of our chief priorities.

The Company's management and all employees continue to put an emphasis on compliance with personal and industrial safety regulations. A core principle of our operations is that no amount of coal is worth a human life. We also believe that coal production should not harm the environment, and we are doing all we can to meet this goal. We believe that these values will enable us to build a socially responsible business, ensure the Company's competitiveness and create a foundation for its sustainable growth.

Our goals are ambitious but realistic, and I am confident that the Company has the experience, resources and sense of responsibility to achieve them. I have no doubt that the road ahead will not be easy, but I believe that all difficulties can be overcome with the right team. We have such a team – professional, dynamic, efficient, innovative and responsible.

I would like to thank each member of this team for their daily contribution to the Company's development, dedication to their work and commitment. I would also like to thank each member of the Board of Directors and the directors of the companies that are part of our group for their outstanding work and contribution to the achievement of our goals. Without you, it would not be possible to implement either our short-term plans or the long-term strategy.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Vadim Danilov

“The Company raised USD 97 million with the IPO, which gave it a market capitalization of USD 645 million.”

Dear ladies and gentlemen,

In 2010 Kuzbasskaya Toplivnaya Company laid another solid stone in the foundation of our future development. This was made possible by the deliberate and well-timed actions of management in all areas of the Company's operations. The Company carried out a successful IPO, launched a first enrichment plant at the Cheremshansky mine exactly on schedule, and formed a joint venture to guarantee a supply of rolling stock for our export shipments.

The IPO took place amid a downturn on the world equities and financial markets, following the downgrade of sovereign credit ratings for Greece, Portugal and Spain. Most other planned IPOs of Russian companies were either cancelled or postponed, but we managed to almost fully meet our targets.

Our Company's IPO was the first placement of shares by a Russian coal company that produces exclusively thermal coal.

We believe that the success of the offering was the result of the strong operating and financial results that the Company has achieved in recent years: relatively low net debt level, low coal production costs, tight control over costs, sales sustained at pre-crisis levels, strong market positions and the high quality of our product.

The Company raised USD 97 million with the IPO, which gave it a market capitalization of USD 645 million. The Company was valued at a ratio of 6.6 to anticipated EBITDA for 2010, while at coal companies Raspadskaya and Belon this ratio was respectively 4.4 and 5.5 at the time.

We are also pleased with the economic effectiveness of the IPO and would like to express our appreciation to the managers of our offering, investment banks Troika Dialog and UBS.

With the public offering we have expanded our investor base to include high-calibre Russian and foreign shareholders, including major companies such as Genesis, Capital International, East Capital and TKB BNP Paribas Investment Partners, who share our confidence that Kuzbasskaya Toplivnaya Company has a brilliant future ahead.

Following the IPO, the Company's shares began to trade on the MICEX and RTS exchanges, where they are currently on the B listings. Our shares have also been included in the RTS-2 and MICEX SC small and mid-cap indexes.

The Company's shares, after dipping briefly, closed 2010 up 8% from the IPO price.

The turnover for our shares on both exchanges in the period from the start of trading to the end of the year amounted to about 1.5 million, or 4% of the total free float. The relatively low liquidity last year was due to the fact that the largest investors who bought into the IPO not only did not sell their

F.A.Q.

{?} What role does coal play in the global power sector?

{v} Coal generates about 40% of the world's electricity, and in many countries coal makes up more than half of the fuel used by power generating companies. The figure is 94% in South Africa, 93% in Poland, 81% in China, 76% in Australia, 71% in Israel and 68% in India; in Japan, which does not mine any coal at all, 25% of electricity is produced with coal. Modern technologies for burning coal make it possible to achieve a low level of emissions that meets the strictest environmental standards in the world.

Experts expect that coal will not lose its appeal as an energy resource in future and that it will become ever more widely used to generate power. World coal consumption is forecast to rise by 56% in the period from 2007 to 2035, from 3.329 billion tonnes of oil equivalent to 5.195 billion tonnes of oil equivalent. Coal is a unique resource that people will need for a long time to come.

Countries with largest share of coal in electricity production

2007 **+56%** 2035

Forecast for growth of coal consumption for energy production

The turnover for our shares on both exchanges in the period from the start of trading to the end of the year amounted to about

1.5 mln

which is

4%

of the total free float

shares, but even increased their holdings with purchases on the secondary market.

From the very start of trading, our shares drew the attention of analysts at investment firms. In addition to the managers of our IPO, five other brokerages began to provide regular analytical coverage of our shares in 2010. We thank the research teams at these seven companies for their assessment of our performance and development prospects. We expect that analytical coverage will expand further in 2011.

Management has also made corporate governance issues a priority. Two independent directors were welcomed to the Board of Directors last year, and the board's audit, and human resources and remuneration committees continued their work. A strategy and budget committee will be set up in 2011. The Company abides by the Corporate Code of Conduct of Russia's Federal Securities Commission, as well as our own code, which was developed and adopted last year. Although there is still much left to do, we see improving corporate governance as a key element in the performance of our business.

As the Company fulfils its strategic plans, expands production and improves efficiency, we will consider the possibility of issuing depositary receipts on major international exchanges in order to realize the potential target price of our shares, which we believe is in a far higher range than current prices. According to our development plant, this may happen in two to three years.

In conclusion, on behalf of the Board of Directors, I express the hope that this first annual report from Kuzbasskaya Toplivnaya Company as a public company, as many subsequent ones, will continue to strengthen your confidence in the Company and belief in its strong investment potential.

HIGHLIGHTS OF 2010

December

> Kuzbasskaya Toplivnaya Company launches a new, unique shop for heavy-duty machinery at its Vinogradovsky mine at a total cost of 178 million roubles excluding VAT. The building, measuring 100x36 meters with a height of 16 meters, is intended for maintenance, diagnostics and repairs of mine dump trucks. The metal structure of the building was designed and built using the latest technology to calculate optimal use of materials and load distribution on columns and foundation. The building, constructed with innovative technology and materials, was designed to provide a comfortable work environment. Personnel facilities, which alone cover 680 square meters, have all the requisite amenities, including a men's changing room for 148 people, women's changing room for 70, showers and leisure rooms.

> The Company's shares are included in the RTS-2 index.

September

> The Board of Directors approves Kuzbasskaya Toplivnaya Company's Code of Business Conduct.

> OJSC Nikoil Registrar is appointed registrar based on a decision by the Company's Board of Directors following the Russian Federal Financial Markets Service's decision to annul the license of OJSC Central Moscow Depository.

August

> Kuzbasskaya Toplivnaya Company units take delivery of new equipment as part of the Company's investment program. Vinogradovsky mine launched a new Caterpillar 24 M grader. Earlier, in June-July 2010, the Company's mines put into operation two Komatsu WA 700 loaders and one Komatsu WA 600 loader. In addition, in the period from the start of the year, the Company's units have acquired six Komatsu D-375 bulldozers, two Komatsu excavators PC-1250, nine Belaz 7555 B and five Belaz 75131 trucks. Investment in modernization and construction enables the Company to increase the efficiency of coal mining and processing and improve working conditions and occupational safety.

August

> The Kaskad enrichment plant, with annual capacity of 2.0 million tonnes, is launched at the Cheremshansky mine in a ceremony attended by Kemerovo Region Deputy Governor Andrey Malakhov and Kuzbasskaya Toplivnaya Company General Director Igor Prokudin. Kaskad, the Company's first enrichment plant, will make it possible to significantly improve the quality and increase the volume of enrichment of coal mined at Cheremshansky. The Company plans to open two more plants at its mines by 2013, enabling it to process and enrich more than 10 million tonnes of coal per year. Kaskad was built in just eight months and investment in construction totalled 772 million roubles (not including VAT) in 2010. The opening of the plant is another step in the implementation of the Company's strategy to improve the quality of its product.

> Kuzbasskaya Toplivnaya Company's Board of Directors adopts a Regulation on the Human Resources and Remuneration Committee. The Board elects Yury Fridman (chairman), Eduard Alexeenko and David Stewart to sit on the committee.

July

> Kuzbasskaya Toplivnaya Company signs a new collective agreement with the miners' union for the period of 2010-2012. The agreement enshrines the social benefits and guarantees provided to company employees and their family members, as well as to all social groups stipulated in the Federal Sectoral Agreement for the Coal Industry.

> Kuzbasskaya Toplivnaya Company acquires 25% of OJSC Kuzbasstoplivosbyt, thus consolidating 100% of the subsidiary. Kuzbasstoplivosbyt sells coal to retail customers, social infrastructure and utilities, and provides coal storage and delivery services in the Kemerovo Region.

June

> The Company acquires 45% of LLC Kuzbass Transport Company in a deal that will enable it to secure coal transport services at a price that will be based on the lease rate per freight car and will be fixed for a period of 10 years, in exchange for firm guarantees to utilize the company's freight car fleet.

May

> The Company's Board of Directors elects a new Audit Committee that includes David Stewart (chairman), Eduard Alexeenko and Yury Fridman.

> The Company's shares begin trading on the MICEX and RTS exchanges and are included in the B listing.

April

> The Company holds its annual general meeting, at which shareholders vote to pay out dividends for 2009 totaling 253.2 million roubles, or 3 roubles per share, which amounts to 47% of net profit according to Russian accounting standards. Shareholders also elect a new Board of Directors that includes Vadim Danilov, Igor Prokudin, Eduard Alexeenko and independent directors David Stewart and Yury Fridman.

> The Russian Federal Financial Markets Service's regional division for the Siberian Federal District registers a new issue of 14.9 million common shares with par value of 0.20 roubles each.

> Kuzbasskaya Toplivnaya Company holds an IPO among Russian and foreign investors, raising about USD 97 million at a price of USD 6.50 per share. The IPO values the Company at USD 645 million.

February

> The Company holds an extraordinary general meeting at which shareholders vote to increase charter capital by placing additional shares.

> Kuzbasskaya Toplivnaya Company and the Kemerovo Region administration sign a socioeconomic cooperation agreement for 2010.

COAL MARKET REVIEW

Coal in the global economy

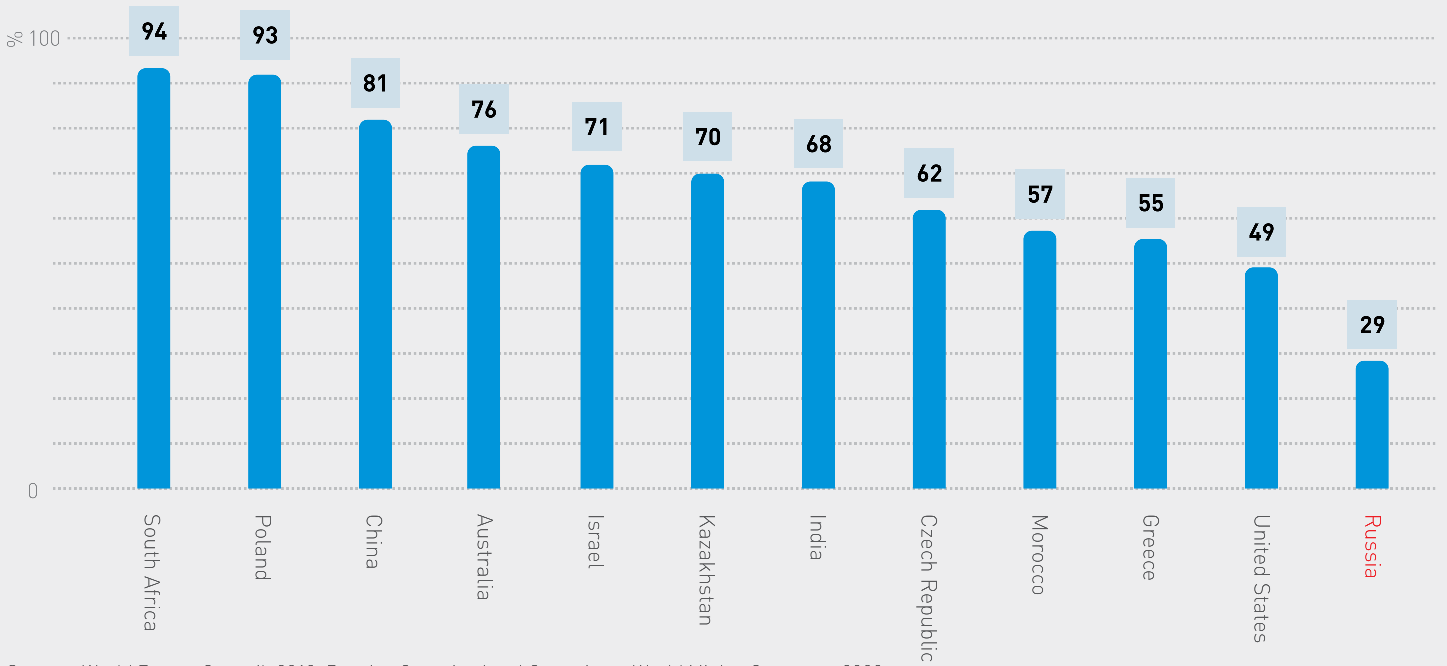
Coal is the oldest and most common fossil fuel used by humankind. Coal has various uses, but it is primarily used to produce heat and electricity (thermal coal) and in steel production (coking coal). More than 66% of the coal produced in the world is thermal coal.

Thermal coal was used to produce 41% of the world's electricity in 2008, and this figure is forecast to increase to 44% in 2030, according to the International Energy Agency. Coal is the primary fuel for electricity generation and will remain so for a long time to come.

The proportion of coal-generated electricity is highest in South Africa, Poland and China, where it exceeds 80%.

The use of coal in global energy consumption had been falling steadily until recently. Coal as a share of world electricity production plunged from 50% in 1960 to about 33% in 1970. This was in no small part due to the fact that coal was considered a dirty fuel, responsible for pollution and the release of greenhouse gases. Coal produces two times more carbon emissions than natural gas, for example, as it does not burn completely.

Coal as a share of electricity production by country in 2008



Source: World Energy Council, 2010; Russian Organizational Committee, World Mining Congress, 2009

Coal accounted for

29.2%

of global energy consumption in 2008

In shorter-term cycles, demand for coal grows during periods of high prices for oil and other energy resources, and vice versa.

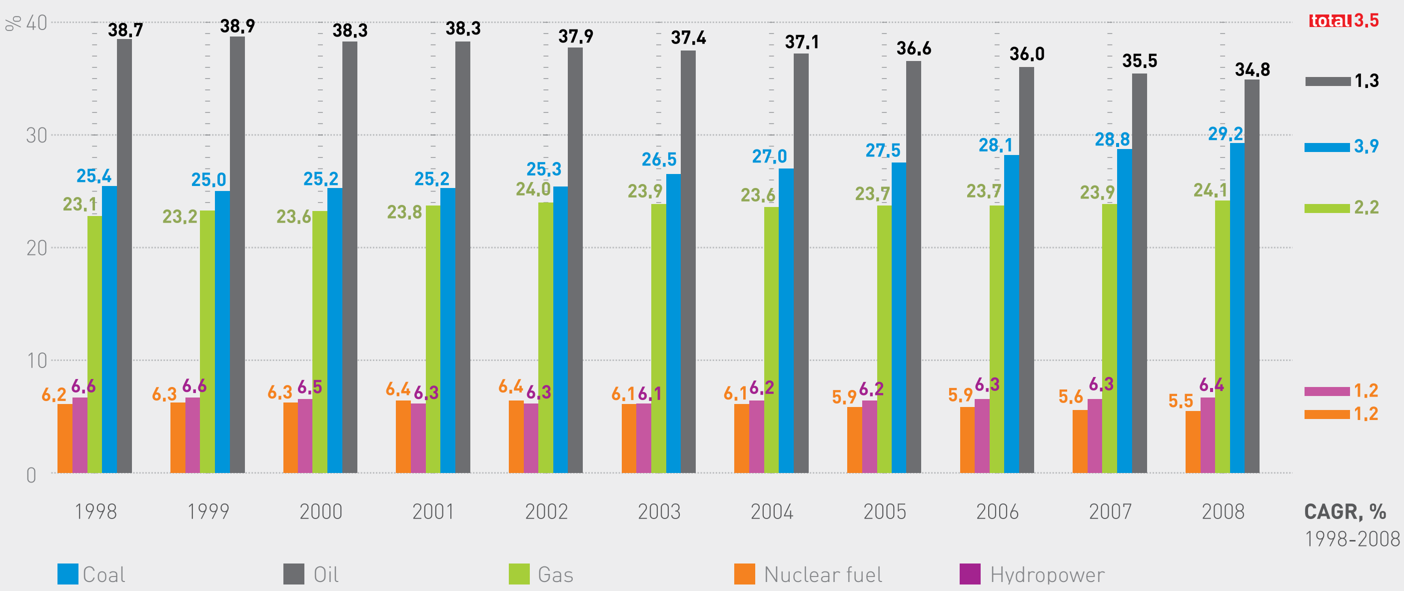
However, interest in coal has grown over the past two decades thanks to its relatively low price, the fact that there is no need to store waste as in the case of nuclear energy, and due to the emergence of new technologies to capture and process volatiles, including carbon dioxide.

Coal accounted for 29.2% of global energy consumption in 2008, which was 3.8% more than ten years earlier.

Given its importance in world electricity production, thermal coal also occupies an important position in world trade (imports supply 16% of total coal consumption) and in shipping.

Coking coal, unlike thermal coal, is used only in the iron and steel industry and its market situation changes along with fluctuations in the metals market.

World energy consumption by type of fuel



Source: Statistical Review of World Energy (BP, 2010)

Origin of coal

Coal is formed from accumulated plant matter that is protected from biodegradation, often by acidic water. The ideal circumstances for this process are found in bogs. The resulting peat is eventually covered and buried by sediment, under which it is compressed and metamorphosed into coal. The oldest coal is estimated to be 300 million to 400 million years old.

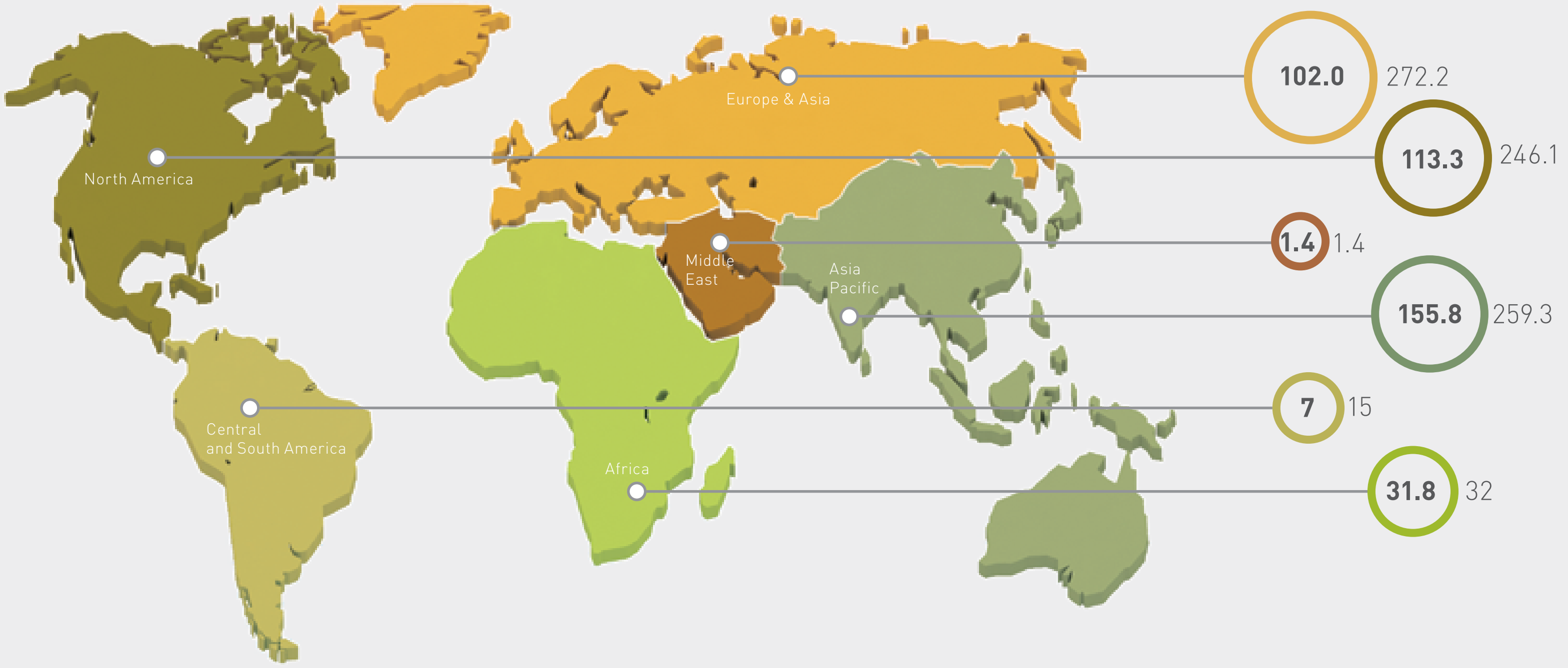
Classification of coal

In Russia, coal is classified by genetic and technological parameters (GOST 25543-88). This classification system is based on the degree of metamorphosis of the coal, determined by the average vitrinite reflectance. The other main classification parameters are content of volatiles and thickness of plastic layer.

Coal reserves

Studies show that the world has a great deal more coal than oil and natural gas. Furthermore, coal reserves are more broadly distributed by region than oil and natural gas.

Distribution of proved coal reserves by region at end 2009, billion tonnes (athracite and bituminous coal shown in circles)



Source: Statistical Review of World Energy (BP, 2010)

However, coal reserves are not distributed equally. Just ten countries hold more than 91% of the world's coal reserves.

Russian and international classification of main coal types

Coal type	Symbol	Group	Vitrinite reflectance, Ro, %	Volatiles content, Vdaf, %	Thickness of plastic layer Y, %	International equivalent
Brown	B	1B 2B 3B	0.2-0.39 0.2-0.49 0.3-0.59	>50 30-42 10-22		Thermal, low calorie (lignite)
Long-flame	D		0.4-0.79	>28	<6	Thermal, mid calorie (subbituminous/ bituminous)
Long-flame gas	DG		0.5-0.79	>30	6-9	Thermal, mid-high calorie (bituminous)
Gas	G	1G 2G	0.5-0.99 0.6-0.79	>30 >38	6-12 13-16	Thermal (mid-high calorie) / Semi-soft coking (bituminous)
Gas fat	GZh	1 GZh 2 GZh	0.5-0.79 0.8-0.99	>30 >36	>17 17-25	Semi-hard coking (bituminous)
Gas fat lean	GZhO	1 GZhO 2 GZhO	0.6-0.79 0.8-0.99	30-38 >30	10-16 10-16	Thermal (high calorie) / Semi-soft coking (bituminous)
Fat	Zh	1Zh 2Zh	0.8-1.19 0.8-1.19	28-36 >30	14-17 >18	Hard-coking (bituminous)
Coking fat	KZh	-	0.9-1.29	24-30	>18	Hard-coking (bituminous)
Coking	K	1K 2K	1-1.29 1.3-1.69	<28 <28	>13 >13	Hard-coking (bituminous)
Coking lean	KO	1KO 2KO	0.8-1.19 1.1-1.39	20-30 16-30	10-12 10-12	Semi-hard coking (bituminous)
Coking low-caking, low- metamorphosed	KSN	-	0.8-1.09	<28	6-9	Semi-soft coking / thermal, high calorie (bituminous)
Lean caking	OS	1OS 2OS	1.3-1.79 >1.7	<20 <20	10-12 6-9	Semi-hard coking (bituminous)
Meager low-caking	TS	-	1.4-1.99	<20	<6	Thermal, high calorie (bituminous)
Low-caking	SS	1SS 2SS 3SS	0.7-0.99 0.8-1.39 0.8-1.79	20-36 26-34 16-24	<6 <6 <6	Thermal, high calorie (bituminous)
Meager	T	1T 2T	1.3-2.09 1.5-2.59	12-18 8-12	<6 <6	Thermal, high calorie (bituminous)
Anthracite	A	1A 2A 3A	2.2-3.59 3.6-4.49 4.5	>10 >10 <15		High calorie (anthracite)

Source: GOST 25543-88, Chermetinfo, UBS

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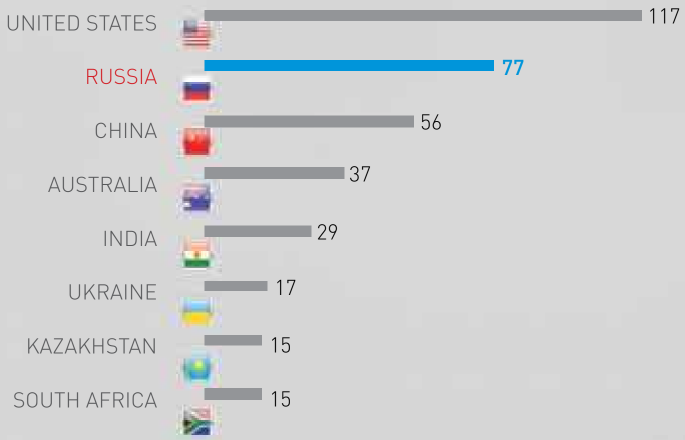
How long will the coal reserves of Russia and the world last?

The world's coal reserves will last much longer than its oil and gas, according to current data on reserves of natural resources. At current rates of production, coal will last more than 100 years. Russia has the second largest coal reserves after the United States, but it ranks only fifth by production. Russia's coal reserves will last more than 500 years. This offers Russia a unique opportunity to expand production and ensure its own energy security, as well as become the leading coal exporter in the world.

World reserves of key energy resources and their depletion period

Proved and probable reserves in bln tonnes of oil equivalent at end-2009; depletion period calculated as ratio of reserves to annual production in 2009

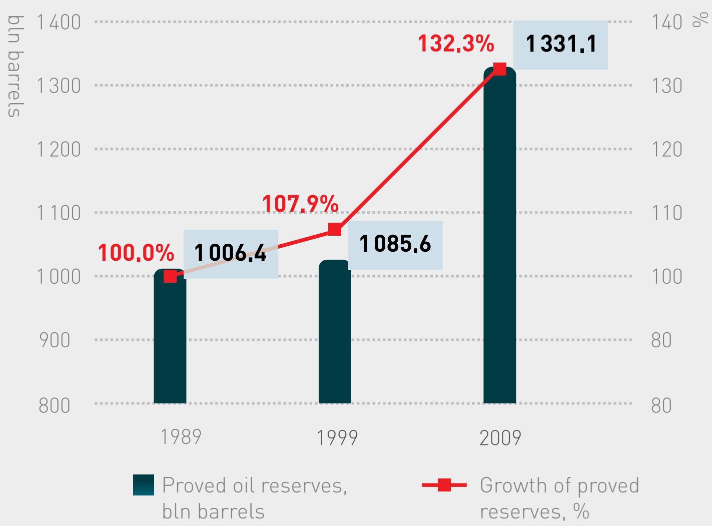
Countries with the largest coal reserves, bln tonnes of oil equivalent



Reserves and depletion compared to other fossil fuels

The rates of depletion of various fossil fuels can be compared using the reserves-to-production ratio. Based on current estimates of proved reserves of oil, coal and gas and the current rate of production, oil will run out first, in 46 years, and then gas in 63 years, while coal reserves will last 119 years. However, this method has its shortcomings, which can be illustrated with changes in proved global reserves of oil.

Changes in world proved oil reserves



Source: Statistical Review of World Energy (BP, 2010)

Coal production, exports and imports

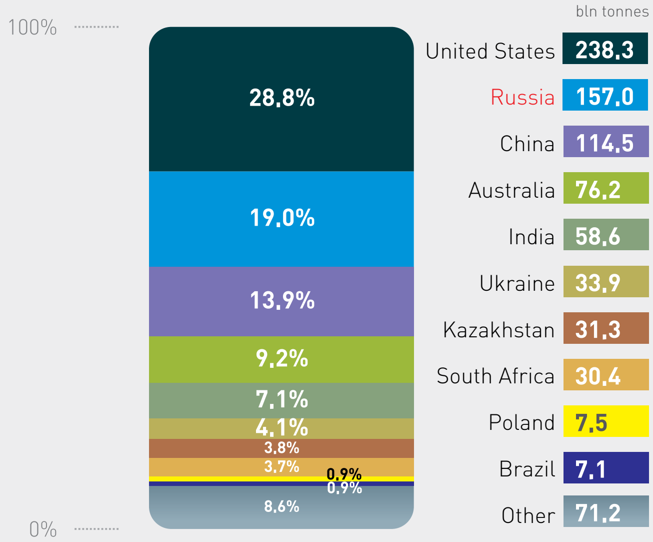
World coal production, including brown coal, totaled 6.9 billion tonnes in 2009, BP has reported. China has been the biggest producer for the past five years, accounting for slightly less than 45% of world output.

China, the world's largest coal producer and a big user of coal in electricity production, has one of the lowest reserves-to-production ratios, indicating that the biggest market for imported coal in the near future will be developing countries in South and East Asia. Russia, meanwhile, has vast coal reserves for the foreseeable future.

Two countries, Australia and Indonesia, account for more than half of global exports of thermal coal. Russia is third with a 13% share of global exports. Countries in South and East Asia – Japan, China, South Korea, India and Taiwan – account for more than half of global thermal coal imports.

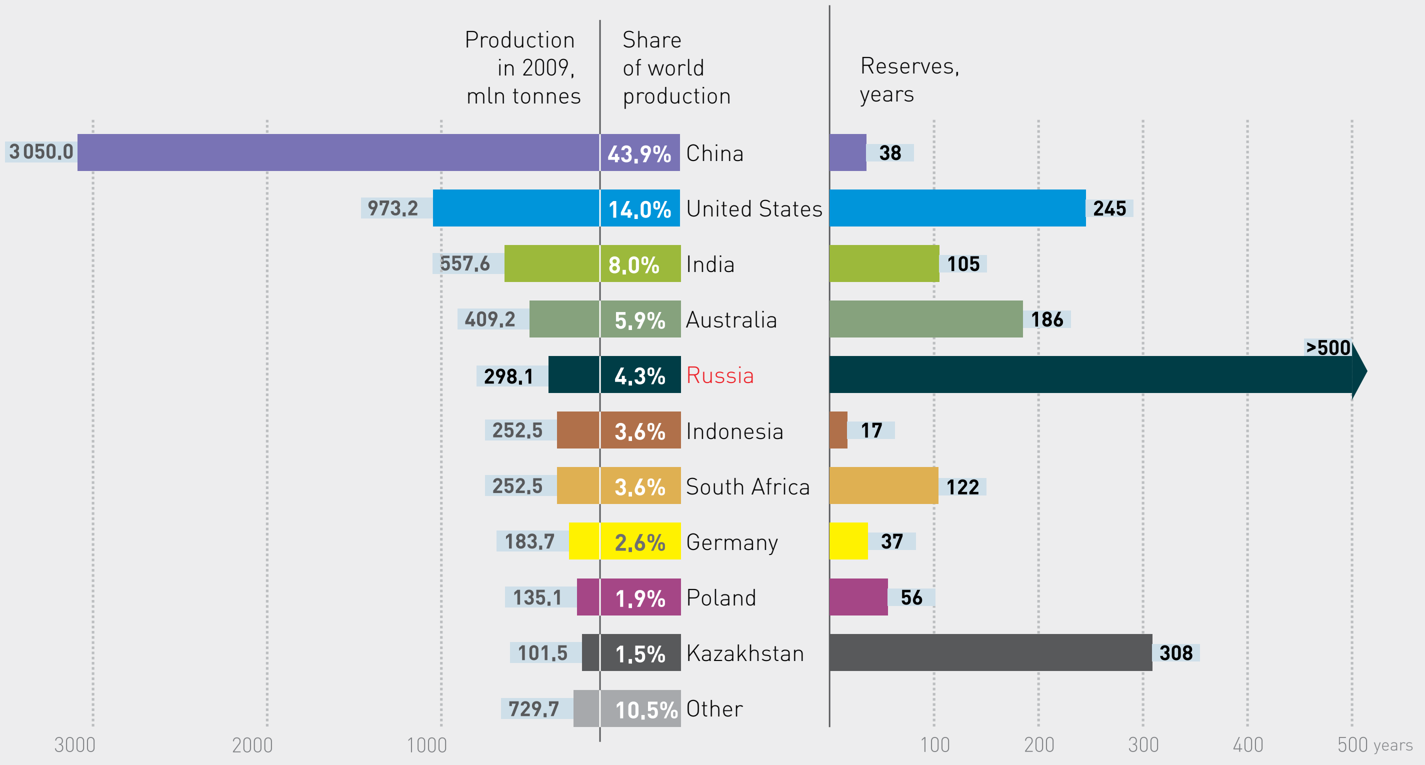
An International Energy Agency reference scenario forecasts that net imports will grow fastest in India and China, while net imports in the European Union, Japan and South Korea will remain relatively stable.

Countries with the largest coal reserves



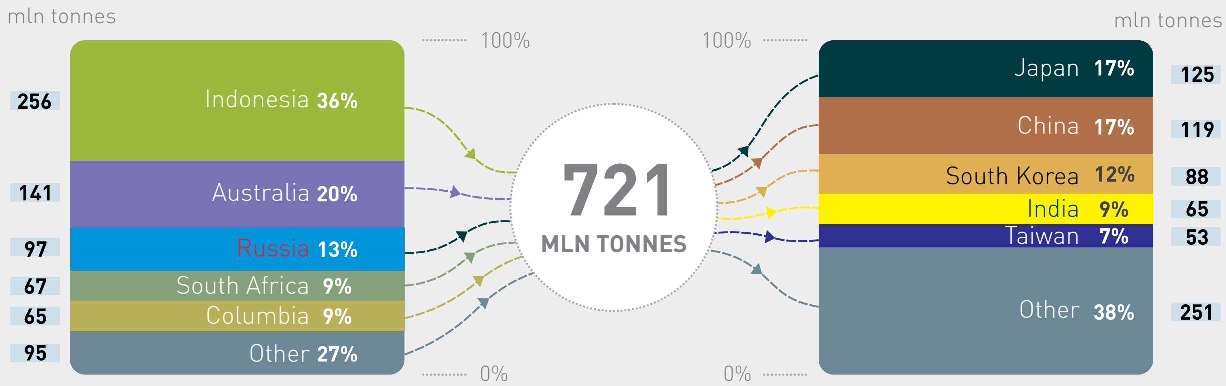
Source: Statistical Review of World Energy (BP, 2010)

World's largest coal producers



Source: Statistical Review of World Energy (BP, 2010)

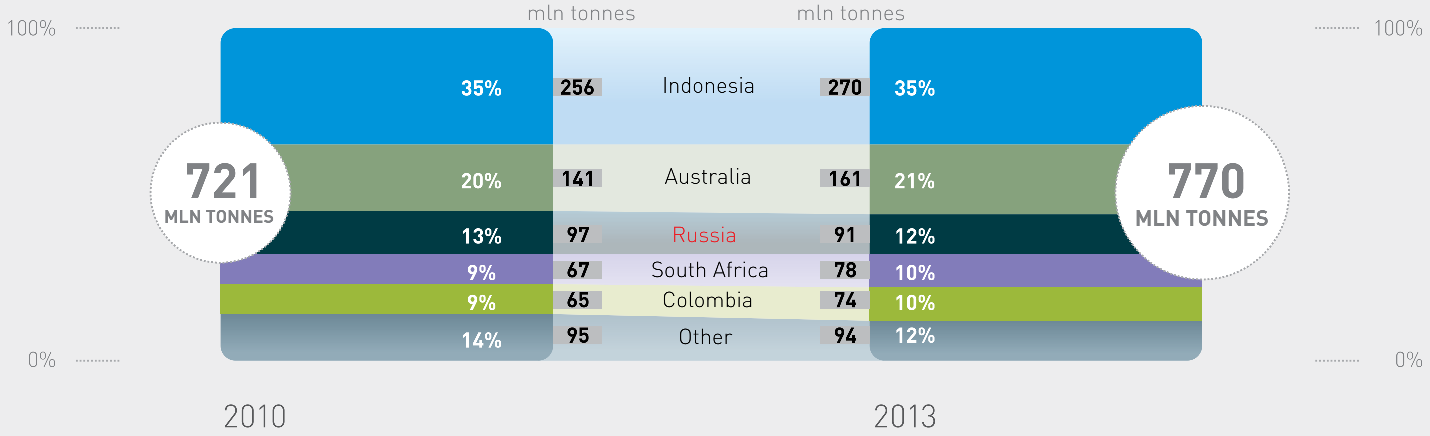
Largest thermal coal exporters and importers in 2010



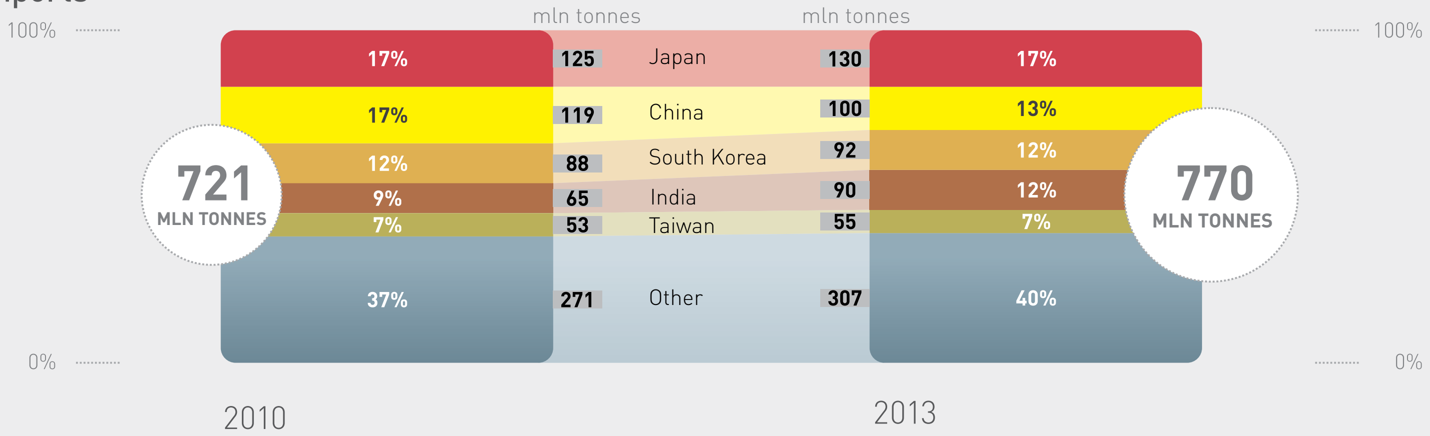
Source: UBS Research 2011; for Russian exports: Government of Russia

Forecast for coal exports and imports to 2013

Exports



Imports



Source: UBS Research, 2011

Coal market in Russia

Coal mining has a long history in Russia, where the first coal samples were found at the time of Peter the Great. However, coal mining only began to develop in earnest in the first quarter of the nineteenth century, following the discovery of the main coal basins. The largest is the Kuznetsk coal basin (Kuzbass), which produces 60% of the country's coal.

Most coal in Russia – 64% in 2009 – is produced by strip mining (removal of overburden to reach coal deposits) and the remainder is produced by underground mining.

In the eight years before the global financial crisis (2000-2008), Russian coal production rose by an annual average of 3%, while net exports grew by 25%. In 2010, coal production had not yet recovered to the level of 2008, while exports had already exceeded the pre-crisis level.

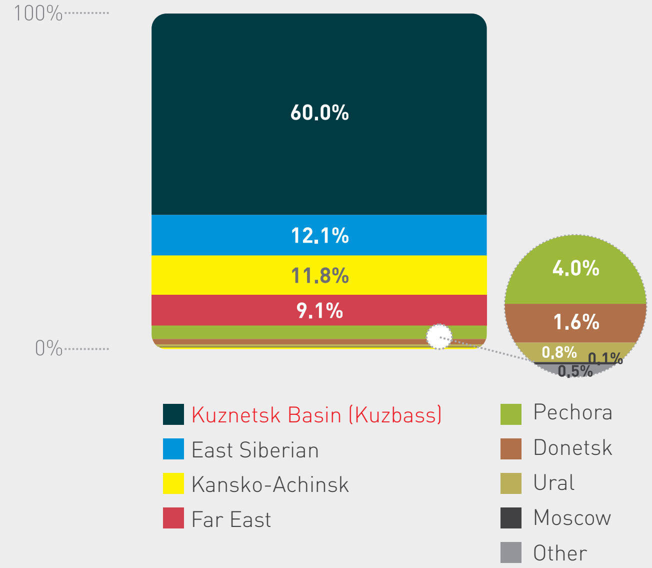
Western Europe remains the largest market for Russian coal exports, accounting for about 47% of the total. However, the proportion of coal exports shipped to Asia has increased dramatically in recent years on the back of strong economic growth and rising energy consumption in China, India and other countries. China's share of Russian coal exports has risen fastest, and totaled 9.5 million tonnes (8.7% of total coal exports) in 2010, approximately a 16-fold increase over 2009.

About 75% of exports are shipped through seaports, with 48% going through Russian ports, 17% through ports in the Baltic countries and 10% through Ukrainian ports. The remaining exports are shipped by ground transport.

Coal producers in Russia can be divided into two categories: subsidiaries of Russian steelmakers such as Evraz Group's Yuzhkuzbassugol and 40% stake in Raspadskaya (Evraz Holding), Mechel's Yuzhny Kuzbass and Yakutugol and Severstal's Vorkutaugol, and independent coal mining companies such as SUEK, Kuzbassrazrezugol and Kuzbasskaya Toplivnaya Company.

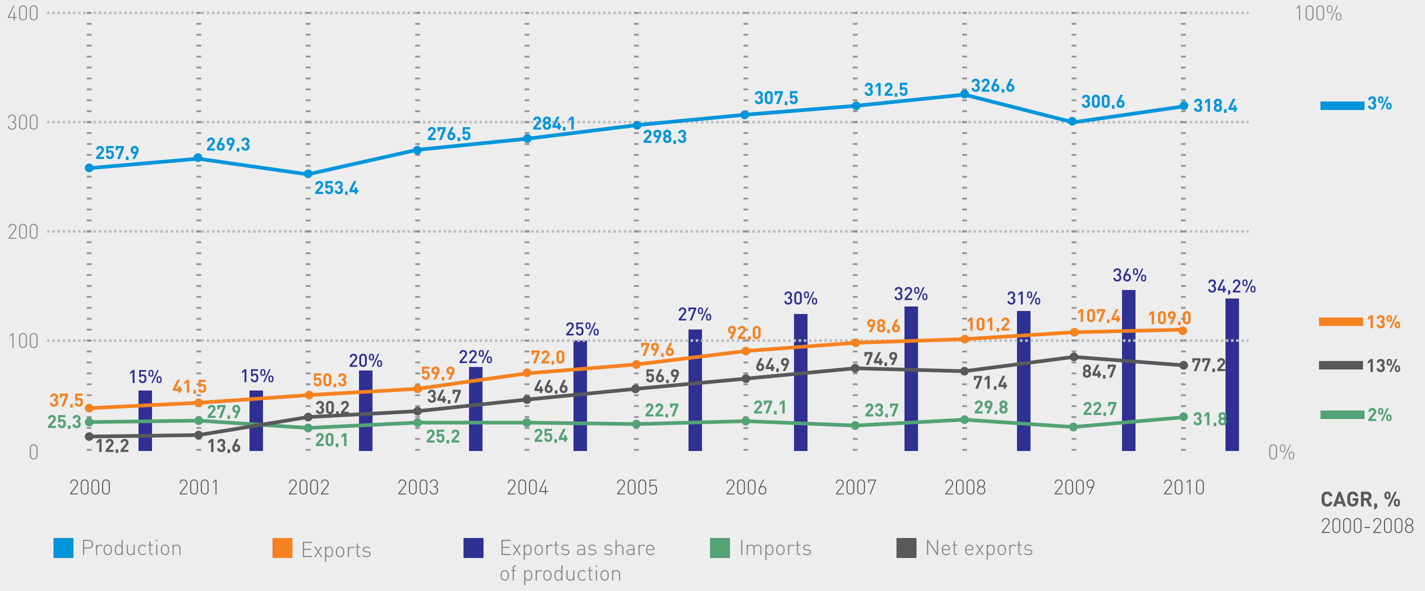
Russia's largest producers of thermal coal are SUEK and Kuzbassrazrezugol, which together mine more than half of the country's thermal coal. Kuzbasskaya Toplivnaya Company was ranked in seventh place in 2010, with a market share of 2.7%.

Main coal basins in Russia



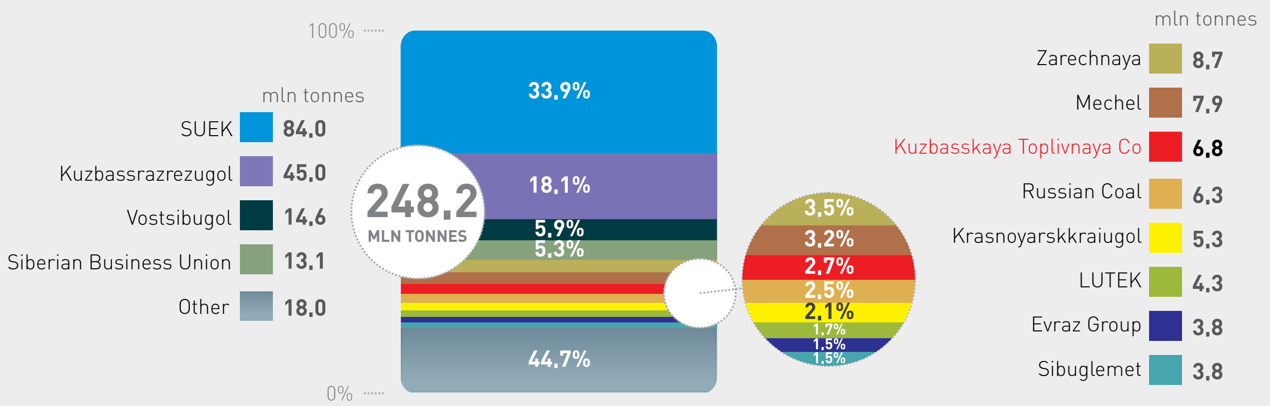
About 75% of exports are shipped through seaports, with 48% going through Russian ports, 17% through ports in the Baltic countries and 10% through Ukrainian ports. The remaining exports are shipped by ground transport.

Production, exports and domestic consumption of coal (thermal, coking and anthracite) in Russia, mln tonnes



Source: Rosinformugol, Metal Expert

Russia's largest producers of thermal coal in 2010



Source: Metal Expert

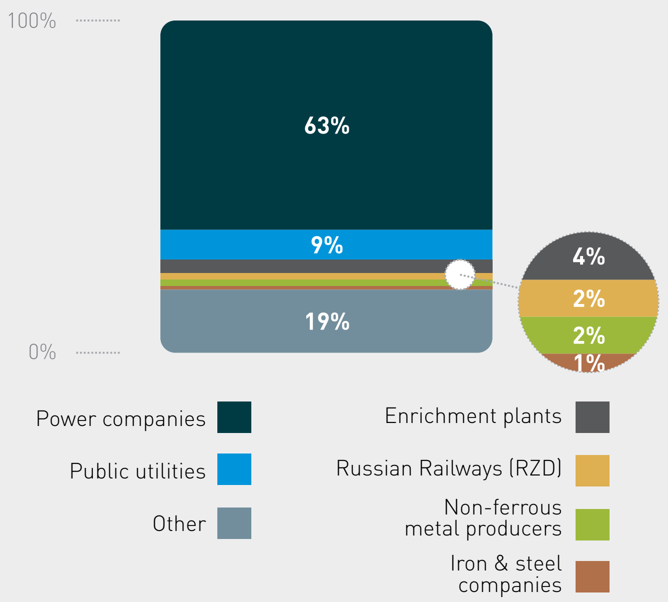
The principal customers for thermal coal in Russia are heat and power plants, public utilities and enrichment plants. Power stations built in the Soviet era were intended to use brown and hard coal with low and medium calorific value, found in nearby deposits, resulting in low domestic demand for high-calorie coal and making exports of such coal attractive.

However, with the modernization of existing generating capacity and the launch of modern power plants in Russia, demand for high-calorie coal may begin to grow. As a result, domestic demand for such coal may begin to compete with exports.

The Electricity Balance Forecasting Agency projects that the proportion of coal in consumption of fuel for heat and power generation in Russia in the period from 2008 to 2030 will grow from 28% to 32% according to a base scenario, or from 28% to 36% according to the maximum scenario. This would result in respectively 1.5% and 2.7% average annual growth of coal demand from heat and power plants.

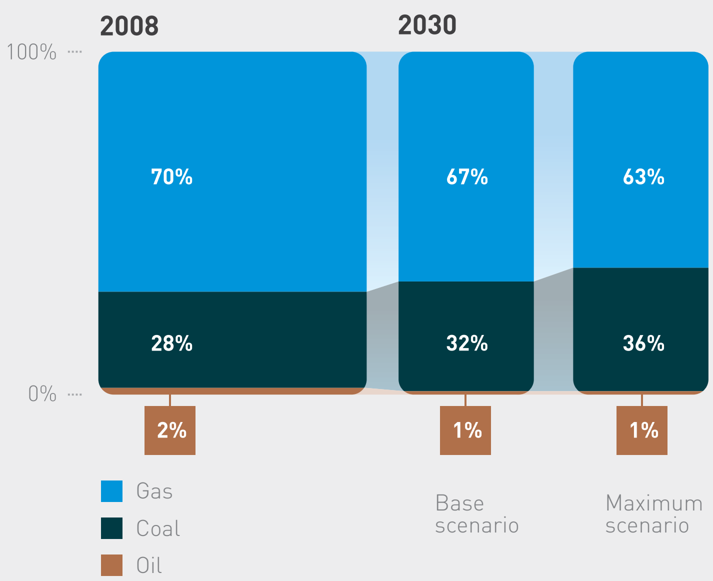
The share of gas, meanwhile, will shrink while its domestic price will rise, bringing the profitability of domestic sales up to the level of exports, less shipping.

Structure of thermal coal consumption in Russia in 2010



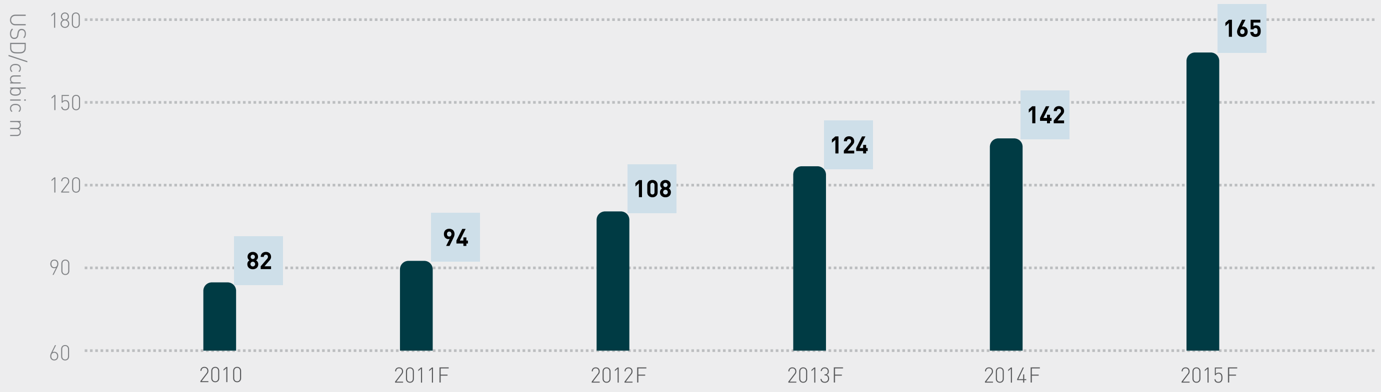
Source: Metal Expert

Structure of fuel consumption by Russian heat and power plants



Source: Agency for Electricity Balance Forecasting

Domestic gas prices forecast to 2015



Source: UBS Research, 2011

Russia currently has a sector of regulated electricity prices (primarily households) and the unregulated sector of the wholesale electricity and capacity market, or OREM. Changes in the share of the unregulated OREM sector are made on the basis of Government Resolution No. 205, dated April 7, 2007. According to the Electricity Balance Forecasting Agency's projections for the development of the electricity sector to the year 2030, the share of the unregulated OREM sector will grow from 54% in 2010 to 82% in 2011 and to 84% by 2030. This will enable heat and power producers to increase their rate of return.

Thus, the prospects for growth of coal production in Russia will be affected both by an expected increase in domestic demand and growth of exports due to three factors:

> Growth in the share of thermal coal in the fuel balance of Russia's energy sector, with coal replacing gas and fuel oil as domestic gas prices rise to a level where the netback on exports and domestic sales is equal, and electricity prices are liberalized

> Increased demand for coal from the booming Chinese economy and other emerging Asian countries

> Growth in the proportion of enriched coal production at Russian coal companies and the ensuing entry into new markets.

HISTORY OF COMPANY'S FOUNDATION AND OF THE FIRST ELEVEN YEARS OF GROWTH

The Company took its current form following the restructuring of OJSC Kuzbasskaya Toplivnaya Company after its merger with OJSC KeNoTEK in 2006.

History of OJSC KeNoTEK

The administrations of the Kemerovo and Novosibirsk regions decided in April 1999 to set up coal mining company LLC KeNoTEK in the city of Kemerovo in order to provide a reliable supply of coal to households and organizations in these regions. The same year, the company secured the license to the Karakansky-South strip mining property and began developing it, including construction of rail lines linking the property to the Russian Railways Ministry's Meret station. The Karakansky-South mine produced its first coal in 2000.

In 2001, the company's management bought out the stakes held by the Kemerovo and Novosibirsk regions.

KeNoTEK secured the license to the Karakansky-South-1 property in 2003 and began strip mining coal at the property in 2005.

In 2006, KeNoTEK was reorganized into an open joint stock company and merged with Kuzbasskaya Toplivnaya Company.

History of OJSC Kuzbasskaya Toplivnaya Company

The Kemerovo Region administration in 2000 founded the wholly government-owned Kuzbasskaya Toplivnaya Company. In 2001, the Company was reorganized into an open joint stock company and all its shares were bought out by management.

Kuzbasskaya Toplivnaya Company secured the license to the Vinogradovsky strip mining property in 2003 and began mining coal there in 2004. The Company won the license to the Cheremshansky strip mining property in 2005 and began mining coal at this property in 2008.

The Company was restructured in 2006 following its merger with KeNoTEK.

In 2001, the Company was reorganized into an open joint stock company and all its shares were bought out by management.

Milestones of the first 11 years of growth

2000

- The Company launches the Karakansky-South open-pit mine, which produces 0.37 million tonnes of coal in the year, raising monthly output from 340 tonnes in January to 96,300 tonnes in July.
- The Company delivers coal for the Kemerovo regional government, with sales totaling 1.8 million tonnes in the period from its founding in April to December.

2001

- The Karakansky-South mine achieves design capacity of 2 million tonnes per year in the second half, and mines 1.3 million tonnes of coal for the year.
- Sales to households and public utilities in the Kemerovo Region total 3.2 million tonnes.
- The Uba coal transfer station is built, providing access to the mainline railway. A rail link is launched from the Karakano-Uropskoye deposit to the Railways Ministry's Meret station.
- The Company launches 10.5 km of railway lines and a coal transfer station at Karakansky-South.

2002

- The Karakansky-South mine launches its second phase, expanding capacity to 2.3 million tonnes of coal per year.
- The Company builds the first modern coal storage facility for retail distribution in the city of Kemerovo; annual sales total 70 000 tonnes.

2003

> The Company in December secures the license to develop the Vinogradovsky property.

> The Karakansky-South mine produces 2.4 million tonnes of coal.

> The Company sets up Kuzbasstoplivosbyt jointly with the Kemerovo Region administration. The Company introduces new coal handling technology and reduces costs; financial flows in the region's fuel supply system become transparent.

> The Company establishes Kaskad-Energo jointly with the Kemerovo Region administration on the basis of the Anzhero-Sudzhensk Combined Heat-and-Power Plant and begins its modernization.

2004

> Construction begins on the new Vinogradovsky mine in April and it is launched in September.

> Vinogradovsky mines 400 000 tonnes of coal for the year, and the Karakansky-South mine produces 2.7 million tonnes.

> Kuzbasstoplivosbyt expands its market presence to 24 outlets with sales of about 1.6 million tonnes of coal per year.

> The Company launches a 7.3-km approach rail line at the Vinogradovsky mine and the Vinogradovskaya coal transfer station.

> Kaskad-Energo is overhauled with the launch of a new turbine generator.

2005

> The Company acquires the license to develop the Cheremshansky property.

> The Company acquires licenses to develop the Karakansky-South-2 and Vinogradovsky-2 properties, which are cutbacks of the main properties.

> Annual production at the Vinogradovsky mine grows to 1.8 million tonnes, while the Karakansky-South mine produces 2.6 million tonnes.

> The Company acquires LLC Transugol with five points of sale providing coal to ten municipalities in the Omsk Region; annual sales total 200 000 tonnes.

> Kaskad-Energo launches a second turbine generator.

Milestones of the first 11 years of growth

(continuation)

2006

- The Company conducts exploration work at the Cheremshansky property.
- The Company combines its three mines into one branch – Vinogradovsky; annual output totals 1.6 million tonnes at the Vinogradovsky mine and 2.6 million tonnes at Karakansky-South.
- The Company acquires stakes in six points of sale in the Novosibirsk Region with annual sales of 450 000 tonnes of coal.
- The 15.4-km Pesterevo Station – Fadeyevsky sidetrack is launched, making it possible to double coal shipments from mines in central Kemerovo Region from 10 million tonnes to 20 million tonnes.

2007

- The Company completes exploration work and begins building the Cheremshansky open-pit mine.
- The Company's two operating open-pit mines, Vinogradovsky and Karakansky-South, together produce 4.1 million tonnes of coal for the year.
- Altay Fuel Company is founded with seven points of sale in the Altay Territory selling 400 000 tonnes of coal per year.
- In August, the Company opens a new, modern coal storage facility in Anzhero-Sudzhensk with capacity for 200 000 tonnes per year.

2008

- The Company in May launches the Cheremshansky mine, the largest open-pit mine by design capacity to be opened in the Kuznetsk basin in the past 20 years.
- LLC Novosibirsk Fuel Corporation is founded with a chain of 19 points of sale in all major population centers in the Novosibirsk Region; sales total 1.2 million tonnes per year.
- The Company launches a 10-km approach rail line at the Cheremshansky mine, along with the Kaskad coal transfer station.

2009

> Construction begins on an enrichment plant with design production capacity of 2 million tonnes per year.

2010

> The Company holds an IPO, raising about **USD 97 million.**

> The Company launches its first enrichment plant, Kaskad, with annual capacity of **2 million** tonnes.

> Vinogradovsky mine launches a unique shop for heavy duty machinery.

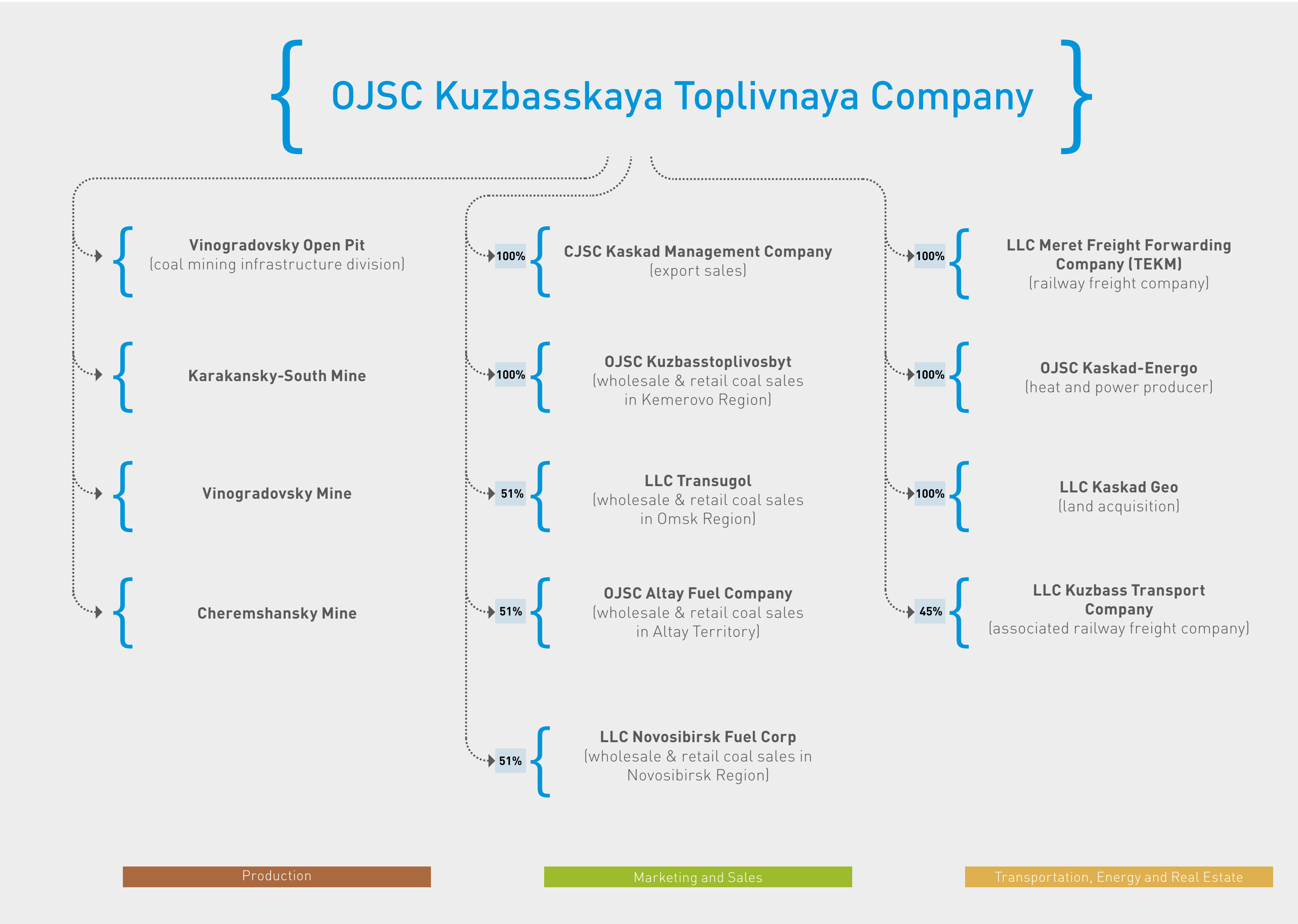
> Kuzbasstoplivosbyt sells a record **1.416 million** tonnes of coal.

> In November 2010 LLC TEK Meret achieves record monthly turnover of **39.7 million** tonne-km.

> Also in November, Kuzbasskaya Toplivnaya Company's monthly coal shipments reach a monthly record of **724 000** tonnes.

GROUP STRUCTURE

The Company in 2010 bought out a 25% stake in Kuzbasstoplivosbyt from the Kemerovo Region administration, and acquired a 45% stake in Kuzbass Transport Company as a hedge against the risk of higher leasing rates on freight cars for shipping coal to customers.



* The Company also owns several auxiliary and service assets that are not part of the core business and are not included in this diagram.

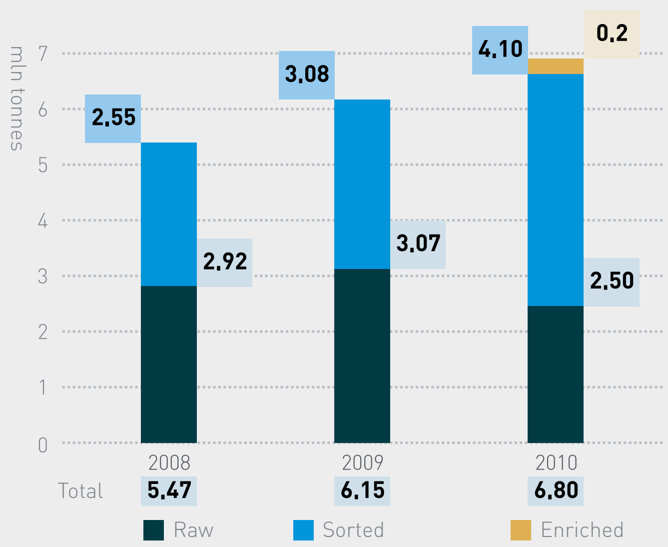
OPERATING RESULTS

Kuzbasskaya Toplivnaya Company produced 6.8 million tonnes of coal in 2010, 10.6% more than in the previous year.

Coal production

	2007	2008	2009	2010
Production, mln tonnes	4.1	5.5	6.2	6.8
Year-on-year Growth, %	33.7	12.3	10.6	

Coal production by type



Subsidiary Kaskad-Energo produced 316 million Gcal of thermal energy and 35 GWh of electricity in 2010.

Rail freight subsidiary Meret Freight Forwarding Company posted freight turnover of 382.1 million tonne-km.

Coal reserves, licenses and characteristics

IMC Group Consulting conducted an international audit of the Company's reserves in April 2010. The Company's resources, in the JORC Code definition, stood at 402 million tonnes as of December 31, 2010, including 185 million tonnes of probable and proved reserves. Under the audit methodology used by IMC, only resources recoverable within the next 20 years can be classified as reserves.

The Company holds renewable licenses with terms of 10 to 15 years. The renewal process, as a rule, does not present any difficulties as long as there is compliance with the terms of license agreements.

Coal characteristics

Mine	Rank by Russian classification	Calorific value, kcal/kg	Sulfur content, %	Ash content, %	Moisture content, %
Karakansky-South	D	4 900 - 5 300	0.27 - 0.30	13.2 - 15.2	14.0 - 17.0
Vinogradovsky	D	4 900 - 5 500	0.27 - 0.30	14.5 - 18.2	13.9 - 17.0
Cheremshansky	D	5 100 - 6 000	0.50 - 0.80	17.2	12.5 - 15.0

D-rank coal is the principal fuel for power generation in Russia and abroad.

Mining operations

The Company strip mines coal at three open-pit mines:

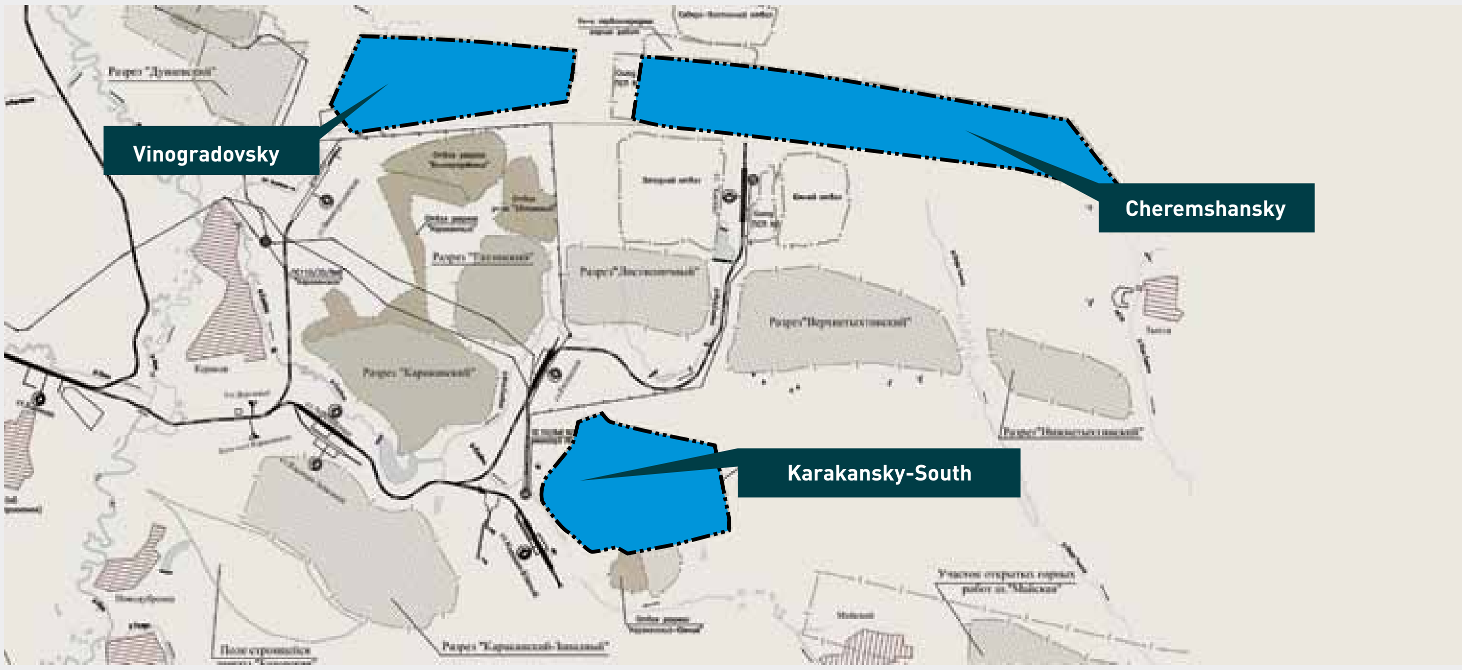
- Karakansky-South, which consists of three license properties (Karakansky-South, Karakansky-South 1 and Karakansky-South 2)
- Vinogradovsky, which consists of two license properties (Vinogradovsky and Vinogradovsky 2)
- Cheremshansky, which consists of the one, eponymous license property

The Karakansky-South and Vinogradovsky mines are located in the Belovo district, while the Cheremshansky mine is located in the Prokopyevsk district of Kemerovo Region, about 200 km from the regional capital of Kemerovo, home to Kuzbasskaya Toplivnaya Company's headquarters. All three mines are part of the Karakanskoye coal deposit in the Yerunakovsky geological and economic district of the Kuznetsk coal basin (Kuzbass).

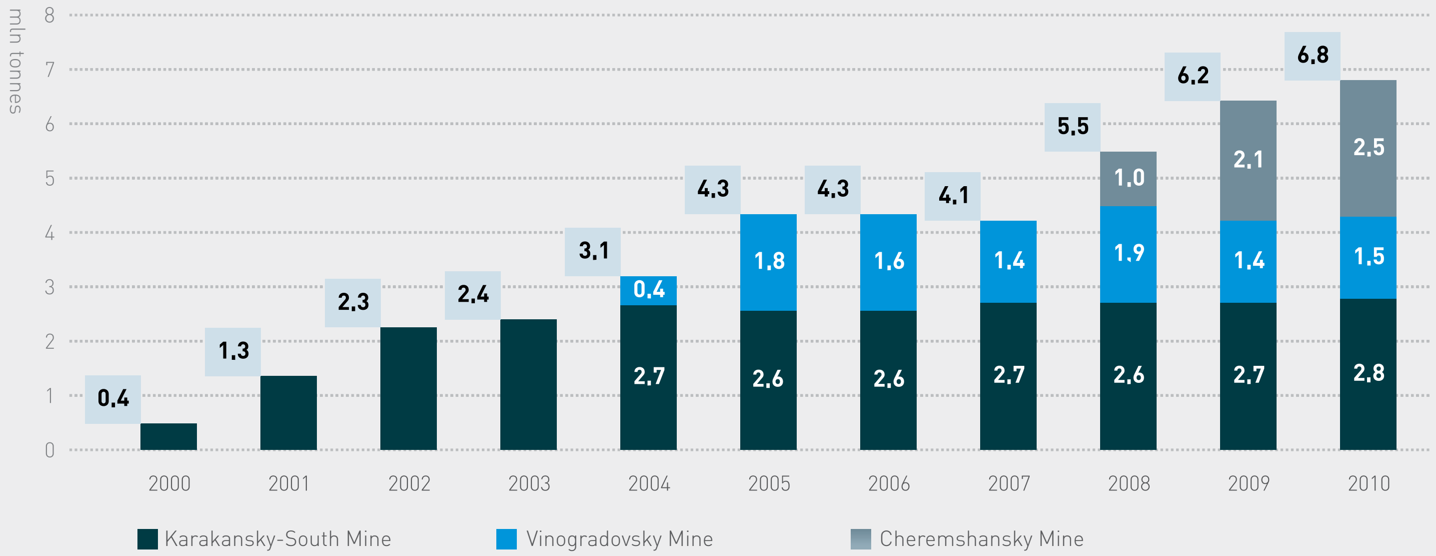
All three mines are part of an integrated industrial complex with annual design capacity of 11 million tonnes of coal that also includes:

- Coal storage facilities with sorting units
- An enrichment plant using steeply-inclined separation technology with capacity of 2 million tonnes per year
- A common administration and services complex
- A common fleet of mining equipment, machinery and automobile transport
- Common mechanized repair shops and maintenance infrastructure
- Railroad infrastructure, which belongs to subsidiary Meret Freight Forwarding Company

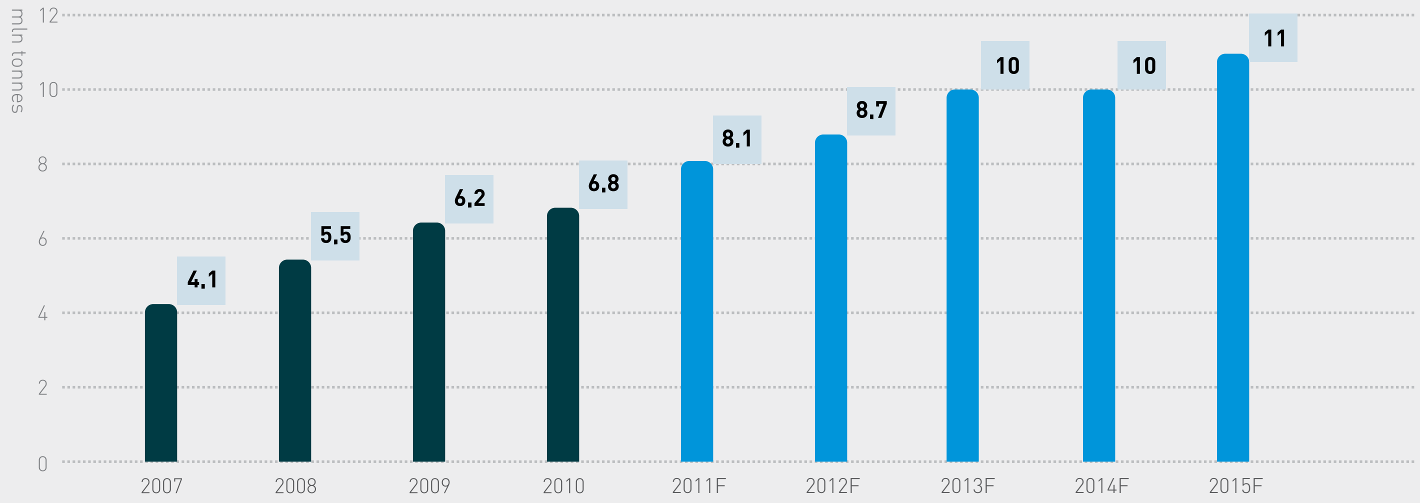
Map of Company mines



Production structure by mine, mln tonnes



Forecast for production growth and achieving design capacity, mln tonnes



Mines

Karakansky-South Mine

The development of the Karakansky-South property was completed in 2009 and mining operations have since moved to the Karakansky-South 1 and Karakansky-South 2 properties. The new properties are being mined with the same kind of equipment that was used at Karakansky-South, and draglines are widely used to remove overburden.

Karakansky-South Mine production parameters

Design capacity, mln t per year	3
Stripping technology	Combined (non-transport and transport)
Seam inclination	3-8°
Overburden haulage distance in 2010, km	1.7
Coal haulage distance to storage in 2010, km	4.6

Cheremshansky Mine

Exploration work at Cheremshansky began in 2006 and the mine produced its first coal in 2008.

Cheremshansky Mine production parameters

Design capacity, mln t per year	5
Stripping technology	Transport
Seam inclination	80-90°
Overburden haulage distance in 2010, km	2.7
Coal haulage distance to storage in 2010, km	2.9

Vinogradovsky Mine

The mine consists of two license properties, Vinogradovsky and Vinogradovsky 2. Coal production at the former began in 2004 and production at the latter is scheduled to begin in 2012.

Vinogradovsky Mine production parameters

Design capacity, mln t per year	3
Stripping technology	Transport
Seam inclination	20°
Overburden haulage distance in 2010, km	3.3
Coal haulage distance to storage in 2010, km	2.6

Mining equipment

The Company's fleet of mining equipment includes 31 excavators, 89 dump trucks, 24 bulldozers, 34 loaders and three drilling machines. This equipment comes primarily from well-known firms such as Komatsu, P&H, Ingersoll Rand and Belaz. Due to their proximity, most equipment can be used at all three mines.

The Company in 2010 acquired seven bulldozers, one grader, 22 Belaz dump trucks, 13 loaders, two sorting machines, and two hydraulic excavators.

The Company opened a repair shop in 2010 for heavy-duty machinery at a cost of 178 million roubles, not including VAT.

Enrichment plant

The Company in 2010 launched the Kaskad enrichment plant, which uses steeply-inclined separation technology and has annual capacity of 2 million tonnes of coal. The plant processes diluted run-of-mine and high-ash coal that was previously dumped as a production loss. The Company also built covered storage adjoining the plant in order to store enriched coal.

Coal depots

Mined coal is moved to depots along the Company's own railroad infrastructure, which can currently handle 730 000 tonnes per month. The depots are outfitted with stationary and mobile scales, four sorting units, two crushing units, loading equipment, and railway sidings.

Transportation

Coal is shipped from the mines to Russian Railways' (RZD) public tracks by Meret Freight Forwarding Company (TEKM), a unit of the Kuzbasskaya Toplivnaya Company group.

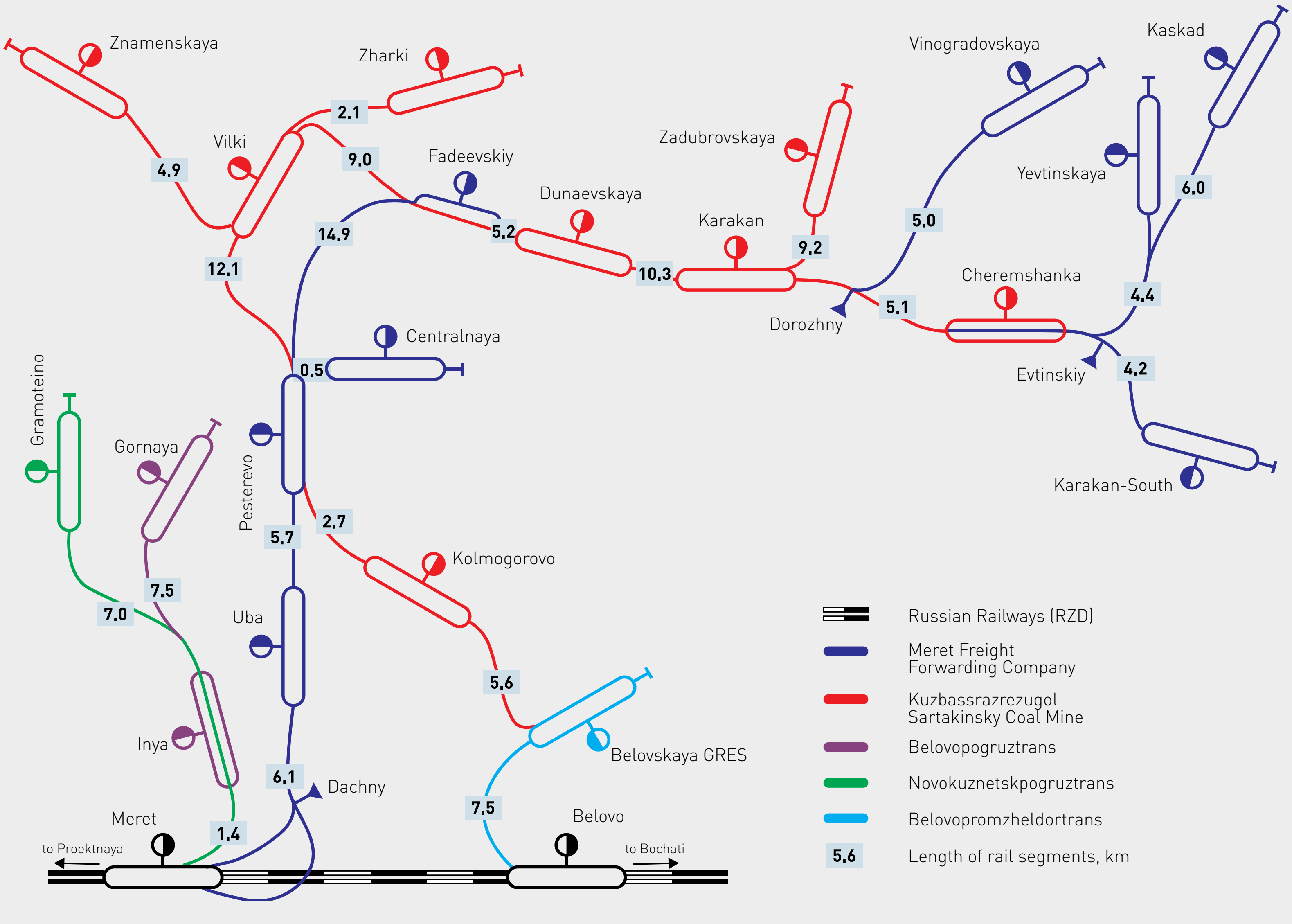
Raw, sorted and enriched coal is taken from the depots and the enrichment plant along the Company's own railroad to the internal station Uba, where cars are sorted. The trains then go to RZD's Meret station, where the locomotives are replaced with RZD electric locomotives and proceed to market.

At the end of 2010 TEKM owned five coal transfer stations, one sorting station, 74 km of railroad infrastructure and five locomotives, and leased another six locomotives.

The Company also carries coal for third-party producers whose mines are close to its production assets.

The Company in 2010 launched the Kaskad enrichment plant, which uses steeply-inclined separation technology and has annual capacity of 2 million tonnes of coal.

Map of railway lines of transport companies linked to RZD's Meret and Belovo stations



LLC TEKM freight shipments to RZD's Meret station and other destinations

	2009, mln t	2010, mln t	Change, %
1. Shipments to RZD's Meret station			
Kuzbasskaya Toplivnaya Company	6.056	6.398	5.6
Kuzbassrazrezugol	1.018	1.127	10.8
Zadubrovsky Mine	0.539	0.439	-19.0
Yevtinsky Mine	0.317	0.290	-8.5
Kolmogorovskaya-2 Mine	1.741	0.720	-58.6
Total to Meret station	9.670	8.974	-7.2
2. Infrastructure services and shipments to other destinations			
Belovo Region Power Station	—	0.172	—
Belovopromzheldortrans	0.744	0.499	-33.0
TOTAL	10.415	9.645	-7.4

LLC Kuzbass Transport Company

By acquiring a stake in the associated Kuzbass Transport Company, the Company has gained the opportunity to obtain coal transport services at a price that is fixed for a period of ten years, based on the freight car leasing rate. Kuzbasskaya Toplivnaya Company has thus been able to hedge against the risk of higher freight car leasing rates and late delivery of export freight due to shortages of cars on the market.

Kuzbass Transport Company had 2 200 freight cars at the end of 2010, and plans to expand its fleet to 5 500 cars in 2011-2012 in order to fully meet the Company's current export requirements.

Heat and power production

Heat and power are generated by OJSC Kaskad-Energo, a combined heat-and-power plant in the Kemerovo region town of Anzhero-Sudzhensk that is a reliable supplier of thermal energy and electricity to local utilities, social infrastructure and industrial enterprises.

OJSC Kaskad-Energo sales of thermal energy and electricity

	2007		2008		2009		2010	
	Volume	RUB mln	Volume	RUB mln	Volume	RUB mln	Volume	RUB mln
Thermal energy ('000 Gcal)	208.5	121.4	211	131.1	219.8	163.7	267.4	217.0
Electricity ('000 kWh)	40 734	27.1	49 755	36.6	49 062	39.4	34 949	19.1

Energy efficiency

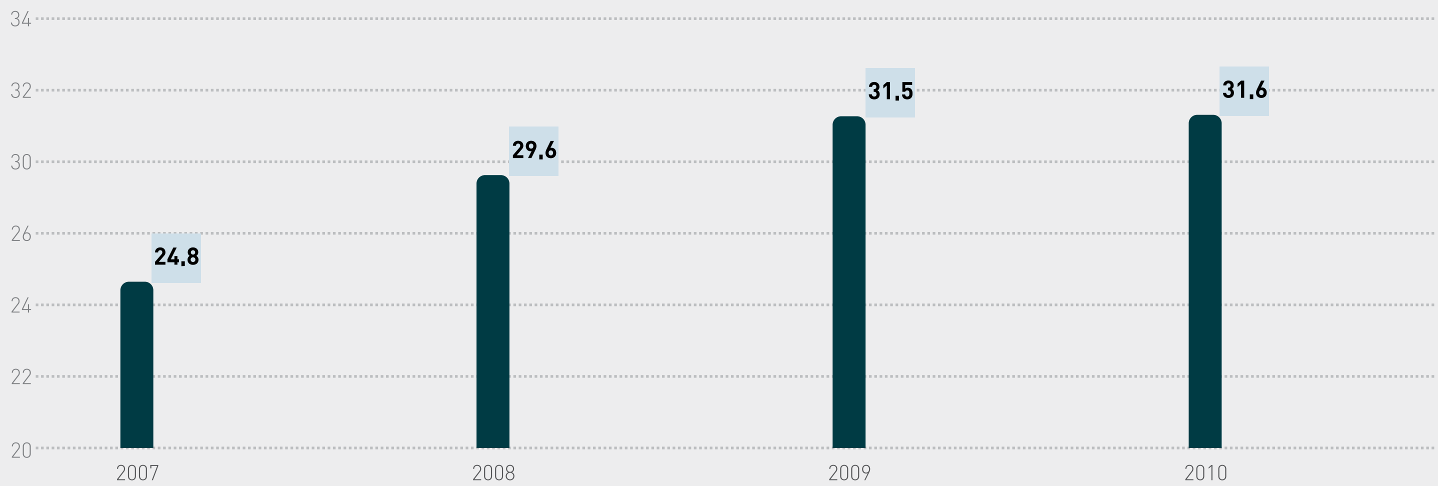
Diesel fuel is the Company's largest energy expenditure, accounting for 83% of total spending on fuel, power and heat in 2010.

The Company's energy consumption

	2007		2008		2009		2010	
	Volume	RUB mln	Volume	RUB mln	Volume	RUB mln	Volume	RUB mln
Thermal energy ('000 Gcal)	19.8	0.5	20.6	0.5	23.3	0.5	23.5	0.5
Electricity ('000 kWh)	39 598.0	17.8	43 908.1	28.4	47 128.1	18.9	57 211.6	25.7
Coal, t	111 078.3	76.4	112 350.9	85.6	111 948.7	104.6	120 075.7	115.6
Gasoline, t	797.4	12.6	844.7	16.0	898.2	15.7	902.6	18.7
Diesel fuel, t	21 451.7	306.4	31 328.5	618.1	36 209.6	495.1	41 084.6	774.9
TOTAL	—	413.7	—	748.7	—	634.8	—	935.3

The Company increased the energy efficiency of coal, heat and electricity production by 27.4% in the period from 2007 to 2010. Energy efficiency is calculated as the ratio of combined coal, heat and electricity output in tonnes of equivalent fuel to the combined expenditure of heat, electricity and other energy resources needed for such production in tonnes of equivalent fuel.

The Company's energy efficiency (ratio of coal, heat and electricity production volume to consumption, in tonnes of equivalent fuel)



Land resources management

LLC Kaskad Geo manages Kuzbasskaya Toplivnaya Company's land resources. It owns land within mining allotments not yet used in production by Kuzbasskaya Toplivnaya Company, and acquires land for prospective deposits that are likely to be offered at auction in future, giving the Company a competitive advantage at such auctions and enabling it to save on lease payments.

Land amounting to 82.8 million roubles was acquired in 2010.

Land amounting to 82.8 million roubles was acquired in 2010.

F.A.Q.

What is the stripping ratio and how does it affect expenses?

The stripping ratio is an indicator used in open-pit mining. In the coal industry, stripping ratio refers to the amount of rock, or overburden (in cubic meters) that must be processed in order to mine one tonne of coal.

The stripping ratio is the main factor affecting the production costs of coal companies. The higher the stripping ratio, the more expensive it is to mine a tonne of coal. Changes in the ratio directly affect the costs of fuel, labor and blasting work, as well as the amount of rock that must be taken to dumps.

The average stripping ratio at Kuzbasskaya Toplivnaya Company's three mines was 7.3 cubic meters per tonne in 2010. Two of the three mines are still in the more expensive initial phase of their development. Management expects the stripping ratio to peak in 2010-2011, and then begin to gradually decline as the three mines are developed and brought up to design production capacity.

Overburden (cubic m) / **coal** (t) = **7.3** cubic m/t

DISTRIBUTION SYSTEM

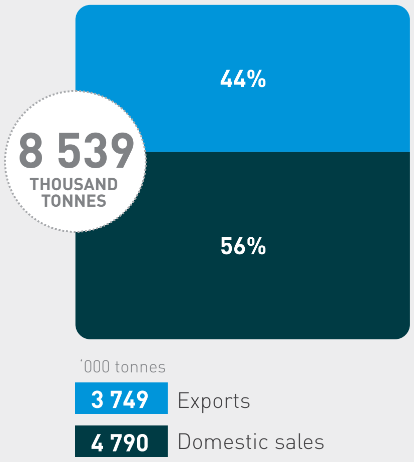
Marketing and sales

Most of the Company's revenue – 96% in 2010 – is generated by coal sales, and the other 4% comes from coal transportation services, storage services, and heat and power generation.

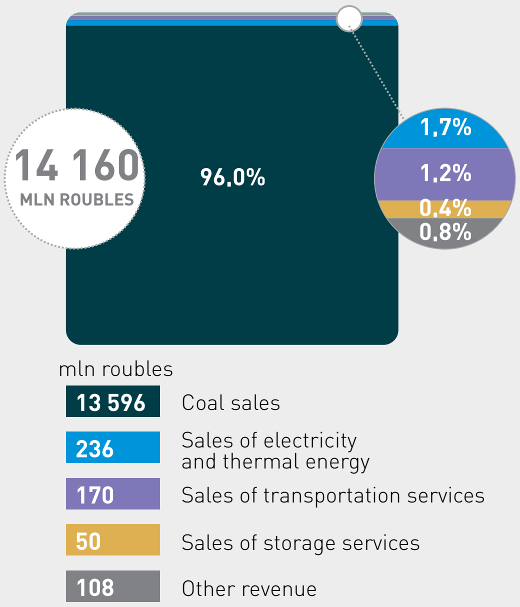
Kuzbasskaya Toplivnaya Company started out as a business focused on retail sales and a small amount of wholesale deliveries, primarily in the Siberian Federal District.

As coal production grew, the Company began to export, which enabled it to diversify markets and earn a price premium for high quality coal in demand abroad, while continuing to strengthen its position on the more stable domestic market. This strategy helped the Company to mitigate the negative impact of the steep drop in demand and prices for thermal coal on world markets during crisis-hit 2009.

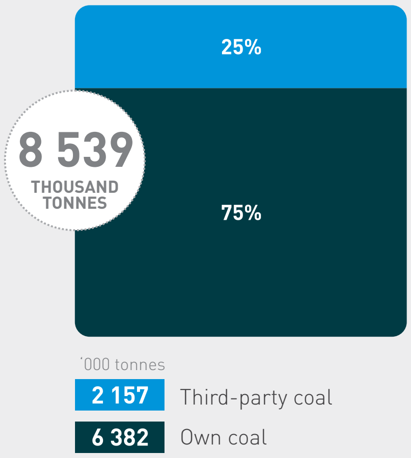
Breakdown of sales by exports and domestic sales in 2010



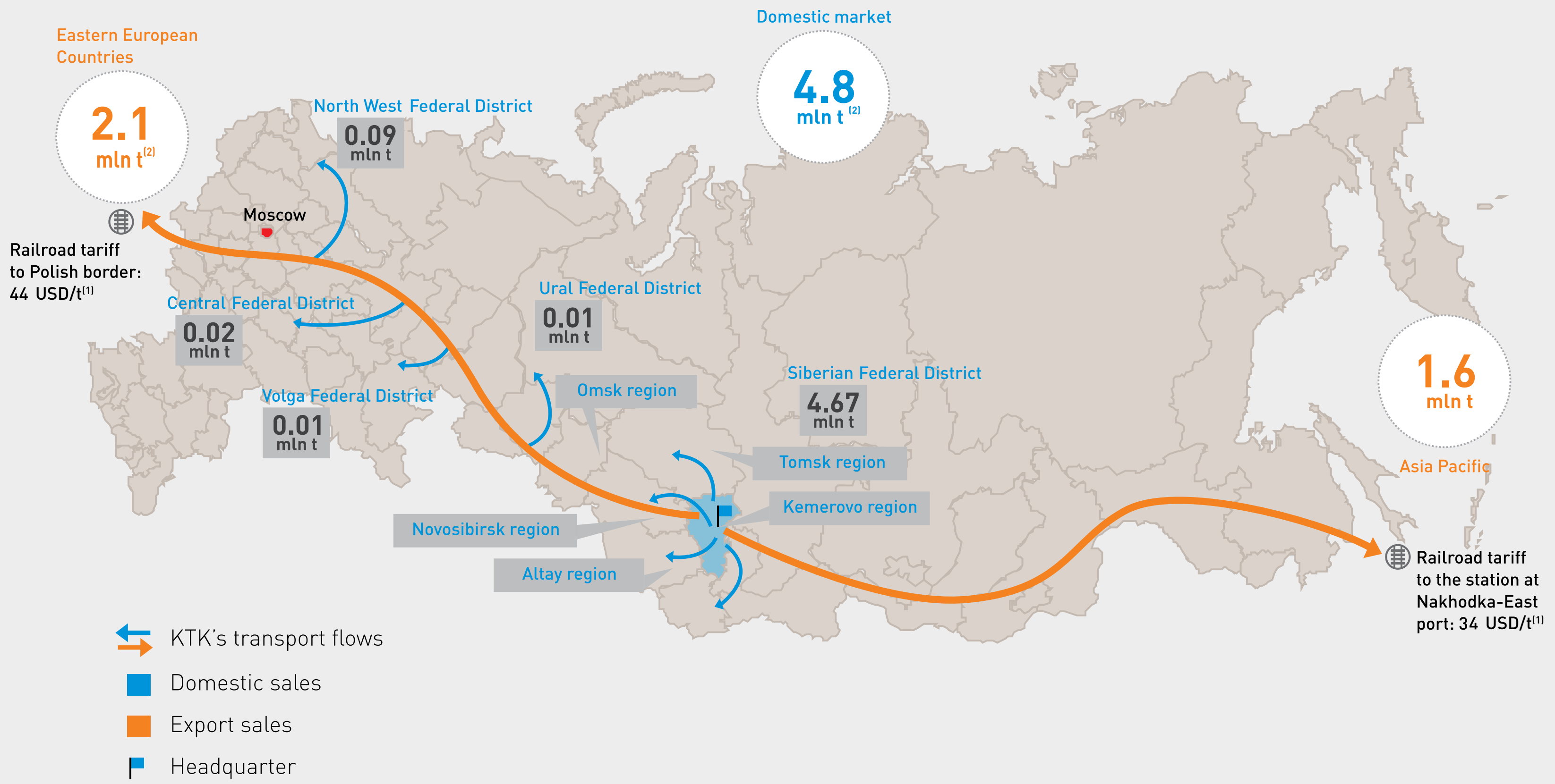
Breakdown of revenues by type of operations in 2010



Breakdown of sales by own and third-party coal in 2010



Map of sales distribution in 2010



Source: Company

(1) Average KTK transportation cost for 2010, converted from RUB to USD at average CBR exchange rate for 2010 – 30.4 RUB/USD

(2) Sales volumes in 2010 (incl. purchased coal)

Sales of third-party coal

In addition to selling its own coal, the Company sells coal produced by other companies, including SUEK, Kuzbassrazrezugol and other major coal companies in the Kuznetsk Basin.

The Company began its operations in 2000 as a coal trader, shipping about 80% third-party coal to market. As the Company's own mining operations grew, the proportion of third-party coal gradually shrank.

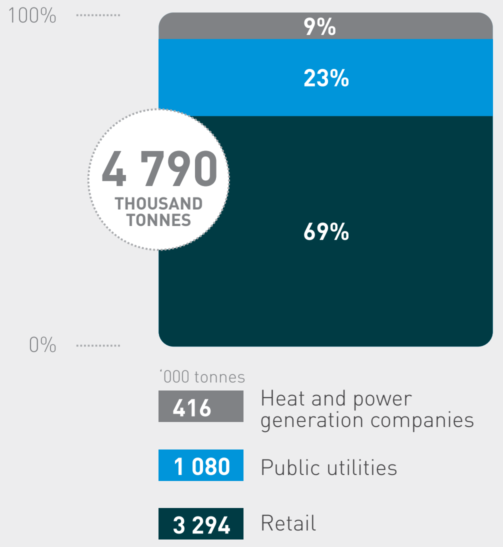
However, the Company believes that selling third-party coal allows it to build a more flexible distribution system and offset fluctuations in production and sales of its own coal in the course of the year. In addition, third-party coal provides additional sales volume to maintain the Company's leading positions in Western Siberia while allowing it to sell all of its own high calorie coal on export markets.

Domestic sales

The Company sold 4.8 million tonnes of coal domestically in 2010, most of it on the retail market.

Most of the Company's Russian customers are located in the Siberian Federal District, which accounted for 97% of all domestic sales in 2010.

Breakdown of domestic sales in 2010



Retail sales

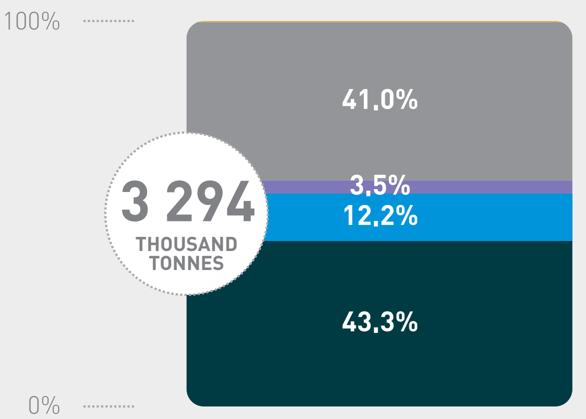
The Company conducts its retail sales through its own network of subsidiaries covering several Siberian regions: Kemerovo, Novosibirsk and Omsk regions and Altay Territory.

The Company owns 100% of Kuzbasstoplivosbyt and controlling stakes in the other subsidiaries.

The retail network includes 65 points of sale and is the main channel of coal sales to households, municipal and regional organizations, and public utilities. The rapid growth of the distribution network was driven by demand in Western Siberian regions for a stable supplier of quality coal that provides a full range of sales and delivery services and has the resources to meet additional demand during very cold winters. Another important factor was that the Company offered the retail market a new product when in 2008 it began to sell sorted coal superior in quality to the raw coal common on this market. Now every outlet in the Company's chain sells both raw and sorted coal, which has become popular among households, despite its higher price. The Company reckons its retail network is the largest in Western Siberia.

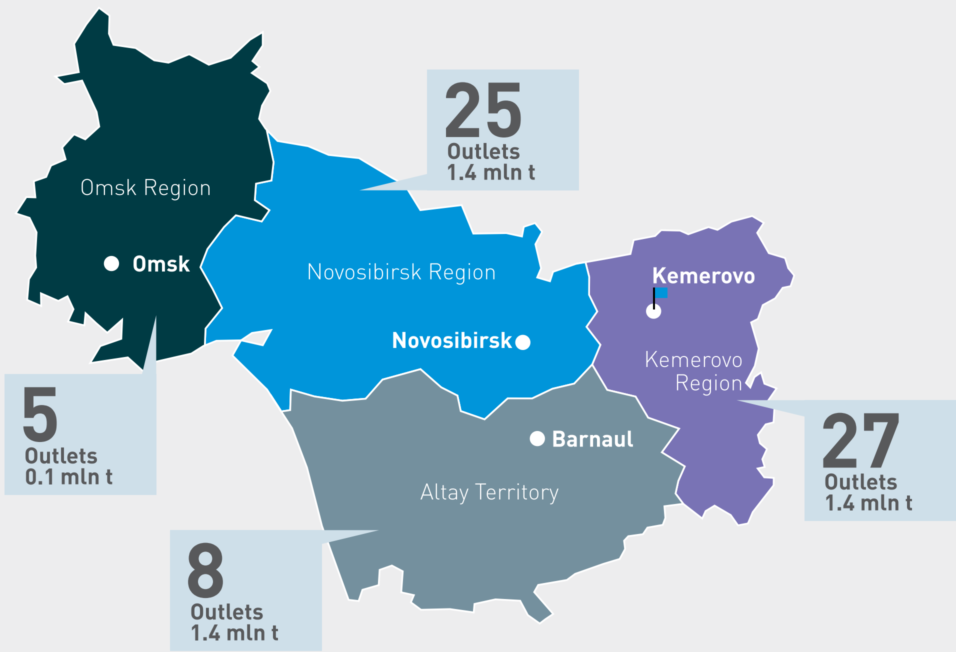
The Company plans to expand its retail network in regions where it already has a presence, and develop sales in neighbouring regions by working with outside companies that trade coal.

Breakdown of retail sales by subsidiary in 2010



'000 tonnes	
1 350	Novosibirsk Fuel Corporation
115	Transugol
400	Altay Fuel Company
1 428	Kuzbasstoplivosbyt

Map of retail sales network



Distribution subsidiaries

KTK stake	Company
100%	Kuzbasstoplivosbyt
51%	Transugol
51%	Novosibirsk Fuel Corp
51%	Altay Fuel Co
	Company's Headquarter

Sales to generating companies

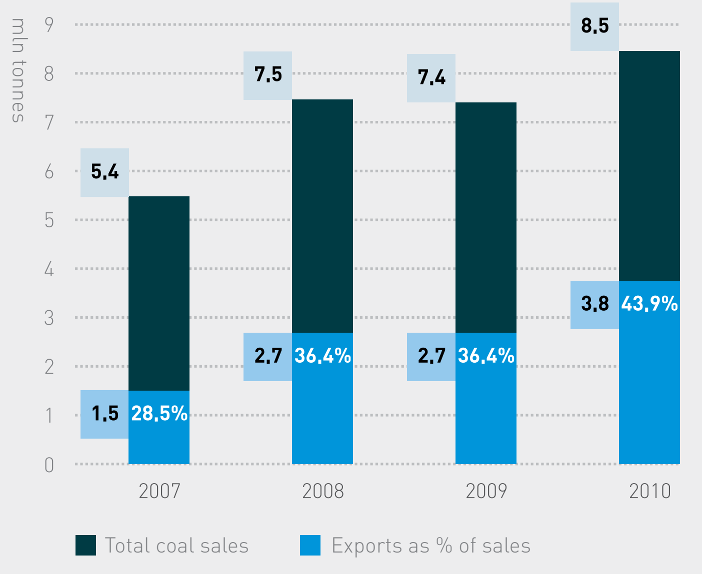
The largest buyers of coal among generating companies are TGC-5, TGC-6 and TGC-9 (large stakes in which are owned by Integrated Energy Systems), and TGC-14 (Energopromsbyt).

The Company also sells coal to its own power plant, Kaskad-Energy, which is the primary supplier of heat and electricity in the city of Anzhero-Sudzhensk.

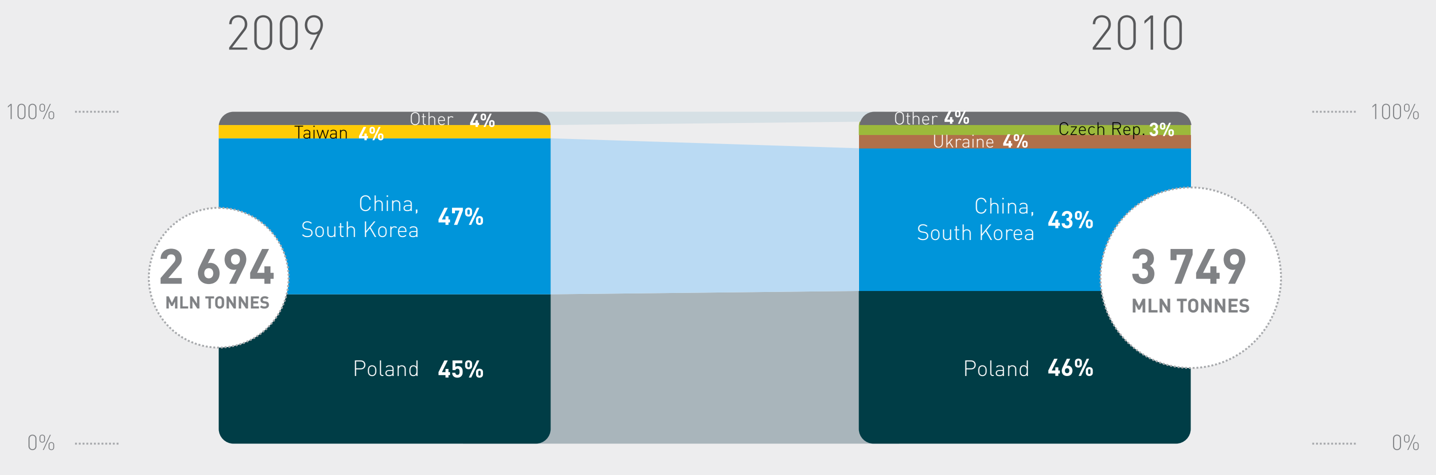
Exports

The Company exports to South and East Asia and Eastern Europe. Exports grew from 28% to 44% of the Company's total sales in the period from 2007 to 2010.

Export growth



Exports by country



The Company's largest export markets are Poland, China, and South Korea. Sales in Poland are conducted primarily through Krex, Energo and Barter S. A., which have been the Company's partners on the Polish market for several years. Sales in China and South Korea are conducted through leading international trader Glencore International AG.

The coal exported to Asia is used primarily by energy companies and cement producers, while the coal sold in Poland is used largely by retail consumers of sorted coal.

As it expands production and improves the quality of enriched coal, the Company plans to enter new export markets such as Taiwan, Singapore, Hong Kong, and Japan, as well as Western European countries, which traditionally have had the highest standards for the coal they use.

The Company's main competitors in these markets will be other Russian, as well as Australian, Indonesian and South African coal mining companies, but we believe that our more flexible logistical organization, willingness to deliver coal according to the requirements of each client, and reputation as a stable and reliable supplier will help the Company win its own market niche and enjoy steady, strong demand for all of its export coal.

The Company expects that, following the launch of enrichment plants with dense media separation technology, its product line may expand to include coal concentrate with ash content of not less than 5% and heat value of up to 6 000 kcal/kg. This product could be sold both as thermal coal and as a resource for non-energy sectors of industry.

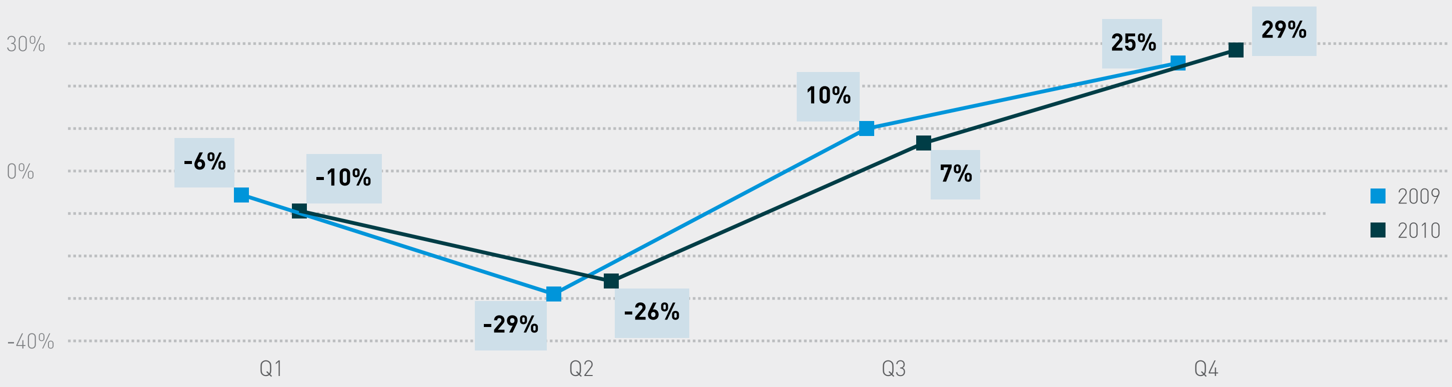
Cycles and prices

Domestic sales are prone to cyclicity, troughing in the second quarter and peaking in the fourth quarter. Demand for coal in Russia begins to drop with the spring thaw as consumers prefer to use up all inventories accumulated in winter and clear out coal yards. The new cycle of building up inventory usually begins in mid-summer and peaks with the arrival of winter.

Export prices in 2009 and 2010 reflect the time lag between contract signing and actual delivery of coal: in the first quarter of 2009, coal continued to be delivered on contracts signed at high prices in 2008, while in early 2010 deliveries continued at the prices of crisis-hit 2009. Nonetheless, in the course of the year the average sales price rose steadily from quarter to quarter as world coal demand recovered and contracts were signed at higher prices.

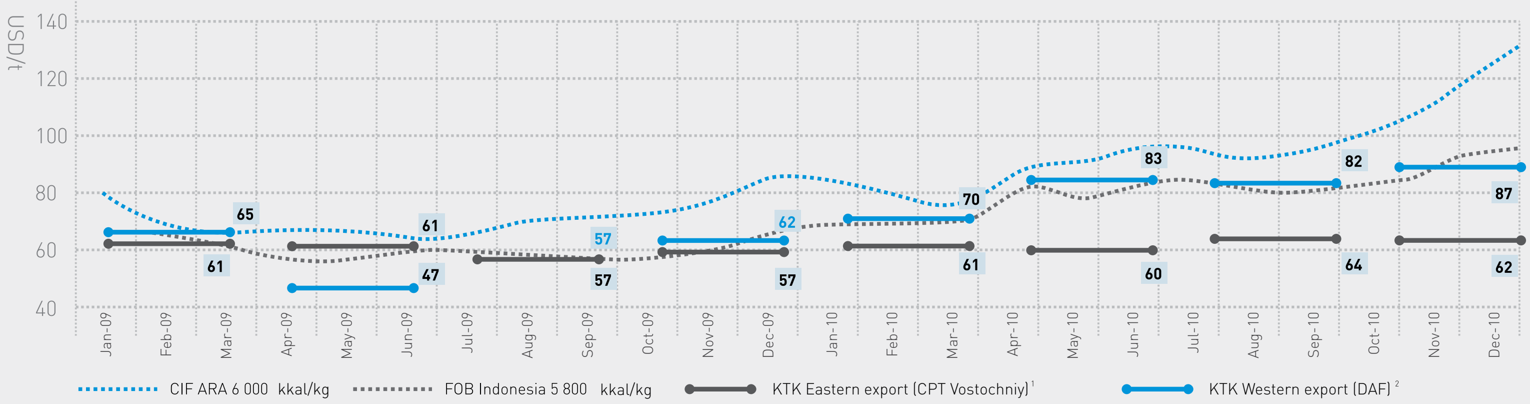
Exports grew from 28% to 44% of the Company's total sales in the period from 2007 to 2010.

Cyclicity on the domestic market (sales volumes deviation from quarterly average)



Kuzbasskaya Toplivnaya Company realized coal prices in 2009-2010

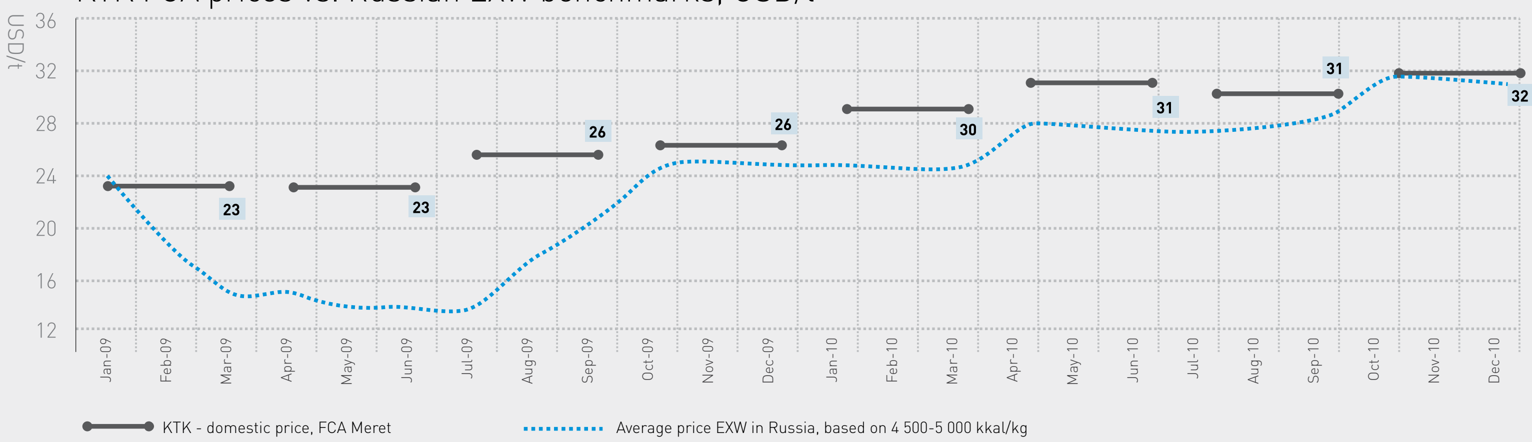
KTK realized export prices vs. international FOB and CIF benchmarks, USD/t



Source: Company, Argus for FOB Indonesia and CIF ARA

1 Average KTK realized Eastern shipments price CPT Vostochny.
2 Average KTK realized quarterly Western shipments price DAF, excluding shipments to Ukraine.

KTK FCA prices vs. Russian EXW benchmarks, USD/t



Source: Argus, Metal Expert, Kuzbasskaya Toplivnaya Company

Logistics and transportation costs

Raw, sorted and enriched coal is taken from depots and the enrichment plant along the Company's own railroad to the Uba internal station, where freight cars are sorted. The trains then proceed to RZD's Meret station, where the locomotives are switched and RZD takes over further shipment.

Domestic shipments

Most domestic shipments are made on the basis of FCA Meret, Kemerovo Region. The Company usually uses the services of First Freight Company for coal shipments to customers. First Freight is Russia's largest rail freight carrier and its rates are used as a benchmark by most government-funded organizations that are customers of Kuzbasskaya Toplivnaya Company.

Exports to western destinations

In 2010 most of the Company's coal exports to the West were conducted on DAF (delivered at frontier) terms to Poland's border with Belarus or Ukraine. Under DAF terms, the Company is obligated to ship the coal to the border and pay the duty. The buyer is responsible for customs processing and shipment to the required destination. Risks are transferred once the freight reaches the border.

The average price of shipping one tonne of coal to the West on DAF terms was USD 44 in 2010.

Exports to eastern destinations

Export shipments to the East are conducted on the terms of CPT (carrier paid to) Vostochny Port. The seller carries the cost of rail shipment to the designated destination, while the buyer is responsible for the cost of transfer and storage at the port, as well as ladling and insurance. Risks are transferred once the coal is delivered to the port.

The average price of shipping one tonne of coal to the East at CPT Vostochny Port was USD 34 in 2010.

Shipping cost variability

For most domestic shipments, the cost of shipping is determined as the sum of RZD's tariff for providing infrastructure and locomotive haulage to the buyer, which is usually reviewed once a year taking into account inflation, and the cost of leasing freight cars provided by the owner of the cars, which is reviewed depending on the conditions of leasing contracts.

For export shipments, the shipping cost is the sum of RZD infrastructure and locomotive services and the cost of leasing freight cars owned by private companies. In 2011-2012 the Company expects to completely switch to using the freight cars of joint venture Kuzbass Transport Company. Management expects that when Kuzbass Transport Company's fleet fully covers the Company's export requirements the leasing rate for its cars will be fixed for a period of ten years into the future and the cost of shipping will change only depending on the distance and RZD coal shipping tariffs.

F.A.Q.

What is coal enrichment?

Coal enrichment is the process of sorting and then reducing the ash content and increasing the heating value of coal. Enrichment improves the consumer performance of coal and raises its price.

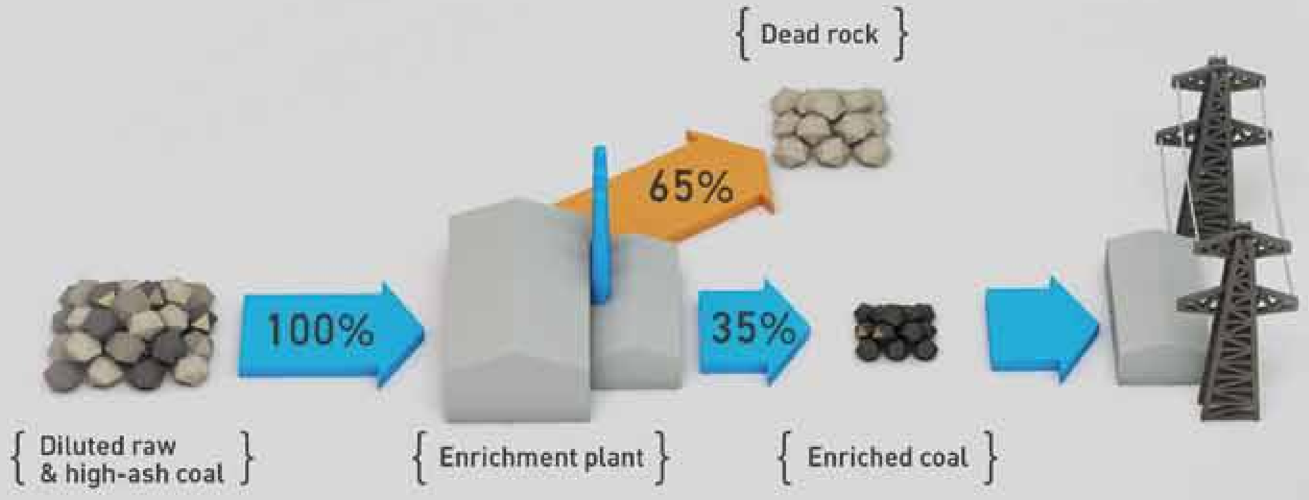
There are various coal enrichment methods, including dense medium separation, wet and dry separation and flotation. Kuzbasskaya Toplivnaya Company uses steeply-inclined separation and dry separation (separation of raw coal particles by size). In 2012, the Company plans to also begin using dense medium separation.

Steeply-inclined separation is separation of coal from rock in a rising flow of water. The coal, which is less dense (1.4 grams/cubic cm or less), separates and is carried by the flow of water to the surface where it collects, while the denser rock particles (more than 2.0 grams/cubic cm) settle to the bottom of the separator and are removed.

Dense medium separation is the most common enrichment method, using a water suspension of magnetite powder in a density required to enrich coal measuring 0.6 cm or more. The less dense coal rises to the surface, while the rock settles to the bottom. The magnetite is separated from the coal by wet screening and removed from the water by magnetic separators.

Dense medium and steeply-inclined separation technologies can be used separately or at the same enrichment plant.

A. Steeply-inclined separation enrichment plant



B. Dense medium separation enrichment plant

Availability of port capacity in the Far East

Availability of coal capacity at some ports in the Far East was somewhat tight in 2010, particularly at the yet uncompleted terminal of CJSC Daltransugol and the Posyet commercial port.

This strain may be eased in 2011-2015 as the Daltransugol terminal reaches design capacity (only 67% of design capacity had been launched in 2010) and with the construction and modernization of terminals under a federal program for the long-term development of Russia's coal industry in the period to 2030, which is supposed to be adopted in 2011.

This program would aim to build a new coal terminal at the Vostochny-Nakhodka hub with capacity of 20 million tonnes per year, and expand cargo turnover at the Vanino Port to 26.4 million tonnes per year.

Under this program, the total coal handling capacity of Russian ports would increase by 27% by 2015 compared to the 2010 level, and by 72% by the year 2030. This could completely eliminate the possibility of export coal congestion at Russian ports.

Coal transshipment at key Far East seaports in 2010

Port	Coal handled, `000 t	Coal terminal capacity, `000 t/yr	Utilization of coal capacity, %
OJSC Vostochny Port	14 687	15 936	92.2
CJSC Daltransugol	8 280	5 484	151.0
OJSC Posyet Commercial Port	3 568	3 012	118.5
OJSC Nakhodka Commercial Seaport	2 184	2 484	87.9
OJSC Vanino Commercial Seaport	1 315	2 004	65.6
TOTAL	30 138	28 920	104.2

Source: Metal Expert, Company estimate

RISKS

Country and regional risks

Since the Company's production activities are concentrated within Russia, the main country and regional risks affecting its business are risks related to the situation in Russia. In this regard, it should be noted that Russia is part of the global economy and negative changes in the economies of other countries and fluctuations in world prices for energy resources (oil, natural gas) could have an adverse effect on Russia's economy and in turn impact the Company's performance.

Such unfavourable changes in the macroeconomic situation could make Russia a less appealing investment destination for international capital, which could affect the general liquidity of the Russian stock market and limit the Company's ability to raise the financial resources needed to fund business growth.

Risks related to possible military conflicts, states of emergency and strike action in the country

Russia has very long borders and is therefore neighbour to states with varying degrees of stability.

The risk of military conflicts or states of emergency occurring in the Company's home region of Kemerovo are minimal as there are no acute ethnic or social tensions in the region. The region is far from the zones of potential local armed conflict in other parts of Russia.

The risk of an open military conflict or the risk of a state of emergency being imposed in the country cannot be assessed by the Company, however this type of risk could affect the economy of the whole country and impact the operation of the Company. If such events were to occur, the Company would take all the necessary measures required by current legislation.

Sector risks

The Company's main sector risks are related to a possible deterioration of the situation in the coal industry as a whole. Coal prices and demand on the domestic and foreign markets depend on many factors and have a direct impact on the Company's financial health. The main factors that could affect the situation adversely are:

> A change in world prices for energy resources, particularly coal and natural gas, which is the primary alternative fuel used in power generation

> A slowdown in economic growth in China and other countries in South and East Asia

> Slower growth in demand for electricity in Russia, which could result in weaker demand for coal, as power companies are some of the Company's largest customers

> A steep increase in the transport component of the full cost of delivering coal products (faster than expected growth of rail freight tariffs and freight car leasing rates)

> A lack of transport infrastructure capacity, which could constrain implementation of plans to expand coal production and sales

> Faster than expected inflationary growth of prices for key production and capital cost items

> A dramatic increase in competition in the sector

The Company is taking all the necessary steps to minimize these risks, including:

> Constant monitoring, analysis and forecasting of market prices

> Integration of coal and electricity assets, making it possible to guarantee a certain amount of coal demand and increase it in case of a downturn on the world market

> Investment in its own logistics assets: purchase of freight cars and locomotives, and modernization of railroad infrastructure, which reduces vulnerability to rapid tariff increases or lack of capacity on RZD transport infrastructure

> Implementation of a comprehensive program to increase productivity and control costs, which reduces the risk of expenses rising faster than revenues

If there is an unfavorable development of the situation in the sector, the Company plans to take the following steps:

> Review the structure of financing

> Optimize expenditures

> Review capital investment and borrowing programs

> Implement measures to accelerate the turnaround of receivables

Risks related to possible changes in prices for resources and services used by the Company in its operations

The efficiency of coal production is affected by prices for fuel and lubricants, spare parts, electricity and explosives.

The Company makes it a priority to optimize the use of these inputs, including by introducing rationing and automated control systems, and establishing long-term relationships with suppliers, among other measures.

Risks related to possible changes in coal prices

The profitability of the Company's operations depends on changes in coal prices, which are in large part cyclical. Most revenue is generated by coal sales, so the Company's performance depends greatly on demand for coal on the domestic and world markets.

Minimizing risks by diversifying sales on the domestic market, and the markets of South and East Asia and Eastern Europe makes it possible to reduce possible regional price imbalances.

Financial risks

Changes in interest rates, resulting in higher borrowing costs, could reduce the Company's solvency and liquidity, as well as reduce the amount of loans received in future. A general increase in interest rates would increase expenditures on servicing current debt. In that case, the Company could move to seek sources of financing on more favorable terms, including outside of Russia.

The Company's business is exposed to financial risks related to changes in currency exchange rates as it uses borrowing in foreign currency and sells a commodity at prices fixed in foreign currency. Therefore, the cost of most of the Company's debt and products is susceptible to risks related to sharp fluctuations in currency exchange rates.

In the case of higher currency exchange rates and interest rates, the Company plans to pursue a strict policy to cut costs. However, it should be noted that these risks cannot be completely eliminated as they are largely beyond the Company's control and depend on the general economic situation in the country.

Inflation risks

Inflation risks could increase the Company's costs and devalue and reduce the purchasing power of the national currency. These risks could constrain the successful implementation of the Company's investment and production programs.

The Company estimates that a critical level of annual inflation would be 40-50%.

If actual inflation were to far exceed analysts' forecasts, the Company plans to take steps to adapt to the higher inflation by curbing the growth of costs and assessing this risk when developing investment projects and making investment decisions.

A significant increase in the rate of inflation could increase the Company's expenses and the cost of borrowing, and could reduce profitability. Therefore, if actual inflation were to significantly exceed Russian government forecasts, the Company plans to take steps to limit growth of non-operating expenses, and reduce receivables and decrease their average duration.

In the case of higher inflation and, consequently, costs, the Company could raise prices for its products and reduce production costs.

The measures that the Company plans to take if it is adversely affected by higher inflation are similar to those it would implement to mitigate the negative impact of fluctuations in currency exchange rates and interest rates:

- Review the structure of financing
- Optimize expenditures
- Review capital investment and borrowing programs
- Optimize the turnaround of receivables

Financial statement indicators most exposed to financial risks

Risks	Risk probability	Nature of changes in statement
Higher interest rates	Average	Higher interest rates would increase cost of borrowing, which could have an adverse impact on the Company's financial situation, such as increase operating costs and reduce profit
Changes in USD/RUB exchange rate	Average	Gradual changes in exchange rates should not have a major impact, but sharp currency fluctuations could increase the Company's costs and reduce profit
Higher inflation	Average	Higher inflation would increase production costs (price of labor, electricity, spare parts, fuel, etc.)

The above financial risks could have the most impact on the amount of the Company's costs and profit, as well as increase the duration for payment of accounts payable and reduce the amount of cash on hand.

Legal risks

Risks related to changes in currency regulation

Until recently, regulation of currency legislation had a tight administrative framework. Despite continued control over residents' use of foreign currency in their operations, there has recently been a liberalization of currency legislation.

In order to avoid potential risks related to currency regulation, the Company's legal department constantly monitors for possible changes in currency legislation.

Risks related to changes in tax legislation

Tax legislation in Russia is subject to frequent changes. In light of this, there is a possibility of legislation being passed to establish new taxes and/or levies, increase tax rates, fines and levies, establish or increase liability for violations of tax legislation, establish new obligations or otherwise worsen the climate for taxpayers or payers of levies, as well as other participants in relations regulated by tax legislation.

Russian legislation on taxes and levies allows for varying interpretation of many terms. Laws and regulations governing taxes and levies, including the Russian Tax Code, contain a number of imprecise wordings. Gaps in tax legislation point to the uncertainty and shortcomings of the Russian tax system, which could complicate tax planning.

Tax legislation in Russia can have retroactive force, which makes tax planning more difficult. The Company could be subjected to periodic tax audits, which could lead to additional taxation or fines for past reporting periods. In order to prevent such risks, the Company conducts tax planning and monitoring of tax legislation.

Risks related to changes in customs regulations and duties

Due to possible changes in requirements established by regulations governing customs control and duties, there is a risk of decisions being adopted that complicate customs declaration. Since the commodity produced by the Company is exported, the Company's business is subject to customs regulation and has exposure to the risk of changing rules for customs control and duties.

Risks related to changes in requirements for licensing of the Company's core activities or licensing of rights to use assets with limited transferability (including natural resources)

The Company sees these risks as minimal as it holds all the necessary licenses to conduct its business and is constantly working to renew or reregister existing licenses or obtain new licenses as required. The Company complies with license requirements, and takes all possible steps to maintain licenses and minimize the possibility of licenses being suspended, amended or revoked. If requirements are changed for licensing of business activities and the rights to use assets with limited transferability, the Company will take all necessary steps to fulfill all the amended requirements.

Risks related to changes in judicial practice on issues relating to the Company's operations (including licensing issues) that could have an adverse effect on the Company's performance or the results of pending court cases

Russia does not have a system of judicial precedents, so Russian courts sometimes make unpredictable rulings.

The Company is periodically involved in various court proceedings.

The Company is not currently involved in such court proceedings that could result in significant costs or have a negative impact on the Company's business and its financial health. However, such a possibility cannot be completely excluded due to judicial mistakes and unpredictable judicial rulings.

The Company does not rule out the possibility of involvement in court proceedings that could have a negative impact on its business and its financial health in future.

Operational risks

Risks related to industrial accidents and disasters

Coal mining involves the operation of a hazardous production site at which the Company conducts strip mining operations. Although the Company observes all laws and regulations governing occupational health and safety, it is impossible to exclude the possibility of industrial accidents occurring due to either objective or subjective reasons. However, the probability of such accidents is significantly lower than in shaft mining operations.

The Company's operations are conducted in strict adherence to plans developed by specialized design organizations. The Company has special units responsible for compliance with safety rules that conduct regular inspection patrols; workers are trained in safety protocol; and there are regular medical fitness checks, both in the form of health monitoring before and after shifts, and periodic medical examinations as required by law.

The Company provides accident insurance to production personnel, and insures its liability as the owner of a hazardous facility for damages to third parties resulting from an accident at such a facility.

Risks related to current court proceedings involving the Company

The Company is not involved in court proceedings that could have a significant impact on its business. In our view, there are currently no potential court proceedings or lawsuits that could have a major impact on the Company's performance or financial position.

Risks related to inability to renew licenses to conduct certain types of activities or use assets with limited transferability (including natural resources)

These risks are minimal as the Company takes all necessary measures to comply with license requirements. Hypothetically, the inability to renew licenses would be a major obstacle to the Company conducting its core activities and maintaining its financial and business performance, as the Company's core business involves mining and selling its own coal. However, given the Company's compliance with all requirements for coal mining companies, risks related to the inability to renew licenses are extremely small.

Risks related to possible liability for debts of third parties, including subsidiaries

There is a risk of Company liability for debts of third parties, including subsidiaries, arising under transactions conducted by the Company to guarantee the obligations of subsidiaries. However, this risk is offset by the fact that guarantees were provided, as a rule, for obligations of subsidiaries whose performance and ability to meet obligations on schedule depend largely on the Company.

F.A.Q.

Who are the biggest customers for Russian coal?

The biggest markets for Russian coal in 2010 were in Europe, which accounted for about 78% of Russia's coal exports. The biggest coal consumers in the region are the UK, Turkey, Ukraine, Poland, Latvia and Finland. The other 22% of the country's coal exports go to Asia, where the biggest markets for Russian coal are China, Japan and South Korea. The proportion of Russian thermal coal exports shipped to Asia grew from 17% to 22% in the period from 2008 to 2010. This growth was driven in large part by China, which was once a net exporter but is now a net importer of coal.

Largest markets for Russian thermal coal,
% of total exports in 2010

Under Russia's Civil Code and the Federal Law On Joint Stock Companies, a parent company that has the right to give a subsidiary, including under contract, mandatory instructions is equally responsible for transactions entered into by the subsidiary under such instructions. A parent company is considered to have the right to give a subsidiary mandatory instructions only in cases defined by legislation. The risk related to the Company's possible liability for debts of its subsidiaries due to the Company not providing guarantees for the obligations of subsidiaries is also low, as the charters of the Company and subsidiaries do not provide for this right and there are no contracts between the Company and subsidiaries with such conditions.

Risks related to possible loss of domestic and foreign customers who account for 10% or more of total sales revenue

Since the Company has long and well-established relationships with most of its wholesale customers, including coal importers, these risks are low.

BUSINESS DEVELOPMENT STRATEGY

Kuzbasskaya Toplivnaya Company's strategy involves:

Production growth

A key element of our strategy is to increase coal production at all three mines to gradually achieve design capacity of 11 million tonnes per year by 2015.

Production is expected to grow primarily with the expansion and updating of our fleet of mining equipment. The Company plans to reduce manual labour and increase its efficiency by acquire the latest excavators, bulldozers, loaders and other high-performance equipment while simultaneously retiring old equipment.

Expansion of resource base

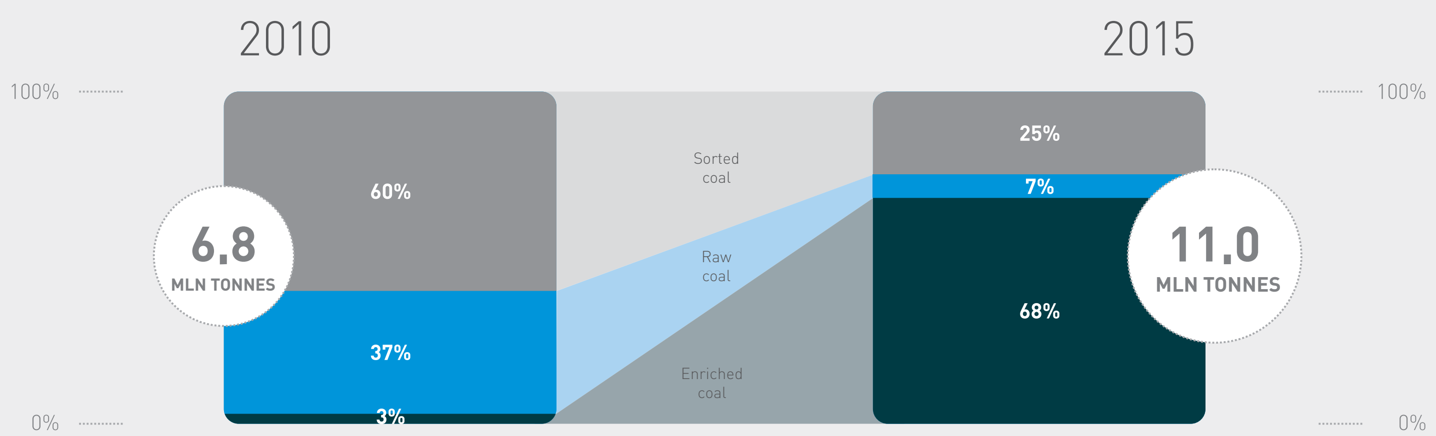
The Company plans to increase its reserves in future by acquiring new licenses in the Kuznetsk Basin. The criteria by which the Company will decide whether or not to acquire a license will be economic feasibility and whether the property can be mined using open pit technology.

Improving product quality and entering new markets

In addition to expanding production of coal, the Company plans to significantly improve its quality and reduce production losses. In the course of operations, the Company has always produced products such as diluted raw coal and high-ash coal that could not be sold due to very high content of waste rock. Previously this product was taken to the dump, resulting in a direct operating loss, as well as foregone income. In order to get quality coal from such products, the Company has begun to use steeply-inclined separation technology, which can produce about 350 kg of export quality coal from one tonne of such waste.

The Company in 2010 built its first enrichment plant using steeply-inclined separation, with capacity of 2 million tonnes per year. There are plans to build another plant, including both steeply-inclined and dense medium separation modules and with annual capacity of 3.6 million tonnes, by 2012.

Projected change in structure of coal sales by 2015



A third plant with annual capacity of 4.5 million tonnes, also using dense medium separation, is scheduled to open in 2013. This plant will enable the Company to produce coal concentrate with ash content of not less than 5% and heat value of up to 6 000 kcal/kg. This is a premium product that will meet the toughest standards of markets in Western Europe, Taiwan, Singapore and Hong Kong. It can also be used in non-energy sectors.

The new plants will enable the Company to enrich up to 80% of the coal it mines by 2015.

The higher quality and heat value of coal will help the company increase sales, enter new markets with high value-added products and sell its coal at a higher price.

Marketing support and development

The Company aims to expand its export potential by entering into direct contracts with global coal traders and power companies, as well as by establishing foreign representative offices in its main markets.

There are also plans to begin selling new specialized, premium products such as coals with a narrow range of intended properties.

On the Russian wholesale market, the Company intends to increase the proportion of direct sales to major power generating companies.

On the retail market, there are plans to bolster our regional presence by further developing the sales network, expanding the product range and improving the quality of customer service.

Optimization of costs and improving efficiency

The Company aims to curb the growth of administrative and overhead expenses, as well as labor costs by modernizing production equipment.

The introduction of steeply-inclined separation technology will help increase overall efficiency of mining operations by reducing production losses.

The Company has begun pursuing a policy of hedging against the risk of higher transport tariffs charged by RZD. The Company acquired a 45% stake in Kuzbass Transport Company in 2010, in a deal that should by 2012 enable it to use freight cars leased at a fixed 10-year rate for most of its export shipments.

The Company also intends to maintain its low coal mining costs.

Further improving corporate governance

The Company believes that transparency and improving corporate governance are key components of long-term, sustainable growth. Therefore, we will take regular steps to improve the mechanisms of corporate governance in accordance with the best world practices.

In 2010, the Company's Board of Directors was joined by two independent directors for the first time. In 2011, an investment and strategy committee will be formed to complement the Board's existing audit and remuneration committees.

FINANCIAL RESULTS

Kuzbasskaya Toplivnaya Company is one of the fastest-growing thermal coal producers in Russia. The Company produces high-quality thermal coal, classified as D-rank under the Russian classification system, with naturally low sulphur and phosphorus content, as well as a relatively high calorific value.

The Company was ranked the seventh largest thermal coal producer in the country in 2010, accounting for 2.7% of the total thermal coal extraction in Russia.

The Company operates three open-pit mines, located in the Kuznetsk coal basin (Kuzbass), the largest Russian coal producing region. Apart from production infrastructure the Company also possesses a developed railway infrastructure, an extensive retail sales chain and a power generating station.

The Company's operations are split into four business segments:

Domestic sales of coal produced – sales of coal produced by the Company in Russian regions, mainly through its retail chain, which at the end of 2010 consisted of 65 points of sale in the Western Siberian regions.

Export sales of coal produced – sales of coal produced by the Company on export markets, the largest of which in 2010 were Poland, China and South Korea.

Resale of third-party coal – resale of coal purchased from other producers through the Company's retail chain.

Other operations – sales of heat and electricity, provision of transportation services to other coal producers using the Company's railroad infrastructure, provision of coal storage services and other services.

Review of main coal market trends

Last year saw renewed demand for thermal coal both on the global market and in Russia as industrial production recovered after the steep fall in 2009. The upturn of industrial activity led to growth in global power generation, about 40% of which is produced by coal combustion. Global sales of thermal coal in 2010 increased by 7% to 721 million tonnes, while Russian thermal coal exports rose by 5% to 97 million tonnes (here and further – according to UBS research and Russian government statistics). The main importers of Russian thermal coal were the United Kingdom, Turkey, Poland, Japan, China and Ukraine. Russian consumption of thermal coal in 2010 increased by 4% to 124 million tonnes because of growth in thermal and electric power generation by 2% and 5% respectively (here and further - according to Russian Ministry of Energy statistics). Russian companies produced 258 million tonnes of thermal coal in 2010, 7% more than the 242 million tonnes produced in 2009.

All these factors resulted in a high level of trading activity and led to an increase in average prices on the domestic market and in the main export markets for Russian coal, positively affecting revenues of coal producers. However, in the past year Russian coal exporters experienced significant increases in the cost of shipping coal to customers, due to demand for freight cars exceeding available supply. Also, export margins were adversely affected by a 4% increase in the Russian ruble's exchange rate against the US dollar.

In 2011, management expects continued global coal consumption growth, led by demand in the Asia-Pacific region. This may be positive for Russian export volumes. Coal demand in Russia in 2011 will depend on the average temperatures during winter, as the main volume of coal in Russia is used for heating.

Key financial and operating results of the group

Key financial and operating results of the group

RUB mln	2007	2008	2009	2010
Coal production, mln t	4.10	5.48	6.15	6.80
Change, %		34	-12	-11
Coal sales, mln t	5.40	7.54	7.41	8.54
Change, %		40	-2	15
Including coal resale, mln t	1.46	2.30	1.38	2.16
Change, %		57	-40	56
Revenue	3 864	8 557	10 658	14 160
Change, %		121	25	33
EBITDA	475	2 172	2 178	2 134
EBITDA margin, %	12	25	20	15
Net profit (loss)	(106)	1 102	663	823
Net margin, %	-3	13	6	6
Total production cash cost per tonne of coal, RUB	334	377	432	509
Change, %		13%	15%	18%
Net debt	3 087	3 370	3 773	1 754
Net Debt / EBITDA	6.5	1.6	1.7	0.8

The Company increased coal production and sales in 2010, and made progress towards the achievement of its long-term development strategy. Coal production increased by 11% to 6.8 million tonnes owing to continued growth of extraction at all three of the Company's open-pit mines. The strongest growth was at the Cheremshansky open-pit mine, which possesses the highest quality coal produced by the Company. This mine produced 2.35 million tonnes in 2010, compared to 2.05 million tonnes in 2009. The Company's first enrichment plant, Kaskad, launched in August 2010 and produced 0.2 million tonnes of export quality coal.

The Company continued to increase the volume of coal sorting last year as part of its strategy to grow the share of high value-added products in the total sales structure. The volume of coal sorted by coal-crushing and screening units increased by 33% to 4.10 million tonnes (2009: 3.08 million tonnes). During the year the monthly average volumes of coal production and sorting were the highest in the Company's history and amounted to 0.57 and 0.34 million tonnes, respectively.

Total coal sales on all markets rose by 15% and reached 8.54 million tonnes in 2010 (2009: 7.41 million tonnes). The growth in sales was driven by export volumes, the share of which increased from 36% in 2009 to 44% in 2010. The recovery of demand for coal in the global markets and the increase of export shipments led the Company to increase the volume of coal resold to meet the demand of its domestic retail chain customers. The volume of coal resold surged 56% and reached 2.16 million tonnes.

During 2010 the average price of coal increased by 10% to 977 roubles per tonne net of VAT and railroad tariffs (2009: 892 roubles per tonne). The average domestic price increased by 11% from 848 roubles to 943 roubles per tonne. The average export price was 1 021 roubles per tonne, exceeding the 2009 price by 5% (970 roubles per tonne). The relatively stronger growth of domestic prices was due to the base effect: in early 2009 the Company sold export coal under contracts negotiated at the record high prices of 2008, and in early 2010 coal was sold at the prices of 2009, adversely affected by the global economic crisis. Nevertheless, during the year the average price rose steadily from quarter to quarter due to the recovery of global coal demand and contracts being signed at higher prices.

The growth of sales volumes and prices in 2010 positively affected the Company's revenue, which increased by 33% to 14.160 billion roubles (2009: 10.658 billion roubles). Over the same period the main expenses of the Company also increased. The cost of transportation per tonne of coal increased by 33% to 637 roubles (2009: 478 roubles), driven by an increase in transportation tariffs, the higher percentage of exports in the total sales structure and the change of export shipment terms from DAF – Russian border to DAF – Polish-Belarusian or Polish-Ukrainian border. The past year was also characterized by significant growth of production cash costs, which increased by 18% year-on-year and reached 509 roubles per tonne (2009: 432 roubles). Cash costs increased due to higher personnel costs, an increase in the stripping ratio and a change in mining and geological conditions, which pushed up rock blasting and coal transportation costs, as well as expenses for repair and maintenance of mining and transportation equipment. In addition, there was an increase in the price of coal purchased from third parties: the price per tonne increased by 8% to 740 roubles (2009: 682 roubles).

Over the year core costs grew faster than revenue. This resulted in a 2% decrease of 2010 EBITDA to 2.134 billion roubles (2009: 2.178 billion roubles). However, the US dollar equivalent of 2010 EBITDA was 2% higher than the level of 2009 (USD 69 million) and reached USD 70 million, achieving management's target. EBITDA was converted to US dollars using the average Central Bank of Russia exchange rates for each year, 31.72 RUB/USD in 2009 and 30.38 RUB/USD in 2010.

Despite the decrease in operating profit, the Company's net profit rose by 24% to 823 million roubles (2009: 663 million roubles) as net financing expenses were cut by half.

The IPO in the first half of 2010 helped to reduce debt levels by more than half and slashed the Net Debt/EBITDA ratio from 1.7 in 2009 to 0.8 in 2010. The funds received from the IPO also helped the Company to execute a large-scale capital investment program – cash flow spent on the purchase of property, plant and equipment amounted to 2.499 billion roubles (2009: 1.084 billion roubles).

Financial results analysis

Revenue

RUB mln	2010	2009	%
Revenue:	14 160	10 658	33
Of which by segment:			
Export sales of coal produced	8 178	5 004	63
Domestic sales of coal produced	3 144	3 624	-13
Resale of coal purchased	2 273	1 501	51
Other operations	565	529	7

The Company's consolidated revenue grew by 33% in 2010 to 14.160 billion roubles (2009: 10.658 billion roubles) due to the growth of sales volume by 15% and an increase in average realized prices net of VAT and transportation costs by 10%. Revenue, net of railroad costs, increased by 15% due to significant growth of transportation costs, which is detailed in the Cost of sales section below.

During the year export sales revenue increased by 63% to 8.178 billion roubles year-on-year (2009: 5.004 billion roubles) due to volume growth of 39% and a 5% increase in average realized prices. The price increase was caused by a change in the export shipments structure in favour of contracts signed in the first half of 2010 at higher prices. The increase in export revenue net of transportation costs was 44%.

Revenue from domestic coal sales was 3.144 billion roubles, 13% lower than in 2009 (3.624 billion roubles). This was partly due to a change in sales focus to external markets, which were recovering after the fall in 2009. Revenue also decreased due to a reduction in the transport costs of shipping coal to Russian customers, because the average shipping distance decreased. In 2010, 97% of all coal sold by the Company in Russia was consumed in the Siberian Federal District, while in 2009 Siberia purchased only 81% of the total, and the remaining 19% were sold to other regions, more distant from the Kuznetsk Basin.

During the year the Company actively increased the sales volume of third-party coal to compensate for the reduction of own coal sales on the domestic market. The growing sales volume and rising prices resulted in the growth of revenue in this segment by 51% year-on-year to 2.273 billion roubles (2009: 1.501 billion roubles).

The total revenue from coal sales in Russia amounted to 5.417 billion roubles, increasing by 6% over the previous year (5.124 billion roubles). However, domestic sales revenue net of railroad costs decreased by 1% compared to 2009.

Revenue from other operations increased by 7% in 2010 to 565 million roubles (2009: 529 million roubles). This increase was caused by growth in heat and electricity produced by the Anzhero-Sudzhensk power plant and an increase in revenue from transportation of neighbouring producers' coal using the Company's own railroad infrastructure.

Cost of sales

RUB mln	2010	2009	%
Cost of sales	11 457	8 101	41
including:			
Railroad tariff and transportation services	5 437	3 543	53
Production cash costs of Kuzbasskaya Toplivnaya Company	3 462	2 658	30
Purchased coal	1 595	942	69
Depreciation	755	615	23
Other costs	373	341	8
Change in coal stock	(165)	2	—

The cost of sales increased by 41% in 2010, to 11.457 billion roubles (2009: 8.101 billion roubles). The increase in cost of sales was mainly a result of the significant growth in transportation costs, an increase in production costs due to a change in mining and geological conditions, an increase in salaries, as well as increased costs of purchasing third-party coal due to the growth of coal resale volumes.

Transportation costs

The cost of coal transportation (5.437 billion roubles) increased by 53% year-on-year and comprised 47% of the Company's total cost of sales. The significant increase in these costs was driven by growth in export volumes by 1.055 million tonnes together with Russian Railways' transportation tariffs and increased leasing rates for freight cars. The increase was also driven by the change of export shipment terms from DAF – Russian border to DAF – Polish-Belarusian or Polish-Ukrainian border. Total transportation costs rose by 33%, from 478 roubles to 637 roubles per tonne of coal.

In order to limit the impact of future leasing rate increases for freight cars and to guarantee their availability for loading of coal, the Company created the joint venture Kuzbass Transport Company in partnership with one of Russia's leading railroad transportation companies. During 2010 the joint venture was actively increasing its freight car fleet, which was leased by the Company under long-term, fixed-price contracts. By the end of 2010, the Company leased 2,200 freight cars from Kuzbass Transport Company. According to management's expectations the number of freight cars leased from the joint venture may increase to as many as 5,500 units during 2011-2012, which would cover the majority of the Company's export shipments.

F.A.Q.

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How are prices for thermal coal set in Russia and the world?

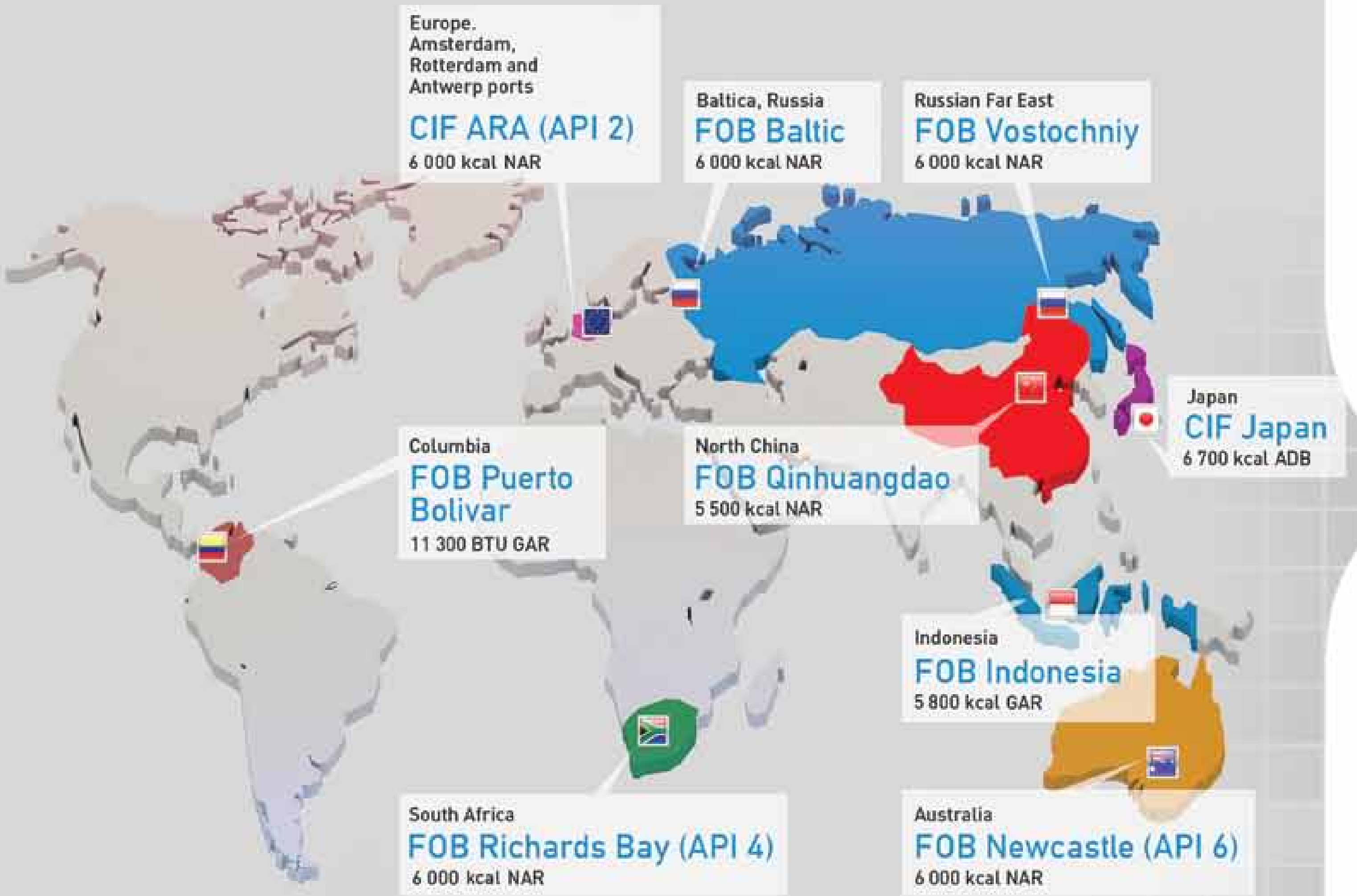
{v}

World coal prices have regional characteristics and differ widely in different regions of the world due to differences in the local balance of supply and demand, shipping costs and heat value requirements. Nonetheless, the general movement of prices corresponds to global fluctuations.

Inside Russia, there are no generally accepted indexes reflecting the movement of thermal coal prices because the country has a vast area and the price of coal can vary substantially from region to region depending on the rank and heat value of coal and the method of delivery. Coal prices in Russia are determined by market demand and supply.

However, for sales to households and public utilities, which in 2010 accounted for about 11% of total coal sales, regional governments have the right to annually set maximum prices for coal. An important factor influencing the price of coal is the cost of electricity and domestic prices for gas, which is used to generate up to 70% of electricity in Russia.

Key indexes reflecting thermal coal prices in various regions of the world



Production cash costs

RUB mln	2010	2009	%
Production cash costs of Kuzbasskaya Toplivnaya Company	3 462	2 658	30
including:			
Employee costs and social payments	758	608	25
Extraction, processing and sorting of coal	723	659	10
Fuel	722	485	49
Spare parts	487	312	56
Other costs	281	276	2
Extraction tax and environment payments	248	204	22
Repair and maintenance	243	114	112
Total cash cost per tonne of produced coal, RUB	509	432	18

Production cash costs rose to 3.462 billion roubles in 2010, up by 30% from the level of the previous year (2009: 2.658 billion roubles). Cash costs increased due to growth in personnel costs, increased coal extraction costs and higher expenses for fuel and spare parts.

During the year employee costs increased by 25% to 758 million roubles as a result of a readjustment of salaries by 10% in February 2010 and increased salaries for machinery operators due to higher freight turnover in the reporting period.

Extraction, processing and sorting costs increased by 10% to 723 million roubles. The growth was driven by an 11% increase in production volume, 33% growth of coal sorting volume and an 18% increase in blasted rock mass. The reason for the significant increase in rock blasting was the start of development of new mining sectors at the Cheremshansky and Vinogradovsky open-pit mines. At the same time, the Company mitigated significant growth in extraction, processing and sorting costs by increasing the efficiency of production processes and introducing new machinery and equipment.

Fuel costs increased by 49% to 722 million roubles in 2010 as diesel prices grew 17% and rock transportation volumes rose by 17%. In addition, the development of new mining sectors resulted in the average overburden transportation distance increasing by 16%.

The cost of spare parts, equipment repairs and technical maintenance increased significantly over the course of 2010, jumping 71% to 730 million roubles. This was a result of the expansion of the fleet of imported mining and transportation equipment and major overhauls of machinery and equipment purchased in 2009.

As a result, production cash costs per tonne of coal increased by 18% and reached 509 roubles, which was consistent with management's target (2009: 432 roubles per tonne). It is worth noting that one of the most important drivers of production costs per tonne of coal is the stripping ratio. The stripping ratio increased from 7.1 to 7.3 in 2010, which led to growth in freight turnover as well as an increase in personnel costs, and higher fuel and equipment maintenance expenses.

Other cost of sales items

During the year the cost of coal purchased from third parties for resale increased by 69% year-on-year and reached 1.595 billion roubles (2009: 942 million roubles). The growth was driven by a 56% increase in resale volumes and an 8% increase in the price of purchased coal.

Depreciation included in the cost of sales increased by 23% in 2010, to 755 million roubles (2009: 615 million roubles) due to the launch of a substantial amount of capital assets, including the enrichment plant, the repair shop and various mining and transport equipment and machinery.

The delay in the shipment of some export sales in the fourth quarter of 2010 due to a lack of available freight cars resulted in a year-on-year increase in coal inventories at the Company's warehouses at year end by 165 million roubles. This coal was shipped to export customers in the first quarter of 2011.

Distribution, administrative and other operating expenses

RUB mln	2010	2009	%
Distribution, administrative and other operating expenses	1 350	1 088	24
Including:			
Distribution expenses	540	363	49
Administrative expenses	849	706	20
Other operating expenses (income)	(39)	19	—

In 2010, distribution, administrative and other expenses increased by 24% year-on-year from 1.088 billion roubles to 1.350 billion roubles. Distribution and administrative personnel costs increased by 38% to 614 million roubles due to salary indexation in the first half of 2010 and payment of bonuses related to the IPO and the Company's 10th anniversary. The costs of services increased by 54% to 402 million roubles, mainly because of sales volume growth. Property tax payments increased by 34% and reached 123 million roubles, driven by the Company's investment program. Despite these increases the ratio of overhead expenses to revenue remained stable at 10%.

Operating profit, EBITDA and net profit

RUB mln	2010	2009	%
Operating profit	1 353	1 469	-8
Adjustments:			
Depreciation charge	820	690	-19
Impairment loss	7	15	—
Loss (profit) from disposals of property, plant and equipment	(46)	4	—
EBITDA	2 134	2 178	-2

The operating profit decreased by 8% year-on-year in 2010 to 1.353 billion roubles (2009: 1.469 billion roubles). EBITDA amounted to 2.134 billion roubles, or 2% lower than the result of 2009 (2.178 billion roubles). The EBITDA margin fell from 20% to 15%. Apart from all factors discussed previously, EBITDA was affected by the delay in shipment of certain coal volumes in the fourth quarter because of a shortage of freight cars. These sales were not recognized in 2010 and will be reflected only in the first quarter of 2011. In the US dollar equivalent, 2010 EBITDA was 2% higher than the level of 2009 at USD 70 million, achieving management's target.

A significant reduction in net finance costs, owing to lower indebtedness and lower average interest rates, led to an increase in the net profit by 24% to 823 million roubles (2009: 663 million roubles).

Indebtedness

RUB mln	2010	2009	%
Long term loans and credits	1 676	2 156	-24
Short term loans and credits	535	1 655	-68
Total debt, including:	2 211	3 859	-43
Rouble-denominated	228	1 757	-87
Foreign currency-denominated	1 983	2 102	-6
Cash and cash equivalents	457	86	—
Net debt	1 754	3 773	-54
Interest expense	250	615	-59

In the past year the Company reduced its loan portfolio significantly, primarily using a portion of the capital raised in the IPO. As a result the total debt decreased by 43% year-on-year to 2.211 billion roubles (2009: 3.859 billion roubles), and the net debt at the end of the year was 1.754 billion roubles (2009: 3.773 billion roubles). The proportion of short-term debt decreased by more than two-thirds and comprised only 24% of the total debt portfolio. As of the end of 2010, 90% of the Company's loans were denominated in US dollars, and the remaining 10% were denominated in roubles. Thanks to a focus on credit portfolio optimization, led by the Company's finance department, the average effective interest rate decreased to 7.7% per annum in the course of the year. The decrease in the amount of debt and its cost reduced interest expenses by about 59% to 250 million roubles in 2010 (2009: 615 million roubles).

The factors described above impacted the Net Debt-to-EBITDA ratio and at the end of the year it was down to 0.8 from 1.7 at the end of 2009.

Cash flow

RUB mln	2010	2009	%
Cash flow from operating activities	2 031	626	224
Cash flow used in investing activities	(2 460)	(1 030)	139
Cash flow from financing activities	865	221	291
Net increase (decrease) in cash and cash equivalents	436	(183)	—

In 2010 operating cash flow before tax increased by 220% and reached 2.031 billion roubles (2009: 626 million roubles) due to higher net profit, reduced interest payments and the release of cash from working capital.

During the year cash flow used in investment activity increased by 140% to 2.460 billion roubles (2009: 1.030 billion roubles). This significant increase was due to the realization of a large-scale investment program in 2010: in the third quarter the first coal enrichment plant with a capacity of 2 million tonnes was completed and in the fourth quarter the construction of a unique repair shop for heavy-duty trucks was finished. The Company's open-pit mines received new mining and transportation machinery, including dump trucks, loaders, bulldozers, shovels, and coal-crushing and screening units. The total investment in property, plant and equipment was 2.499 billion roubles in 2010, including 157 million roubles of advances for equipment which will come into operation in the future. The cash spent for capital expenditure in 2009 amounted to 1.084 billion roubles. The investment activity was financed mainly with the funds retained from operations and capital raised with the IPO.

The Company recorded an inflow of cash from financing activities in 2010 that amounted to 865 million roubles (2009: 221 million roubles). During 2010 there was an outflow of cash from the net reduction of indebtedness, which amounted to 1.687 billion roubles, and a dividend distribution of 253 million roubles. The Company raised 2.805 billion roubles in additional equity from the IPO, which resulted in a net financial inflow for the year.

The cash flows of 2010 resulted in a net increase in cash and cash equivalents of 436 million roubles, compared to a net cash outflow in 2009 of 183 million roubles.

Balance Sheet

RUB mln	2010	2009	%
Non-current assets	8 852	7 430	19
Current assets	2 787	1 985	40
Total assets	11 639	9 415	24
Total equity, including:	6 835	3 467	97
Retained earnings	3 975	3 409	17
Additional paid-in capital	2 829	—	—
Non-current liabilities	2 472	2 869	-14
Current liabilities	2 332	3 079	-24
Total liabilities	4 804	5 948	-19
Total equity and liabilities	11 639	9 415	24

The Company's assets stood at 11.639 billion roubles at the end of 2010, an increase of 24% from 9.415 billion roubles a year earlier.

During 2010 non-current assets increased by 19% to 8.852 billion roubles (2009: 7.430 billion roubles). This growth was mainly driven by a 20% increase in property, plant and equipment – from 7.333 billion roubles in 2009 to 8.804 billion roubles in 2010.

Current assets amounted to 2.787 billion roubles in 2010, an increase of 40% year-on-year (2009: 1.985 billion roubles). Inventories increased by 90% to 759 million roubles, due to the delay of shipment of some coal volumes in the fourth quarter, and growth in fuel and spare parts stockpiles. Besides this, during the year there was an increase in cash and advances paid to suppliers. Current assets were negatively affected by a reduction in trade and other receivables, which decreased by 11% from 1.227 billion roubles to 1.086 billion roubles in 2010.

In the past year the total equity of the Company doubled from 3.467 billion roubles to 6.835 billion roubles mainly due to the issue of 14.9 million shares in the IPO, which raised 2.829 billion roubles of additional capital. These funds were recorded as additional paid-in capital of Kuzbasskaya Toplivnaya Company. The growth of total equity was also due to a 17% increase in retained earnings to 3.975 billion roubles (2009: 3.409 billion roubles).

The Company's total liabilities in 2010 shrank by 19% to 4.804 billion roubles (2009: 5.948 billion roubles). Long-term and short-term liabilities decreased by 14% and 24% to 2.472 billion roubles and 2.332 billion roubles, respectively (2009: 2.869 billion roubles and 3.079 billion roubles). The main driver of this decrease was the reduction of the loan portfolio, which was discussed in detail in the Indebtedness section. At the same time the reduction of liabilities was somewhat offset by growth in trade and other payables in the fourth quarter of 2010. Trade and other payables increased by 25% year-on-year from 1.414 billion roubles to 1.767 billion roubles due to the receipt of increased advances for export coal shipments due in 2011.

Key financial ratios

Liquidity ratios

Current ratio

RUB mln	2010	2009	Ch.
Current assets	2 787	1 985	40%
Current liabilities	2 332	3 079	-24%
Current ratio *	1.2x	0.6x	+85%

* Current assets to current liabilities

Quick ratio

RUB mln	2010	2009	Ch.
Quick assets (current assets net of inventories)	2 028	1 580	28%
Current liabilities	2 332	3 079	-24%
Quick ratio*	0.9x	0.5x	+69%

* Quick assets to current liabilities

Turnover ratios

Asset turnover

RUB mln	2010	2009	Ch.
Revenue	14 160	10 658	33%
Total assets at the start of the year	9 415	9 056	4%
Total assets at the end of the year	11 639	9 415	24%
Asset turnover *	1.3x	1.2x	+17%

* Revenue / ((Total assets at the start of the year + Total assets at the end of the year)/2)

Inventory turnover

RUB mln	2010	2009	Ch.
Cost of sales	11 457	8 101	41%
Inventory at the start of the year	405	512	-21%
Inventory at the end of the year	759	405	87%
Inventory turnover*, days	18.5	20.7	-10%

* Cost of sales / ((Inventory at the start of the year + Inventory at the end of the year)/2)

Profitability ratios

Return on Equity (ROE)

RUB mln	2010	2009	Ch.
Net profit	823	663	24%
Total equity at the start of the year	3 467	2 818	23%
Total equity at the end of the year	6 835	3 467	97%
Return on Equity *	16%	21%	-5%

* Net profit / ((Total equity at the start of the year + Total equity at the end of the year)/2)

Return on Investment (ROI)

RUB mln	2010	2009	Ch.
Net profit	823	663	24%
Total equity at the start of the year	3 467	2 818	23%
Total equity at the end of the year	6 835	3 467	97%
Total debt at the start of the year	3 859	3 685	5%
Total debt at the end of the year	2 211	3 859	-43%
Return on investment *	10%	10%	—

* Net profit/ ((Total equity at the start of the year + Total equity at the end of the year + Total debt at the start of the year + Total debt at the end of the year)/2)

F.A.Q.

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How is Russian coal delivered to buyers? Who pays for shipping and how much?

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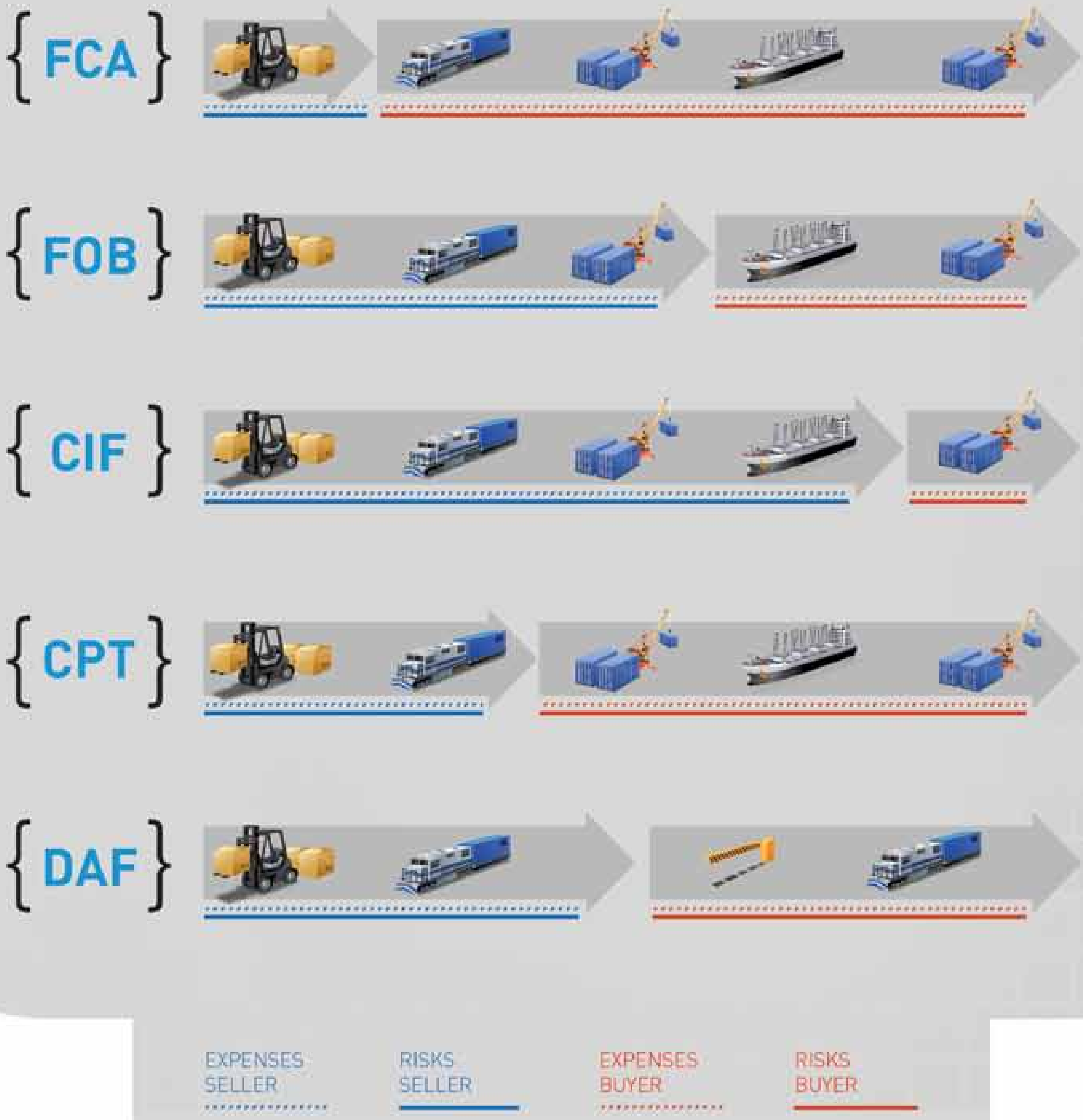
Russia has a huge land area and the Kuznetsk Basin, which produces 60% of Russia's coal and is where the Company operates, is located almost in the very center of the country. Most coal within the country is shipped by rail. Exports are also shipped by marine transport. The average distance of rail shipment from Kuzbass coal fields is 4 500-5 000 km to ports on the Baltic and Black seas and 6 000 km to eastern ports.

The shipping costs are paid for by the seller or the buyer depending on the terms of delivery. For coal exports from Russia, the most common terms are based on the internationally accepted Incoterms: FOB, CIF, CPT, DAF and FCA.

Most of the Company's coal exports to the West in 2010 were carried out on the terms of DAF to Poland's borders with Belarus or Ukraine. Shipments to the East were conducted on the terms of CPT to the Vostochny port. The average cost of shipping one tonne of coal was USD 44 to the West and USD 34 to the East.

Distribution of expenses and risks between buyer and seller in international trade



Leverage ratios

Total debt to equity

RUB mln	2010	2009	Ch.
Total debt	2 211	3 859	-43%
Total equity	6 835	3 467	97%
Total debt to equity	0.3x	1.1x	-71%

Interest coverage ratio

RUB mln	2010	2009	Ch.
Profit before interest and taxes	1,322	1,493	-11%
Interest expense	250	615	-59%
Interest coverage ratio*	6.3x	3.4x	+83%

* Profit before interest and taxes / Interest expense

CAPITAL SPENDING AND INVESTMENT

Kuzbasskaya Toplivnaya Company's investments in 2010 totaled 2.2 billion roubles (here and below, not including VAT), of which 46% was spent on capital construction and 45% on acquisition of equipment.

Capital construction

The largest capital construction project in 2010 was the Company's first enrichment plant, using steeply-inclined separation technology. This project accounted for 76% of total capital construction and 35% of the Company's total investment in the year.

Acquisition of equipment

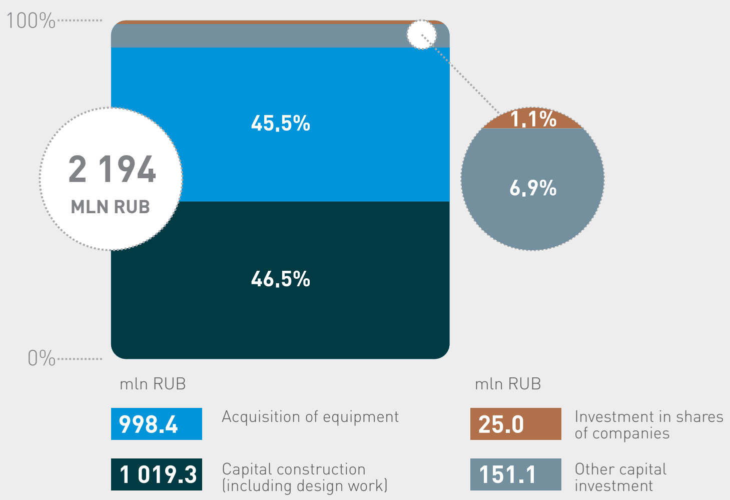
The Company in 2010 acquired seven bulldozers, one grader, 24 Belaz dump trucks, 13 loaders, two sorting units and two hydraulic excavators, which accounted for 89% of all spending on equipment and 40% of total investment. The Company also acquired two locomotives and equipment to repair and service rolling stock and railway lines.

Investment in shares and stakes in companies

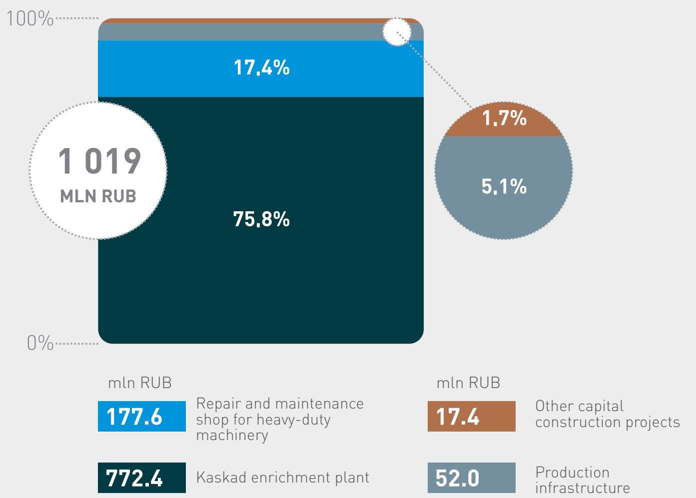
The Company spent a total of 25 million roubles in 2010 on the acquisition of shares and stakes in other companies.

The Company acquired the remaining 25% of Kuzbasstoplivosbyt, a retail distribution company operating in the Kemerovo Region. The deal, worth 20.2 million roubles, increased the Company's ownership in this firm to 100%.

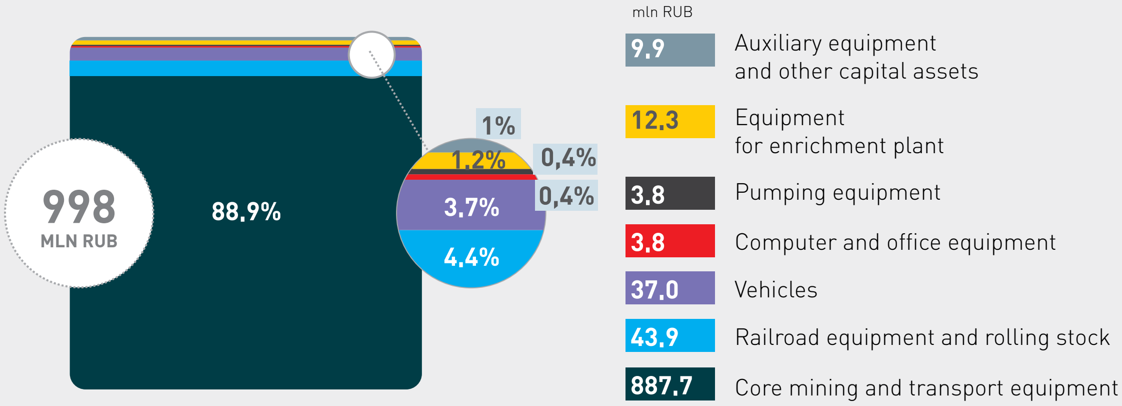
Company investment in 2010



Capital construction in 2010



Capital spending on equipment in 2010



The Company also acquired a 45% stake in Kuzbass Transport Company, in a deal amounting to less than 1 million roubles. Under the terms of the deal, this firm will expand its fleet of freight cars for carrying coal and lease them to Kuzbasskaya Toplivnaya Company at a rate that will be fixed for a period of ten years.

The remaining funds were spent on increasing stakes in district fuel companies that are part of the Company's distribution network in Western Siberia.

Future investment plans

The company plans to invest about 8.6 billion roubles in 2011 – 2015, including 2.3 billion roubles (not including VAT) in 2011.

In 2011 the Company will continue to acquire modern mining and transport equipment and will begin building a second enrichment plant that will use steeply-inclined and dense medium separation technology. Management expects the plant to open in 2012.

The Company will also make substantial investments in railroad infrastructure. There are plans to buy locomotives and build three additional lines at the Uba sorting station, where trains are formed for shipment to market. The investment should expand throughput capacity from 12 million to 15 million tonnes per year in order to meet future requirements of the Company, as well as neighbouring coal mining companies for which it forms trains and transports coal to the public rail lines of RZD.

HUMAN RESOURCES MANAGEMENT

Size of workforce and wages

The Company had a total of 3 765 employees at the end of 2010, 4.6% more than a year earlier. The number of employees involved in coal production increased by 8.1% to 1 949.

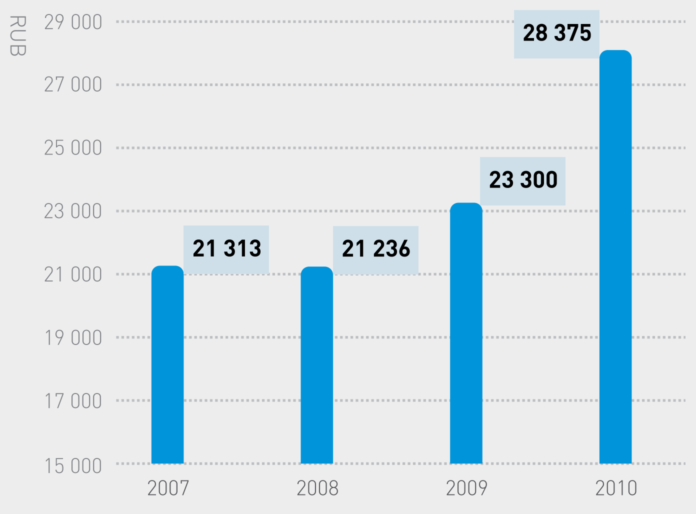
Structure of workforce

	2007	2008	2009	2010
Top management	7	7	7	8
Personnel involved in coal production:	1 511	1 771	1 803	1 949
Growth, %	-	17.2	1.8	8.1
Specialists	264	310	302	307
Growth, %	—	17.4	-2.6	4.3
Workers	1 247	1 443	1 501	1 642
Growth, %	-	15.7	4.0	9.4
Auxiliary personnel:	1 000	1 534	1 788	1 808
Growth, %	—	53.4	16.6	1.1
Distribution network	365	843	1 103	1 101
Railroad infrastructure	336	385	379	403
Heat and power generation	299	306	306	304
Total	2 518	3 312	3 598	3 765
Growth, %	—	31.5	8.6	4.6

Despite the high population density in the Kemerovo Region, demand for qualified personnel remains strong due to the large number of coal mining companies in the region. In order to retain employees and attract new staff the Company keeps wages at competitive levels and provides incentives with social security and other benefits.

Wage expense across the group of companies rose by an average of 22% in 2010 compared to the previous year, and amounted to 28 375 roubles per employee per month.

Average monthly spending on wages and other payments to employees of the KTK group



The average monthly wage of KTK production personnel rose by 29% compared to 2009, to 28 023 roubles.

Payment system and social security

The Company has a rating system of wage payment under which the wages of various categories of employees are differentiated depending on the conditions, intensity and nature of work and the difficulty of the duties performed.

The rating system of wage payment consists of:

> Base rates and skills rates for jobs and occupations of workers

> Standard position salaries and job descriptions for managers, specialists and other employees

> Premiums and increments to base rates and salaries

The Company in 2010 signed a collective agreement with the union organization that is recognized as the authorized representative for all of its employees. Under this agreement, the Company provides the following benefits and compensation to its employees:

> Monetary compensation equivalent to 0.5 litre of milk per shift

> Free coal for household needs or partial compensation for cost of heating in the price of housing and utility services

> Lump sum payment for length of work in the coal industry

> Monthly payment for length of employment

> Compensation for the cost of return travel to a destination within Russia (by any form of transport, including personal car, other than taxi) for vacation purposes once in three years for the employee and two family members

> Payment for medical recovery of employees' children

> Payment for medically prescribed health resort treatment (recovery) of employees and their children within the scope of the allocated budget

> Lump sum payment to retiring employees

In case of permanent injury or death of an employee as a result of an accident at work, the Company pays:

> Lump sum compensation for loss of occupational capacity as a result of work-related injury or work-related illness

> Benefits to help cover funeral expenses

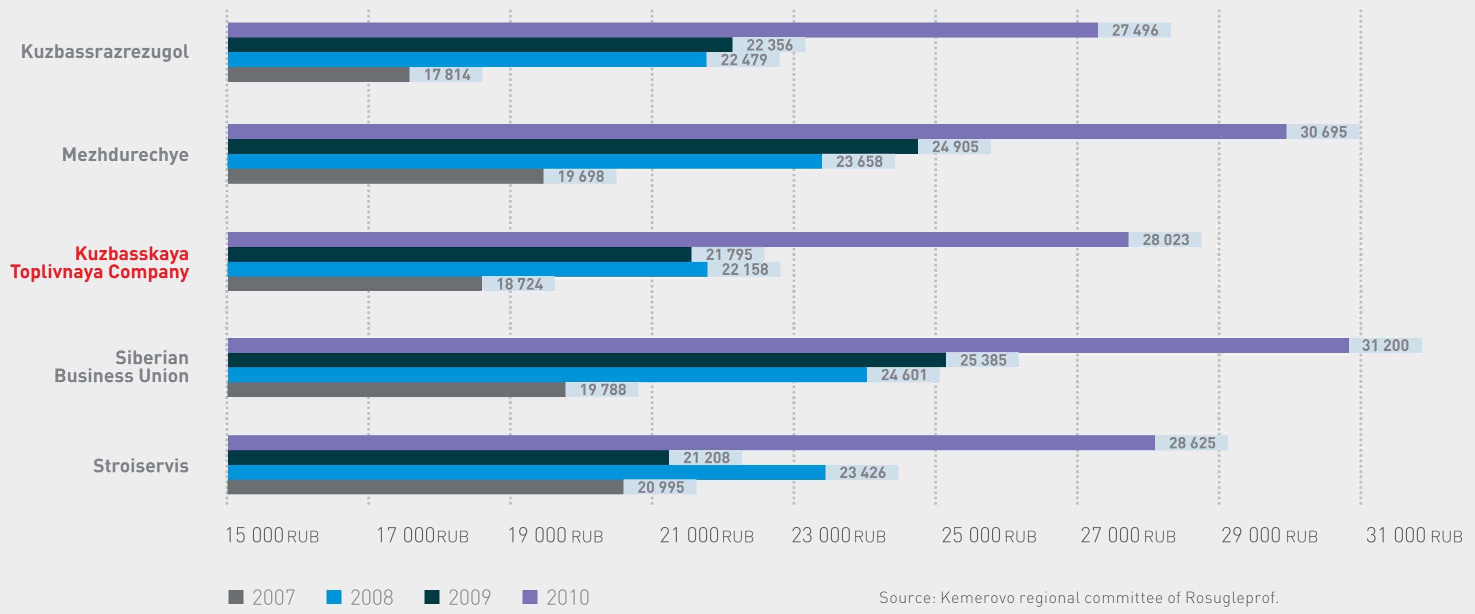
> Moral damages to the family of the deceased

> A lump sum benefit to each family member who was a dependent of the deceased

> A monthly benefit to children of the deceased until they reach 18 years of age

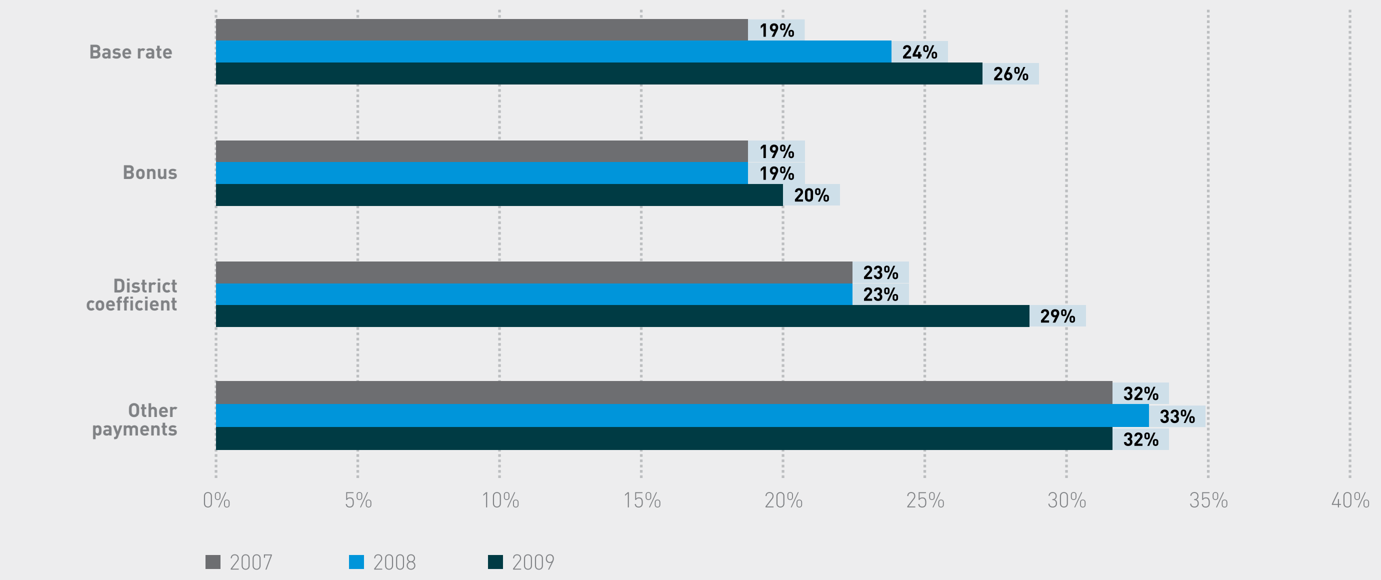
Under the collective agreement, the Company also pledges to increase the proportion of the constant portion of workers' wages (base rate, salary, piece rate and compensation payments not related to the worker's performance) to 70% by 2012.

Average wages of production personnel at coal companies in Kemerovo Region



Source: Kemerovo regional committee of Rosugleprof.

Structure of wage pool for Company personnel involved in coal production



Training and professional development

In 2010, about 200 workers from among production personnel upgraded their qualifications at the Company's expense at the Belovo Polytechnic College and the Training Center of Kuzbassrazrezugol Management Company.

The Company plans to continue funding the education of its employees. Thirty-two engineering and technical employees plan to upgrade their skills in 2011.

F.A.Q.

What kind of coal is sold in Russia and what kind is exported?

The same types of coal are used in Russia and abroad, but the heat value of the coal sold on the domestic market and that which is exported, differs. China and South Korea use coal with heat value of 5 500 kcal/kg, while Japan and Western Europe use coal with heat value of 6 000 kcal/kg. Western Europe uses the quality standards of SCOTA terms (Standard Coal Trading Agreement), compliance with which is mandatory in order to trade on the market. If coal does not meet these standards, it will either not be sold or sold at a steep discount.

In Russia, coal with heat value of 5 100 kcal/kg is the most popular due to the age of the country's power generating facilities. Domestic demand for coal with high heat value may begin to grow as the country modernizes its electricity sector and launches new generating capacity.

{5 100 kcal / kg}

{5 500 kcal / kg}

{6 000 kcal / kg}

Main Consumers

5 100 kcal / kg	5 500 kcal / kg	6 000 kcal / kg
RUSSIA	CHINA	JAPAN
	SOUTH KOREA	EUROPE

SOCIAL POLICY AND CHARITY

Corporate social responsibility is an integral part of Kuzbasskaya Toplivnaya Company's business. This is due to many factors, above all the fact that the Company's product is of a clearly social nature. The electricity and heat produced with the Company's coal is essential to maintaining the living standards of tens of thousands of people. In addition, by paying taxes and creating well-paid jobs the Company contributes to the development of Kemerovo Region and other regions where it has a presence.

Kuzbasskaya Toplivnaya Company and the Kemerovo Region Administration in February 2010 signed a socioeconomic cooperation agreement for 2010.

The goals of the agreement included:

> Cooperation in the implementation of government programs in education, health care and housing construction in the Kemerovo Region

> Creation of favorable conditions for the socioeconomic development of Kemerovo Region and the Company

> Coordination of government and Company action to fulfill industrial safety requirements

> Economic and social development of the Company based on the development and implementation of joint projects

> Coordination of action to implement the region's social programs

> Coordination of action to resolve issues concerning coal supplies to consumers in the region

> Ensuring full and timely payment by consumers for coal and other energy resources supplied by the Company

Under this agreement, the Company pledged to retain highly qualified personnel in 2010, provide employment in the production process and maintain the average level of wages reached in 2009. In reality, due to production growth in 2010, the Company increased its workforce by 4.6% and indexed wages in line with the collective agreement signed with employees last year.

As part of its social security benefits to employees and retired workers, the Company covered financial expenses for social needs in the amount of 25.5 million roubles, including:

> Medical recovery of workers in the amount of 15.0 million roubles

> Medical recovery of retirees in the amount of 2.5 million roubles

> Medical recovery of employees' children in the amount of 7.5 million roubles

> Financial support for children from the families of deceased miners studying fulltime at post secondary institutions, including those continuing studies beyond 23 years of age, in the amount of 0.5 million roubles

> Financial support (5 000 roubles each) to veterans of the Second World War, war workers, former concentration camp prisoners and survivors of the Leningrad blockade who previously worked for the Company to mark the 65th anniversary of the Victory Day, as well as aid for home repairs.

The Company contributed financially to the following programs:

> Government programs in education and housing construction in the Kemerovo Region, in the amount of 14.5 million roubles

> Social programs of the Kemerovo Region, in the amount of 17.6 million roubles

The Company provided 3 500 tonnes of free sorted coal to 1 800 families of pensioners, veterans and disabled veterans of the Second World War.

The Company supplied about one million tonnes of coal at fixed prices for public utility use in the Kemerovo Region.

In January 2011, the Company signed a similar agreement with the Kemerovo Region Administration for 2011.

OCCUPATIONAL HEALTH & SAFETY AND ENVIRONMENTAL PROTECTION

Company management believes that a low level of work-related injuries and illnesses is a major competitive advantage.

Accident statistics

	2007	2008	2009	2010
Accidents	1	1	–	1
Fatalities	–	1	–	2*

* A motor vehicle accident that did not occur at the workplace but while employees were being taken from the workplace to their place of residence

Occupational health & safety

Kuzbasskaya Toplivnaya Company's occupational health and safety management system complies with the Russian law On Industrial Safety and is fully integrated into overall company management, ensuring a high level of efficiency and safety.

The Company's operations are conducted in strict adherence to plans developed by specialized design organizations. The Company has special units responsible for compliance with safety rules that conduct regular inspection patrols; workers are trained in safety protocol; and there are regular medical fitness checks, both in the form of health monitoring before and after shifts, and periodic medical examinations as required by law.

The Company provides accident insurance to production personnel, and insures its liability as the owner of a hazardous facility for damages to third parties resulting from an accident at the hazardous facility.

All Company employees are fully outfitted with the latest special clothing, footwear and protection equipment.

Compliance with occupational safety standards is monitored by an occupational health and safety service that reports to the chief engineer. The deputy site manager at every mining site is responsible for occupational safety.

In 2010 the Company allocated funds for:

> Technical audits of the Company's hard coal mining and processing enterprises by the VostNII Mining Industry Safety Research Centre to assess how to improve industrial safety

> Development of standard technical documentation applicable to modern conditions of safe coal mining and informed by the results of investigations of accidents at mines in the Kemerovo Region

> Professional development of managers and specialists of coal mining and processing facilities

> Training and retraining of skilled workers in sufficient number for further development of production

> The practice of worksite doctors and general medical examinations to prevent the development of work-related illnesses among miners (workers)

Environmental protection

The Company's operations involve production processes that have a negative impact on the environment. This is manifested in disturbance and loss of land for mining and stripping operations, dumping of large amounts of overburden in external dumps, air pollution and runoff.

The Company is fully aware of its role in preserving the environment for future generations and is doing everything in its power to minimize its negative impact.

Preventing air pollution

Every five years the Company receives permits from the authorities for maximum allowable atmospheric emissions.

In order to reduce dust from roads, rock and coal dumps, they are regularly watered in summer. Emissions standards for mining and transport equipment are calculated and included in total emissions. The Company is reducing overall emissions by replacing obsolete equipment with the latest, more environmentally friendly models as part of its effort to modernize its fleet of mining and transport equipment. Scrubbing filters are being installed at heat and electricity generating facilities.

Protection and rational use of water resources

One of the key areas of this work is replacement of obsolete and inefficient technology using holding ponds and rock filtering dams with treatment of water with modern pumping and filtration stations.

The first such station is scheduled to be launched in April 2011. A total of four stations are to be built over the next several years.

Waste processing and recycling

The Company has classified 25 types of hazardous waste (such as batteries, mercury vapor lamps, tires, etc.) for which safe disposal contracts have been signed with subcontractors.

Kaskad-Energy has been conducting multi-stage cleaning of turbine oil from thermal generators since 2009, thus reducing disposal of dirty oil.

Land restoration

The area of disturbed land subject to restoration, the nature of the restoration, as well as the schedule and scope of work on restoration of disturbed lands are defined in project documentation before development of mining sites begins.

Before the start of any industrial work that disturbs the land surface, the layer of fertile soil is removed to a depth of 30 cm and stored at specially designated sites until restoration begins.

Restoration of disturbed land is carried out in two stages:

> The technical stage, which involves filling in the mining site with landfill, grading and preparing the surface for the biological stage

> The biological stage, which involves applying the topsoil, fertilizing it and planting perennial grasses

The technical phase of the first restoration is scheduled to begin in 2014 at the Karakansky-South open-pit mine.

CORPORATE GOVERNANCE

Corporate governance system

Kuzbasskaya Toplivnaya Company has made improving corporate governance a priority as it believes this is a key component of an effective business strategy. The Company's corporate governance system is based on standards set out in Russian legislation, but we also strive to comply with the latest world standards in corporate governance and apply best world practices.

The high corporate governance standards adopted by Kuzbasskaya Toplivnaya Company assure shareholders and investors that their legal rights and interest will be observed, and help to improve the process of making management decisions aimed at preserving assets and maximizing the Company's profits and market capitalization.

Kuzbasskaya Toplivnaya Company's corporate governance system is based on the following principles:

> Equitable treatment of Company shareholders, observation and protection of their rights in accordance with current legislation

> An effective system of internal control and audit

> Information and financial transparency

> Observation of ethical standards of business conduct

> Productive collaboration with Company employees in tackling social issues and providing appropriate working conditions

> Disclosure

Kuzbasskaya Toplivnaya Company's fundamental internal regulatory documents in the area of corporate governance are:

> The Charter

> Regulation on the General Shareholders Meeting

> Regulation on the Board of Directors

> Regulation on the General Director

> Regulation on the Audit Committee

> Regulation on Internal Control

> Regulation on the Human Resources and Remuneration Committee

> Regulation on Insider Information

> Code of Business Conduct

> Regulation on Dividend Policy

These documents can be found on Kuzbasskaya Toplivnaya Company's website at www.oaoktk.ru.

In its efforts to improve corporate governance practices, Kuzbasskaya Toplivnaya Company adheres to the recommendations of the Code of Corporate Conduct recommended by the Federal Securities Commission of Russia (FCSM). Information about Kuzbasskaya Toplivnaya Company's compliance with the Code of Corporate Conduct recommended by the FCSM is provided in Appendix No. 1 of this annual report.

F.A.Q.

{?}

How competitive is Russia's coal mining industry?

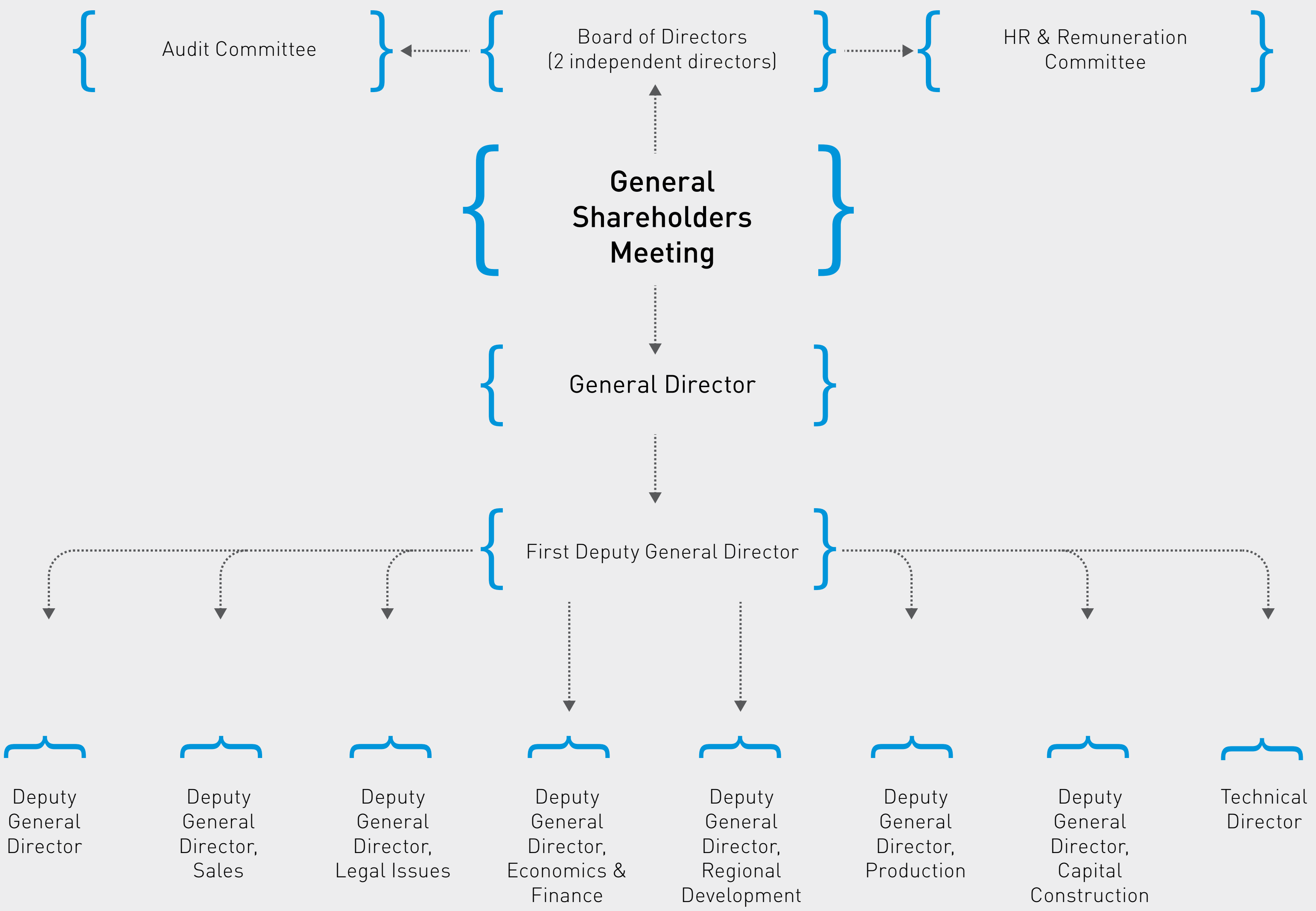
{√}

Russia's coal sector has been operating for more than 15 years without the active presence of the state. It is fully privatized and regulated by the market. The driving force behind the rapid growth of investment in the coal sector has been the increase in world coal prices that began in 2003. After a temporary dip in investment activity in 2009, major Russian coal companies continued to invest in expanding production and improving efficiency. The 23% average annual growth of Russian coal exports in the period from 2000 to 2010 confirms the industry's competitiveness on the world market.

Coal production costs in Russia are among the lowest in the world. Kuzbasskaya Toplivnaya Company's costs are low compared to both most Russian and international competitors.

Average cash production costs per tonne of coal mined in 2010, USD

Corporate governance structure



In line with the Federal Law On Joint Stock Companies and Kuzbasskaya Toplivnaya Company's Charter, the Company's system of management bodies consists of the following levels:

- General Shareholders Meeting
- Board of Directors
- General Director

The Company's highest management body is the General Shareholders Meeting. The Company holds an annual general meeting of shareholders once a year. General shareholders meetings held in addition to the annual meeting are extraordinary.

The following issues fall under the authority of the General Shareholders Meeting:

1. Amendments to the Company Charter, approval of a new Charter
2. Restructuring of the Company
3. Liquidation of the Company, appointment of a liquidation commission and approval of interim and final liquidation balance sheets
4. Appointment of the Company's executive body – the General Director, and his/her dismissal
5. Determining the number, par value and category (type) of declared shares and the rights these shares represent
6. Increasing the Company's charter capital by increasing the par value of shares or placing additional shares
7. Reducing the Company's charter capital by reducing the par value of shares, by having the Company buy back shares in order to reduce their total number or retiring not fully paid-in shares in cases defined by the Federal Law On Joint Stock Companies
8. Election of the members of the Company's Internal Audit Commission and their dismissal
9. Confirmation of the Company's auditor
10. Approval of the Company's annual reports and annual financial statements, including profit and loss statement, as well as distribution of profit, including payment (announcement) of dividends, and losses for the financial year
11. Determining procedures for holding the General Shareholders Meeting
12. Election of the members of the Counting Commission and their dismissal
13. Decisions pertaining to share splits or share consolidation
14. Approval of transactions in cases defined by Article 83 of the Federal Law On Joint Stock Companies
15. Approval of major transactions in cases defined by Article 79 of the Federal Law On Joint Stock Companies
16. Acquisition and buyout by the Company of outstanding shares, bonds and other securities
17. Decisions concerning the Company's participation in holding companies, financial-industrial groups and other associations of commercial organizations
18. Approval of internal documents regulating corporate bodies
19. Decisions concerning the transfer of the powers of the Company's executive body to a management organization or external manager
20. Placement of shares (Company securities convertible into shares) in a public or private offering
21. Placement of bonds and other securities in cases defined by the Federal Law On Joint Stock Companies
22. Use of the reserve fund and other Company funds

Board of Directors

The Board of Directors is a collegial body that is responsible for general management of the Company's business with the exception of issues that Russian legislation and the Company Charter reserve for the authority of the General Shareholders Meeting.

Members of the Board of Directors are elected by a general meeting of shareholders for a term until the next general meeting of shareholders. If the annual general meeting is not held within the timeframe defined by the Company Charter, the powers of the Board of Directors are suspended with the exception of the authority to prepare, call and conduct a general meeting of shareholders.

In accordance with the Code of Corporate Conduct recommended by the FCSM of Russia, independent directors have been elected to the Company's Board of Directors starting from 2010.

Kuzbasskaya Toplivnaya Company's previous Board of Directors was elected at the annual general meeting on April 24, 2009 (Protocol No. b/n, dated May 7, 2009) and included:

> Vadim Danilov, Chairman

> Eduard Alexeenko

> Ivan Gepting

> Igor Prokudin

> Yury Fridman

Kuzbasskaya Toplivnaya Company's current Board of Directors was elected at the annual general meeting on April 16, 2010 (Protocol No. b/n, dated April 16, 2009) and includes:

Vadim Danilov

Chairman of the Board

Vadim Danilov has been the Company's deputy general director since December 2002. Mr. Danilov, born in 1968, graduated from the Novosibirsk Humanities Institute with a bachelor's degree in Economics.

Prior to joining Kuzbasskaya Toplivnaya Company, Mr. Danilov held senior management positions as a deputy director for sales, vice president for sales and general director. His work in the Kemerovo Region's coal industry has been recognized with awards for his contribution to the development of the Kuznetsk Basin and business innovation, among others.

Mr. Danilov is a Russian citizen. He did not have any lawsuits in 2010.

Mr. Danilov controlled 16.27% of the Company's shares directly or as a beneficiary as of December 31, 2010.

Igor Prokudin

Board Member

Igor Prokudin, the Company's general director, was appointed head of Kuzbasskaya Toplivnaya Company in 2000, when it was still a government enterprise. Mr. Prokudin, born in 1955, graduated as a mining engineer from the Kuzbass Polytechnic Institute in 1982 and earned a PhD in economics in 2006.

In his early career he worked as a mine crew foreman, process manager, mining district supervisor, deputy director of production and chief engineer at the Chernigovsky open-pit mine. From 1991to 1995 he held the post of deputy head of the Kemerovo Region administration, and from 1997 to 2000 he was deputy general director and vice president at Kuzbassrazrezugol Holding Company.

In 2004 the regional administration awarded him the honorary title of Distinguished Miner of Kuzbass, and in 2008 the Kemerovo Region Governor awarded him the Kuzbass Gold Badge. In the course of his long and productive career in the Kuzbass coal industry Mr. Prokudin has also earned other awards, including in recognition of his contribution to the development of the Kuznetsk Basin and work in the mining industry. He holds the Miner of Russia gold badge and in March 2010 the President of Russia issued a decree awarding him the honorary title Distinguished Miner of the Russian Federation.

Mr. Prokudin is a Russian citizen. He did not have any lawsuits in 2010.

Mr. Prokudin controlled 49.34% of the Company's shares directly or as a beneficiary as of December 31, 2010.

Eduard Alexeenko

Board Member

Eduard Alexeenko joined Kuzbasskaya Toplivnaya Company in 2000 as head of the finance and economics department. In 2001, he was promoted to the position of deputy general director for finance and in 2006 he became deputy general director for economics and finance. In 2009, he was named first deputy general director.

Mr. Alexeenko, born in 1976, graduated from the Kuzbass State Technical University with a major in economics and mining industry management.

Prior to joining the Company, from 1997 to 2000, Mr. Alexeenko worked as chief engineer in the finance and economic analysis department, chief economist in the financial planning and analysis department and department head in the financial planning and analysis department of Kuzbassrazrezugol Holding Company.

His work in the Kemerovo Region's coal industry has been recognized with several awards, including for contributions to the development of the Kuznetsk Basin.

Mr. Alexeenko is a Russian citizen. He did not have any lawsuits in 2010.

He did not own any shares in the Company as of December 31, 2010.

David Stewart

Independent Director

David Stewart has held a number of senior management positions at private companies over the past 15 years. He was financial director at Teleross from 1996 to 2001, vice president, financial director and treasurer at Golden Telecom from 1996 to 2004, financial director for the resources sector at Basic Element from 2005 to 2007, and financial director at Borets LLC from 2007 to 2009.

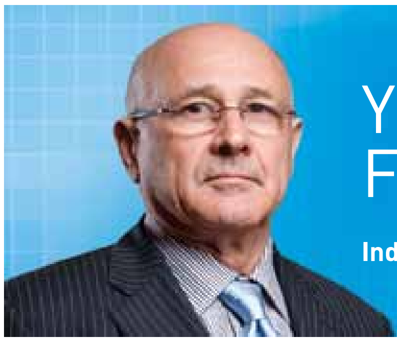
Mr. Stewart, born in 1967, holds a Bachelor's degree of Commerce from the University of Melbourne and has been a member of the Institute of Chartered Accountants in Australia since 1990. From 1988 to 1996, he was a senior manager at Ernst & Young in Moscow.

Mr. Stewart is a citizen of Australia. He did not have any lawsuits in 2010.

He did not own any shares in the Company as of December 31, 2010.

Yury Fridman

Independent Director



Yury Fridman has been working at the Institute for Economics and Organization of Industrial Production of the Russian Academy of Sciences' Siberian Division since 1968 and has authored more than 200 publications in the course of his career.

Mr. Fridman, born in 1944, graduated from the Kuzbass Polytechnic Institute in 1967 with a major in basic organic and petrochemical synthesis technology and qualification as a chemical engineer. He earned a PhD in economics in 1987 and was named a professor in the management department in 1990. He has completed courses in economic planning at Stanford University, and taken corporate and organizational management courses at Penn State University in the United States and business consulting courses at Sema Group in Belgium.

Mr. Fridman is a Russian citizen. He did not have any lawsuits in 2010.

He did not own any shares in the Company as of December 31, 2010.

The Board of Directors held 25 meetings in 2010. Compensation to members of the Board of Directors amounted to 18.2 million roubles for 2010.

Remuneration of members of the Board of Directors for 2010

Name	Period on Board of Directors in 2010	Position	Remuneration, RUB mln
Vadim Danilov	Full year	Chairman of the Board	3.6
Eduard Alexeenko	Full year	Member of Audit Committee and Human Resources & Remuneration Committee	3.6
Ivan Gepting	Jan-April	Member of Audit Committee	1.0
Igor Prokudin	Full year	General Director	3.6
David Stewart	April-Dec	Non-executive Director, Chairman of Audit Committee, Member of Human Resources & Remuneration Committee	2.6
Yury Fridman	Full year	Non-executive Director, Chairman of Human Resources & Remuneration Committee, Member of Audit Committee	3.6
TOTAL			18.2

Board Committees

In order to improve its efficiency, the Board of Directors created the following committees:

> Audit Committee

> Human Resources and Remuneration Committee

The main goal of the Audit Committee is to help the Board of Directors to fulfill its responsibilities and make decisions concerning financial reporting, audits and internal control.

The purpose of the Human Resources and Remuneration Committee is to develop and present recommendations to the Board of Directors on the following issues:

> Company priorities in the area of human resources and remuneration of members of management bodies and the internal audit commission

> Company policies and standards for selection of candidates to management bodies and recruitment of qualified management professionals

Audit Committee

The previous Audit Committee elected by the Board of Directors on July 10, 2009 (Protocol No. 8, dated July 10, 2009) included:

> Yury Fridman, Chairman

> Eduard Alexeenko

> Ivan Gepting

The current Audit Committee elected by the Board of Directors on May 24, 2010 (Protocol No. 4/03, dated May 24, 2010) includes:

> David Stewart, Chairman

> Eduard Alexeenko

> Yury Fridman

The Audit Committee convened for one meeting in 2010.

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee elected by the Board of Directors on August 26, 2010 (Protocol No. 9/03, dated August 26, 2010) includes:

- Yury Fridman, Chairman
- Eduard Alexeenko
- David Stewart

The Committee convened for two meetings in 2010.

General Director

The Company's chief executive body is the General Director, who is elected at a general meeting of shareholders for a term of five years in accordance with the Charter. The activities of the General Director are governed by the Regulation on the General Director.

Igor Prokudin has held the position of General Director of Kuzbasskaya Toplivnaya Company since 2001. His resume can be found in the section on the Board of Directors.

Senior management

Eduard Alexeenko – First Deputy General Director

Eduard Alexeenko joined Kuzbasskaya Toplivnaya Company in August 2000 as head of the finance and economics department. In 2001, he was promoted to the position of deputy general director for finance and in 2006 he became deputy general director for economics and finance. In 2009, he was named first deputy general director.

Mr. Alexeenko, born in 1976, graduated from the Kuzbass State Technical University with a major in economics and mining industry management.

Prior to joining the Company, from 1997 to 2000, Mr. Alexeenko worked as chief engineer in the finance and economic analysis department, chief economist in the financial planning and analysis department and department head in the financial planning and analysis department of Kuzbassrazrezugol Holding Company.

His work in the Kemerovo Region's coal industry has been recognized several awards, including for contributions to the development of the Kuznetsk Basin.

Alexander Artemenko – Technical Director

Alexander Artemenko joined Kuzbasskaya Toplivnaya Company as technical director in 2003. He was later transferred to the position of deputy general director for development, and then again returned to the role of technical director.

Mr. Artemenko, born in 1954, graduated from the Kuzbass Polytechnic Institute with a major in strip mining technology and mechanization.

Ivan Gepting – Deputy General Director, Sales

Ivan Gepting has held the position of deputy general director for sales at Kuzbasskaya Toplivnaya Company since 2001. He has also held the post of general director at management company CJSC Kaskad since 2001, and sits on the boards of directors at Kaskad-Energo, Transugol and Altay Fuel Company.

Mr. Gepting was born in 1976 and graduated from the Kemerovo State University in 1998 with a major in finance and credit.

Sergey Kovalenko – Deputy General Director, Production

Sergey Kovalenko joined Kuzbasskaya Toplivnaya Company in 2005 as director of the Vinogradovsky mine, and was appointed deputy general director for production in 2009.

Mr. Kovalenko, born in 1954, graduated from the Kuzbass Polytechnic Institute with a major in strip mining technology and mechanization.

Andrey Magaev – Deputy General Director, Economics and Finance

Andrey Magaev, who joined Kuzbasskaya Toplivnaya Company in 2005, was appointed deputy general director for finance in 2009 and became deputy general director for economics and finance in 2011.

Mr. Magaev, born in 1958, graduated from the Novosibirsk Electrotechnical Institute in 1981 and holds a PhD in technical sciences. From 1993 to 1997 he worked at various major financial institutions in Novosibirsk, and from 1997 to 2004 he was deputy director for investment and general director of the RATM group in Novosibirsk.

Maxim Skorokhodov – Deputy General Director, Legal Issues

Maxim Skorokhodov was appointed deputy general director for legal issues at Kuzbasskaya Toplivnaya Company in 2010. From 2005 to 2010 he worked as director for legal support at Siberian Cement Holding Company.

Mr. Skorokhodov was born in 1975 and graduated from the law faculty of Kemerovo State University in 1998. After graduating he worked at Kuzbassenergo.

In 2000, Mr. Skorokhodov studied under the presidential management training program. He earned a management diploma from the Institute of Management and Marketing at the Russian Government's Economics Academy.

Sergey Sukhanov – Deputy General Director, Capital Construction

Sergey Sukhanov has been deputy general director for capital construction at Kuzbasskaya Toplivnaya Company since 2006.

Mr. Sukhanov, born in 1958, graduated from the Kuzbass Polytechnic Institute in 1991 and has worked in the Kuznetsk Basin construction sector since 1997.

Vladimir Frantsen – Deputy General Director, Regional Development

Vladimir Frantsen was appointed deputy general director for regional development in 2010.

Mr. Frantsen, born in 1958, graduated from the construction faculty of the Altay Polytechnic Institute. He went on to do post graduate studies and earned a doctorate. He was appointed head of the Construction Materials department at Altay State Technical University in 1989 and became a professor in 1998.

Mr. Frantsen worked as deputy general director at Sibirenergouglesnab from 1993 and became general director of this company in 2004. In 2006 he was appointed head of Altay Fuel Company, which was set up jointly with Kuzbasskaya Toplivnaya Company.

Alexey Alexeev – Director, LLC Novosibirsk Fuel Corporation

Alexey Alexeev joined Kuzbasskaya Toplivnaya Company in 2007 as head of the regional development department, and was appointed director of LLC Novosibirsk Fuel Corporation in 2010.

Mr. Alexeev was born in 1964 and graduated from the economics faculty of Novosibirsk State University in 1990. He began his professional career in 1992 as a senior engineer and then worked as a deputy director of finance and financial director. Since 1998, he has held the positions of economic analysis department head at RATM, and director of economics, deputy executive director and deputy general director for economics at RATM Group. In 2000, he was appointed deputy general director for economics at RATM-Energo, where he was first promoted to first deputy general director and then, in 2001, general director.

Maxim Ovcharov – General Director of OJSC Kuzbasstoplivosbyt, General Director of OJSC Altay Fuel Company

Maxim Ovcharov has been general director of Kuzbasstoplivosbyt since 2004 and was appointed general director of Altay Fuel Company in 2010.

Mr. Ovcharov, born in 1977, graduated from the Kuzbass Polytechnic Institute. In 1999, he was hired as a specialist in the distribution department of Kuzbasskaya Toplivnaya Company.

SENIOR MANAGEMENT

Sergey Sukhanov
Deputy General Director,
Capital Construction

Alexander Artemenko
Technical Director

Sergey Kovalenko
Deputy General Director,
Production

Igor Prokudin
General Director

Eduard Alexeenko
First Deputy General Director

Ivan Gepting
Deputy General Director,
Sales

Andrey Magaev
Deputy General Director,
Economics and Finance

Maxim Skorokhodov
Deputy General Director,
Legal Issues

Andrey Trofimov – General Director, LLC Transugol

Andrey Trofimov has been general director of Transugol since 2004.

Mr. Trofimov, born in 1970, holds three higher vocational certifications. He was appointed head of the sales department at LLP Industrial Ventilation in 1994. In 1996, he moved to the Omsk branch of Inkombank, and subsequently became a manager in the client development department of the corporate banking division. In 1999, he was appointed head of licensing at the Regional State Oil Inspection Office for the Omsk Region. In 2001, he was appointed head of the fuel and lubricants department at Omsk Fuel Company and in 2002 he became head of this firm.

Sergey Meshcheryakov – General Director, LLC Meret Freight Forwarding Company

Sergey Meshcheryakov joined Meret Freight Forwarding Company (TEKM) in 2005 and was appointed general director in 2010.

Mr. Meshcheryakov, who was born in 1968, graduated from the Omsk State Railways Academy with a major in locomotives. He has been working in the Kuznetsk Basin coal (Kuzbass) industry since 1989, in the area of industrial railroad transport, holding positions ranging from assistant locomotive engineer to freight car depot director and railroad transport division head.

Pavel Rybko – General Director, OJSC Kaskad-Energo

Pavel Rybko has been general director of the Anzhersk Combined Heat-and-Power Plant, now known as Kaskad-Energo, since 1991.

Mr. Rybko, born in 1957, graduated from the S.M. Kirov Polytechnic Institute in Tomsk in 1980 as an electrical engineer. After graduation he worked in Turkmenistan for the Elektrosibmontazh state trust, and from 1985 to 1991 he worked as a foreman and then as chief power engineer at the Anzhero-Sudzhensk chemical and pharmaceutical plant.

Controls and audit

Internal control at the Company is implemented jointly by the Board of Directors, the Audit Committee, the General Director, the Internal Control Committee and other employees to monitor compliance with procedures intended to provide reasonable assurances that the Company achieves its goals in the following areas:

> Efficient and effective business operations

> Reliable and accurate reporting

> Compliance with regulations and the Company's internal documents

Internal control covers:

> Assessment of the efficiency of the Company's organizational structure

> Monitoring of key areas of the Company's financial and business operations, analysis of the results of these operations

> Monitoring of compliance with financial discipline and implementation of decisions made by management bodies and company officers

> Providing sufficient assurances as to the accuracy of the Company's financial statements and compliance with procedures for their preparation, as well as compliance with standards for maintaining accounting records

> Monitoring the Company's agreements with third parties for compliance with the Company's financial and business interests

> Monitoring internal documents and draft decisions of management bodies for compliance with the Company's financial and business interests

In the interests of complying with the listing conditions of Russian stock exchanges (RTS, MICEX), based on the Russian Federal Financial Markets Service's Regulation on the Organization of Trading on the Securities Market, the

Company auditor for Russian statutory financial statements:

CJSC Sistema
Russian Finance Ministry License No. E003144 (issued Dec 27, 2002; expiration Dec 27, 2012)
Address: 2 Ulitsa Bolshevistskaya, Kemerovo 650004
Tel: +7 (3842) 34-54-74
Fax: +7 (3842) 34-54-74
e-mail: sistemakem@mail.ru

Company auditor for IFRS financial statements:

ZAO KPMG
Block "C", 10, Presnenskaya embankment, 123317 Moscow
Tel: +7 (495) 937-4477
Fax: +7 (495) 937-4499
email: moscow@kpmg.ru
www.kpmg.ru

Company has a department that monitors compliance with internal control procedures: the Internal Control Committee, which operates on the basis of the Regulation on Internal Control.

The Internal Control Committee's responsibilities include direct assessment of the adequacy, sufficiency and effectiveness of the internal control system, as well as monitoring of compliance with procedures set out in the Regulation on Internal Control.

In pursuit of the goals mentioned above, the Internal Control Committee conducts the following activities in its monitoring efforts:

> Organizes and conducts audits and internal investigations in key areas of the Company's financial and business operations, including with the involvement of employees from other divisions of the Company

> Analyzes and summarizes the results of audits and internal investigations (including those conducted by other divisions of the Company) on key areas of the Company's financial and business operations

> Coordinates the work of Company divisions in conducting internal control measures

> Maintains a record of detected violations in implementation of internal control and presents information on such violations to the Audit Committee of the Board of Directors and to the General Director

> Monitors the elimination of violations discovered as a result of audits and internal investigations

> Analyzes the results of Company audits, monitors the development and implementation of planned measures to eliminate violations found in the course of audits

> Prepares proposals to improve internal control procedures

> Develops documents regulating the activities of the department responsible for internal control.

External audits are conducted by independent auditors to Russian and international financial reporting standards. The auditor to Russian accounting standards is appointed by the General Shareholders Meeting on the recommendation of the Board of Directors. The auditor of financial statements prepared to international standards is appointed by the General Director on instructions from the Board of Directors.

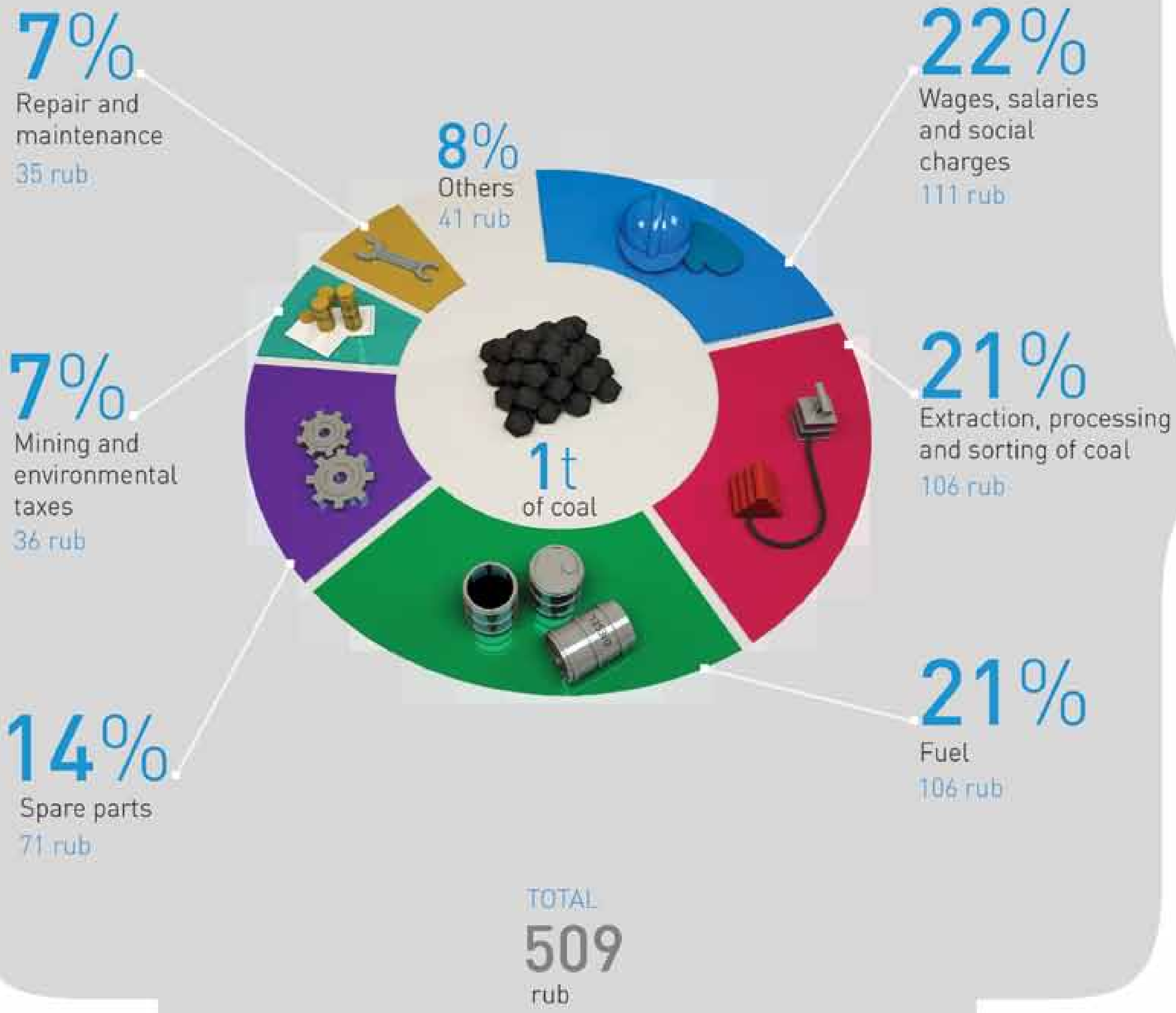
The audit of the Company's financial statements for 2010 prepared in accordance with the Russian accounting standards was done by CJSC Sistema. ZAO KPMG was appointed to conduct an audit of the consolidated financial statements for 2010 prepared in accordance with the International Financial Reporting Standards (IFRS).

F.A.Q.

What factors have the most impact on the cost of producing one tonne of coal?

Open-pit coal mining in Russia usually involves blasting, excavation and transportation of large amounts of overburden using various types of mining and transport machinery and equipment. Therefore, the main cash production costs are labor, fuel, blasting and extraction, spare parts and equipment operating expenses.

Structure of Kuzbasskaya Toplivnaya Company cash production costs per tonne of coal mined in 2010



SHAREHOLDER EQUITY

Charter capital and IPO

Kuzbasskaya Toplivnaya Company's charter capital as of December 31, 2010 consisted of 99,258,355 common shares with par value of 0.20 roubles each. The Company's shares are traded on MICEX and the RTS in the B quotation list under the registration number 1-02-11330-F and code KBTK. The International Securities Identification Number (ISIN) is RU000A0JPYD7.

The shares were accepted for trading on the RTS without a listing on July 23, 2008. The Company's shares were included in the V Quotation List by a decision of the RTS Chief Executive Officer dated April 16, 2010 and were accepted for trading in the RTS trading system as of May 7, 2010. By order of the MICEX Chief Executive Officer dated April 19, 2010 the shares were included in the V Quotation List and accepted for trading on MICEX.

The Company's shares have been included in the RTS-2 index of second-tier stocks. The shares had a weight of 0.29% in the index as of February 28, 2011.

Share trading codes

Exchange	Bloomberg code	Reuters code
RTS	KBTKG RU	KBTK.RTS
MICEX	KBTK RM	KBTK.MM

The Company held an initial public offering off its shares in April 2010, placing 14,858,955 new shares issued by the Company and 10,868,158 shares that were offered by controlling shareholders at a price of USD 6.50 per share. The shares were offered to Russian and foreign investors outside of the United States in accordance with Regulation S. The joint global coordinators and bookrunners were investment banks Troika Dialog and UBS Investment Bank.

Changes in charter capital structure before the IPO, after the IPO and at end 2010

	Before IPO		Distribution of shares during IPO		After IPO		As of Dec 31, 2010	
	No. Of shares	Share of charter capital, %	Redistribution of existing shares	Distribution of new shares	No. Of shares	Share of charter capital, %	No. Of shares	Share of charter capital, %
Mizar Management Limited (direct and beneficiary control by I. Prokudin)	51 400 600	60.9	-3 339 438	—	48 061 162	48.4	48 978 762	49.3
Laycraft Limited (direct and beneficiary control by V. Danilov)	23 631 800	28.0	-7 528 720	+46 154	16 149 234	16.3	16 149 234	16.3
Balance and movement of shares of majority shareholders	75 032 400	88.9	-10 868 158	+46 154	64 210 396	64.7	65 127 996	65.6
Balance and movement of shares in free-float	9 367 000	11.1	+10 868 158	+14 812 801	35 047 959	35.3	34 130 359	34.4
Balance and movement of shares	84 399 400	100.0	—	+14 858 955	99 258 355	100.0	99 258 355	100.0

The IPO raised about USD 96.6 million before commissions, and valued the Company at USD 645 million. The free-float increased to 35.3% following the IPO and decreased to 34.4% by the end of the year.

Price and trading volume of shares on MICEX in 2010

Month	High, RUB	Low, RUB	Volume
December	235.00	179.50	27 946
November	224.46	170.00	205 418
October	183.99	150.50	80 485
September	190.67	155.00	21 680
August	199.00	170.06	52 104
July	310.00	170.51	47 252
June	197.93	157.00	417 297
May	197.99	170.00	182 748

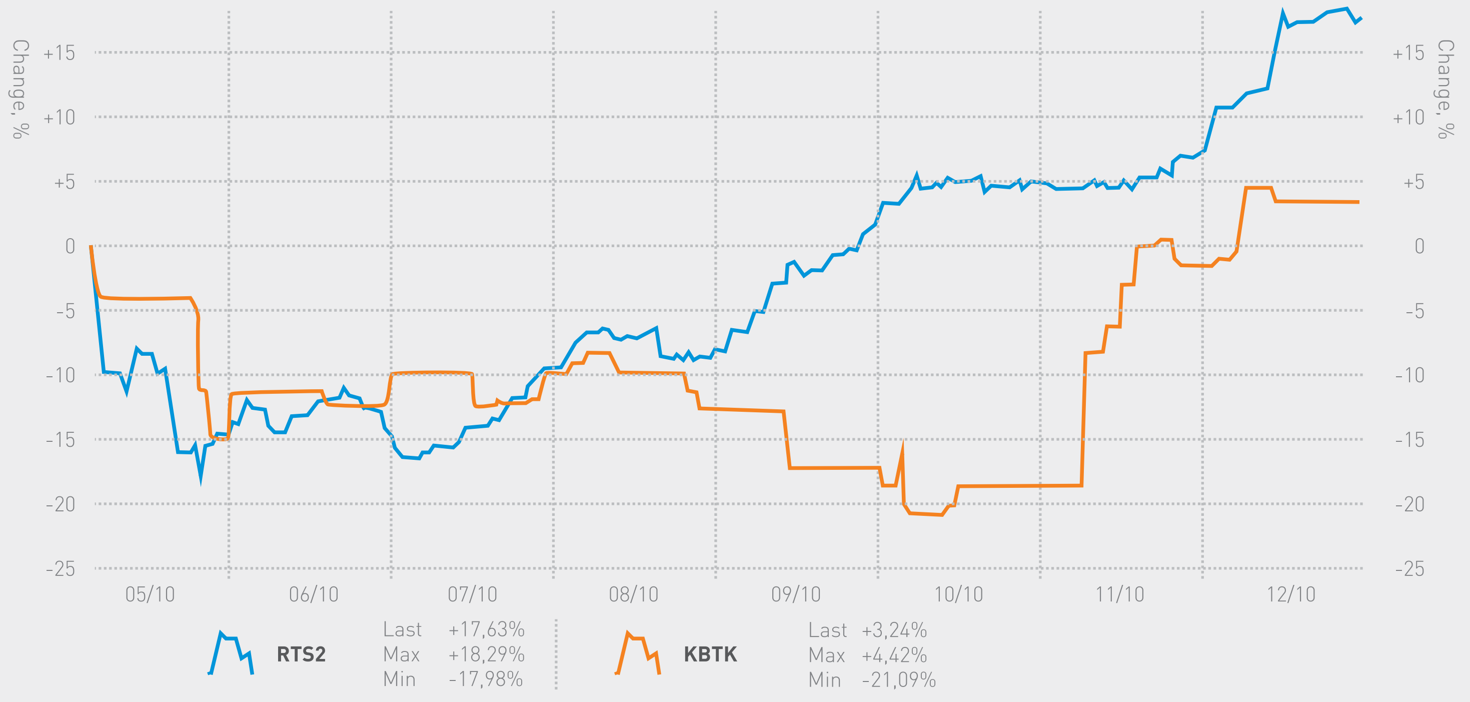
Source: MICEX

Price and trading volume of shares on the RTS in 2010

Month	High, USD	Low, USD	Volume
December	7.08	6.67	60 273
November	6.95	5.50	136 987
October	5.65	5.35	48 695
September	5.90	5.60	0
August	6.21	5.90	100 207
July	6.10	5.92	43 342
June	6.10	5.92	38 945
May	6.50	5.75	88 331

Source: RTS

Share price compared to RTS-2 Index in 2010



Source: RTS

Information for shareholders

The shareholder register is held by OJSC Nikoil Registrar; mailing address: 1-5 Posledny Pereulok, Moscow 107045; Russian Federal Securities Market Service License No. 10-000-1-00290 (issued June 17, 2003, no expiration date); website: — www.rcnikoil.ru.

Under Article 31 of the Federal Law On Joint Stock Companies, dated December 26, 1995, No. 208-FZ, every common share in the company gives the shareholder, its owner, an equal amount of rights.

The shareholder has the right to:

- Participate in the management of Company affairs, including participate in General Meetings personally or by proxy, elect and be elected to elected positions in the Company
- Receive information about the Company's activities and review accounting and other documents as specified by the Charter
- Participate in the distribution of profits
- Receive, in proportion to the number of shares held, a portion of profits (dividends) due for distribution among shareholders
- Receive, in the event of the Company's liquidation, a portion of assets (or the cash equivalent) in proportion to the number of shares owned
- Transfer shares held without the approval of other shareholders and the Company
- Request and receive copies (excerpts) of protocols and decisions of the General Meeting, as well as copies of decisions by other management bodies

The shareholder is obligated to:

- Pay for acquired shares within the timeframe and procedure defined by the Charter and current legislation; the General Meeting has the right to accrue dividends to the shareholder only after full payment for all claimed shares
- Comply with the Charter and carry out decisions of the Company's management bodies made within the bounds of their authority
- Not disclose information classified as a commercial secret

The register of shareholders includes information on every registered person (shareholder or nominal holder), the number and category of shares registered to the name of each registered person and other information prescribed by law.

A person registered in the register of shareholders is obligated to notify the registrar about changes in their data in a timely fashion. If they do not provide information about changes in their data, the Company and the registrar are not liable for any losses incurred as a result of this.

Entries in the register of shareholders and refusal to make entries are made on grounds and according to procedures defined by law. Refusal to make an entry in the register of shareholders can be disputed in court.

At the request of the shareholder or nominal holder of shares the register holder is obligated to confirm their rights by issuing an excerpt from the shareholder register.

Dividend policy

The Company's dividend policy is based on Russian legislation and the Regulation on the Dividend Policy of OJSC Kuzbasskaya Toplivnaya Company, approved by the Board of Directors on November 3, 2009.

The Company's dividend policy is based on the following principles:

- Given a profit, the Company annually allocates a limited portion of it for payment of dividends, using the remainder at its disposal for reinvestment intended to increase the Company's capitalization
- Optimal balance between the interest of the Company and its shareholders

> Need to increase the Company's investment appeal and capitalization

> Respect for and strict observance of the rights of shareholders, defined by current Russian legislation

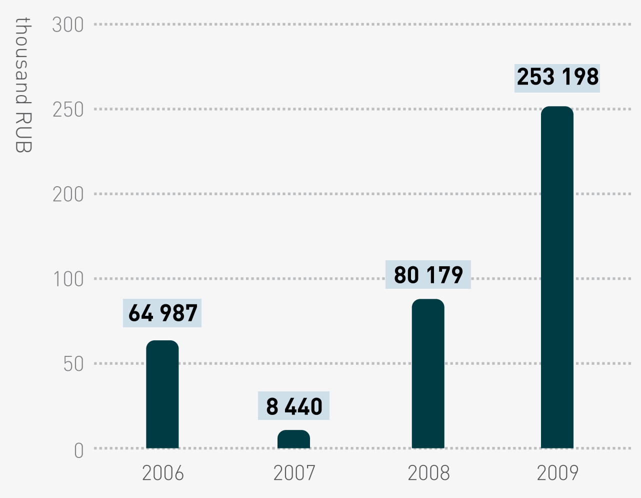
> Transparency in the process of how the amount of dividends is determined and their payment

When determining the amount of dividends it will recommend to the General Shareholders Meeting, the Board of Directors considers the net profit stated in the Company's financial statements, prepared according to Russian legislation.

The amount of dividend payments is determined on the basis of Kuzbasskaya Toplivnaya Company's financial results to RAS and totals at least 25% of net profit.

The Company informs shareholders about its dividend policy, the amount, form, schedule and procedure for payment of dividends by posting information on its website, at www.oaoktk.ru.

Dividend history



Taxation of dividends

Taxation of dividend income received by private individuals

The particulars of paying personal income tax on income from equity participation in organizations are defined in Article 214 of the Russian Tax Code. If the source of the dividend income received by the taxpayer is a Russian organization, this organization is recognized as the tax agent and determines the amount of tax individually for each taxpayer applied to each payment of said income at a rate defined by the Tax Code, taking into consideration specifics defined in the Tax Code (Article 275 of the Russian Tax Code).

The tax rate is set at 9% of the income from equity participation in the organization received in the form of dividends by a private individual who is a tax resident of Russia (Article 224 of the Tax Code).

The tax rate is set at 15% of the dividend income from equity participation in the organization received in the form of dividends by a private individual who is not a tax resident of Russia (Article 224 of the Tax Code).

Taxation of dividend income received by legal entities

The particulars of determining the tax base for income received from equity participation in other organizations are defined by Article 275 of the Russian Tax Code. If the Russian organization who is the tax agent pays dividends to a foreign organization and/or private individual who is not a resident of Russia, the tax base of the taxpayer recipient of dividends for each such payment is determined as the sum of the paid dividends and it is subject to the rate set by the Tax Code (Articles 224 and 284).

If the Russian organization who is the tax agent pays dividends to a Russian organization and/or private individual who is a tax resident of Russia, the tax base is determined taking into consideration specifics defined by the Tax Code (Point 2, Article 275).

Taxation of dividend income is applied at the following rates (Article 284 of the Tax Code):

0% — on dividend income received by Russian organizations if on the date the decision was made to pay dividends the organization receiving the dividends has continuously owned for at least 365 calendar days a stake of at least 50% in the charter (joint-stock) capital of the organization paying the dividends, or depositary receipts giving the right to receive dividends amounting to at least 50% of the total dividends being paid, and on the condition that the price of acquiring the stake in the organization paying the dividends or depositary receipts giving the right to receive dividends exceeds 500 million roubles.

This provision is applied taking into account the specifics defined by the Russian Tax Code:

9% — on dividend income received from Russian or foreign organizations in case of non-compliance with the criteria defined by the Tax Code for taxation at the rate of 0%.

15% — on dividend income received from Russian organizations by foreign organizations

Method of taxation of dividend income defined by Tax Code of Russia

The Tax Code establishes a special procedure for calculating the amount of tax that the tax agent-Russian organization must withhold and transfer to the government from the dividend income being paid to shareholders who are tax residents of Russia.

If the source of the income is a Russian organization, this organization is recognized as the tax agent and determines the amount of tax taking into account the following provisions.

The amount of tax subject to withholding from the income of the taxpayer recipient of the dividends is calculated by the tax agent according to the following formula:

$$\left\{ N = K \times Sn \times (d - D), \right\}$$

Where:

N — is the amount of tax subject to withholding

K — the ratio of the sum of dividends due to the taxpayer recipient of dividends to the total sum of dividends due to be distributed by the tax agent

Sn — the appropriate tax rate set by the Russian Tax Code

d — the total amount of dividends due to be distributed by the tax agent to all taxpayer recipients of dividends

D — the total amount of dividends received by the tax agent in the current reporting (tax) period and the previous reporting (tax) period (with the exception of dividend income subject to a tax rate of 0%) by the date of dividend distribution to taxpayer recipients of dividends, on the condition that these dividends were not previously taken into account when determining the tax base that applies to dividend income received by the tax agent.

If **N** is a negative value, there is no obligation to pay tax and no refund is made from the government budget.

Taxation of income from securities in light of international agreements

If an international agreement of Russia that contains provisions concerning taxation and levies establishes other rules and regulations than those prescribed by the Russian Tax Code, and regulations on taxes and/or levies have been adopted in accordance with it, then the rules and regulations of the international agreement are applied (Article 7, Tax Code).

The procedure for confirming the right to apply provisions of international agreements is defined by the Tax Code of Russia.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Independend Auditors' Report

The Board of Directors
OJSC Kuzbasskaya Toplivnaya Company

We have audited the accompanying consolidated financial statements of OJSC Kuzbasskaya Toplivnaya Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud and error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basic for audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG
4 April 2011

Consolidated Statement of Financial Position as at 31 December 2010

	Note	31 December 2010 Mln RUB	31 December 2009 Mln RUB
ASSETS			
Non-current assets			
Property, plant and equipment	16	8 804	7 333
Goodwill and intangible assets	17	14	14
Investments in equity accounted investees	18	8	3
Other investments	19	6	67
Long-term receivables		1	7
Deferred tax assets	20	19	6
Total non-current assets		**8 852**	**7 430**
Current assets			
Inventories	21	759	405
Other investments	19	39	7
Income tax receivable		6	30
Trade and other receivables	22	1 086	1 227
Prepayments and deferred expenses	23	440	230
Cash and cash equivalents	24	457	86
Total current assets		**2 787**	**1 985**
Total assets		**11 639**	**9 415**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 125 to 153.

Consolidated Statement of Financial Position as at 31 December 2010

	Note	31 December 2010 Mln RUB	31 December 2009 Mln RUB
EQUITY AND LIABILITIES			
Equity	25		
Share capital		20	17
Retained earnings		3 975	3 409
Additional paid-in capital		2 829	—
Total equity attributable to equity hoiders or the Company		6 824	3 426
Non-controlling interest		11	41
Total equity		**6 835**	**3 467**
Non-current liabilities			
Loans and borrowings	27	1 676	2 204
Net assets attributable to minority participants in LLC entities	28	68	66
Provisions	29	265	237
Retirement benefit liability		15	—
Deferred tax liabilities	20	448	362
Total non-current liabilities		**2 472**	**2 869**
Current Liabilities			
Loans and borrowings	27	535	1 655
Trade and other payables	30	1 767	1 414
Retirement benefit liability		4	—
Income tax payable		26	10
Total current liabilities		**2 332**	**3 079**
Total liabilities		**4 804**	**5 948**
Total equity and liabilities		**11 639**	**9 415**

These consolidated financial statements were approved by management on 4 April 2011 and were signed on its behalf by:

Igor Y. Prokudin
General Director

Andrey N. Magaev
Deputy General Director for Economics and Finance

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 125 to 153.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

	Note	2010 Mln RUB	2009 Mln RUB
Revenue	8	**14 160**	**10 658**
Cost of sales	9	(11 457)	(8 101)
Gross profit		**2 703**	**2 557**
Distribution expenses	10	(540)	(363)
Administrative expenses	11	(849)	(706)
Other income and expenses, net	12	39	(19)
Results from operating activities		**1 353**	**1 469**
Finance income	14	99	65
Finance costs	14	(385)	(656)
Income of associates	18	5	—
Profit before income tax		**1 072**	**878**
Income tax expense	15	(249)	(215)
Profit for the year		**823**	**663**
Profit attributable to:			
Owners of the Company		826	637
Minority participants in LLC subsidiaries		—	4
Non-controlling interest		(3)	22
		823	**663**
Net actuarial losses on retirement benefit liabilities, net of income tax		(7)	—
Total comprehensive income for the year		**816**	**663**
Total comprehensive income attributable to:			
Owners of the Company		819	637
Minority participants in LLC subsidiaries		—	4
Non-controlling interest		(3)	22
		816	**663**
Earnings per share			
Basic and diluted earnings per share (RUB)	26	9	8

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 125 to 153.

Consolidated Statement of Changes in Equity for the year ended 31 December 2010

Mln RUB	Attributable to shareholders of the Company				Non-controlling interest	Total equity
	Share capital	Retained earnings	Additional paid-in capital	Total		
Balance at 1 January 2009	**17**	**2 767**	**—**	**2 784**	**34**	**2 818**
Profit and total comprehensive income for the year	—	637	—	637	22	659
Effect of acquisition of minority interest in LLC entities	—	5	—	5	(15)	(10)
Balance at 31 December 2009	**17**	**3 409**	**—**	**3 426**	**41**	**3 467**
Profit for the year	—	826	—	826	(3)	823
Net actuarial losses on retirement benefit liabilities, net of income tax	—	(7)	—	(7)	—	(7)
Total comprehensive income	—	819	—	819	(3)	816
Issue of ordinary shares	3	—	2 829	2 832	—	2 832
Dividends paid	—	(253)	—	(253)	—	(253)
Effect of acquisition of non-controlling interest	—	—	—	—	(27)	(27)
Balance at 31 December 2010	**20**	**3 975**	**2 829**	**6 824**	**11**	**6 835**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 125 to 153.

Consolidated Statement of Cash Flows for the year ended 31 December 2010

	2010 Mln RUB	2009 Mln RUB
OPERATING ACTIVITIES		
Profit for the year	823	663
Adjustments for:		
Depreciation and amortisation	820	689
Change in provision for site restoration	3	(1)
Change in retirement benefit liability	10	—
Impairment loss of property, plant and equipment	7	15
(Profit) / loss from disposal of property, plant and equipment	(46)	4
Income of associates	(5)	—
Net finance costs	286	591
Income tax expense	249	215
Operating result before changes in working capital and provisions	**2 147**	**2 176**
Change in inventories	(354)	107
Change in trade and other receivables	126	(126)
Change in prepayments for current assets	(215)	(27)
Change in trade and other payables	617	(583)
Cash flows from operations before income tax and interest paid	**2 321**	**1 547**
Income taxes paid	(101)	(281)
Interest paid	(275)	(640)
Compensation of interest received from the State	86	—
Cash flows from operating activities	**2 031**	**626**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	21	42
Loans issued	(87)	(217)
Proceeds from loans issued including interest received	130	233
Acquisition of property, plant and equipment	(2 499)	(1 084)
Acquisition of non-controlling interests	(25)	(4)
Cash flows used in investing activities	**(2 460)**	**(1 030)**
FINANCING ACTIVITIES		
Proceeds from borrowings	5 273	7 119
Repayment of borrowings	(6 960)	(6 904)
Proceeds from share issue, net of issue costs	2 805	—
Contribution from minority participants of LLC companies	—	6
Dividends paid	(253)	—
Cash flows from financing activities	**865**	**221**
Net increase / (decrease) in cash and cash equivalents	**436**	**(183)**
Cash and cash equivalents at the beginning of year	86	255
Effect of exchange rate fluctuations on cash and cash equivalents	(65)	14
Cash and cash equivalents at the end of year	**457**	**86**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 125 to 153.

Notes to the Consolidated Financial Statements for the year ended 31 December 2010

1 Background

(a) Corporate information

OJSC Kuzbasskaya Toplivnaya Company, also known as "Kuzbass Fuel Company" and trading as "KTK" ('the Company') is an open joint-stock company (OAO) registered under the Russian law on April 4th, 2000. The Company's shares are quoted on the Russian Trading System (RTS) and on the Moscow Interbank Currency Exchange (MICEX) since May 2010. The registered office of the Company is: 4, 50-Letiya Oktyabrya street, Kemerovo, Russia, 650099.

The Company's ultimate controlling party is Mr. Igor Yuryevich Prokudin.

The Company together with its subsidiaries, the most significant of which are listed below, are referred to as 'the Group':

	Country of incorporation	Principal activity	2010 Ownership/ voting share	2009 Ownership/ voting share
LLC TEK Meret	Russia	Railroad transportation services	100%	100%
OJSC Kuzbasstoplivosbyt	Russia	Retail sale of coal	100%	75%
OJSC Kaskad Energo	Russia	Electricity generation	100%	100%
CJSC Management Company Kaskad	Russia	Wholesale supply of coal	100%	100%
OJSC ATK	Russia	Retail sale of coal	51%	51%
LLC Transugol	Russia	Retail sale of coal	51%	51%
LLC NTK	Russia	Retail sale of coal	51%	51%
LLC Karakan Farm	Russia	Land lease	100%	98.5%
LLC Kaskad Geo	Russia	Land lease	100%	100%

The Group's principal activities are the extraction of thermal coal from open-pit mines located in the territory of the Kemerovo region in the Russian Federation, wholesale supply of coal to customers in the Russian Federation as well as abroad, and retail sales of coal through its distribution networks located in the Kemerovo, Altai, Omsk and Novosibirsk regions.

Additionally, the Group is engaged in re-sale of coal purchased from other coal producers, electricity generation, storage and transport services.

The operations of the Group are subject to various regulations and licensing laws related to the extraction of coal in the Russian Federation.

(b) Business environment

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis. Property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Company and all of its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty, which have the most significant effect on the amounts recognised in the financial statements, is included in the following notes:

> Note 16 – Property, plant and equipment;

> Note 29 – Provision for site restoration;

> Note 31 – Financial risk management;

> Note 34 – Contingencies.

Management believes that the Group's accounting policies do not require application of any critical judgements.

(e) Changes in accounting policies and presentation

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

(i) Determination and presentation of operating segments

With effect from 1 January 2010, the Group has identified four distinct operating segments as stated in note 6. Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. The change in accounting policy only impacts disclosure aspects.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the General Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(ii) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

> the fair value of the consideration transferred; plus

> the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For the measurement of goodwill prior to 1 January 2010, refer to note 3(e)(i).

(iii) Accounting for acquisitions of non-controlling interests

From 1 January 2010 the Group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(iv) Accounting for leases of land

The amendment to IAS 17 Leases regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met. At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance lease contracts and therefore, the classification was not changed. Operating land leases are disclosed in note 32.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available for-sale financial asset depending on the level of influence retained.

(iv) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Exploration and evaluation expenditure

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as "Exploration and evaluation assets" within property, plant and equipment. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, which is evidenced by a formalized development plan, the exploration and evaluation assets are reclassified within property, plant and equipment to "Construction in progress", where they form part of mine development costs.

(iii) Mine development costs

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on development of mineral resources is capitalised and classified within the "Construction in progress" category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to works on mine development which are inseparable from the mine's landscape, as well as costs of development stripping as described in 3(d)(iv). Other development costs are recognised in profit or loss as an expense as incurred. Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to "Mining assets and mining structures" category, which is classified within property, plant and equipment.

(iv) Stripping costs

Overburden and other mine waste materials are removed during the initial development of a mine site in order to access the mineral resource. This activity is referred to as development stripping for open-pit mines. The directly attributable costs of development stripping (inclusive of an allocation of relevant overhead expenditure) are capitalised as mine development costs within property, plant and equipment.

Removal of waste material continues throughout the life of open-pit mines and is referred to as production stripping. Production stripping commences from the date when saleable materials begin to be extracted from the mine.

Costs of production stripping are variable production costs which are included in the cost of inventory extracted during the period in which the stripping costs have been incurred.

(v) Mining assets and mining structures

This category of property, plant and equipment comprises the following categories of capitalized costs, related to mines put into production use:

> Capitalized mine development expenditure – note 3(d)(iii);

> Capitalized development stripping costs – note 3(d)(iv);

> Capitalized site restoration obligations – note 29(a);

> Cost of production mining licences.

(vi) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(vii) Depreciation

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves under the Russian classification. Depletion of mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in the profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

Buildings and other production structures	9-46 years
Machinery, equipment and vehicles	15-35 years
Fixtures and fittings	3-5 years
Mining assets and mining structures	Pro rata to extraction volumes in relevant mines

Based on current extraction volumes, average expected remaining useful life of mining assets and mining structures is approximately 50 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill arising from acquisitions on or after 1 January 2010, refer to note 2(e)(ii).

Goodwill arising on acquisitions before 1 January 2010 represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables, if found not to be specifically impaired, are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

(i) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Long-term benefits

The Group is subject to certain defined benefit plans. Defined benefit plans are post-employment benefits plans under which the Group has a legal or constructive obligation to pay amounts in respect of those benefits, and thus makes direct payments to its employees. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method.

In accordance with this method, the Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits: mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc., as well as financial assumptions: discount rate, future salary and benefit levels, etc.

Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on high quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. Any net actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized as 'other comprehensive income'.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed in course of land plot preparation, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred. Increases in provision due to subsequent disturbance of land plots in course of coal extraction are charged to cost of production of inventories.

(k) Net assets attributable to minority participants in LLC entities

If, according to charter documents of a limited liability company, a participant may unilaterally withdraw from such company, the company will be obliged to pay the withdrawing participant's share of net assets of the company for the year of withdrawal, in cash or, subject to consent of the participants, by an in-kind transfer of assets. The payment should be made no later than six months after the end of the year of withdrawal.

Accordingly, the share capital and retained earnings of limited liability companies forming part of the Group which are attributable to minority participants and where the participants may unilaterally withdraw, are shown as net assets attributable to minority participants, and are presented as liabilities of the Group.

(l) Revenue

(i) Sale of coal

Revenue from the sale of coal in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The transfer of risks and rewards varies depending on the individual terms of the contract of sale and usually occurs when the coal is received at the customer's warehouse or is collected from the Group's warehouse in case of retail sales. However, for some international shipments the transfer of risks and rewards occurs upon passing the products to the relevant carrier or at the frontier.

(ii) Revenue from rendering of services

Revenue from rendering of services comprises sales of power and heat energy and sales of storage and transportation services. Revenue from transportation services rendered is recognised in profit or loss in proportion to the stage of completion of a respective voyage at the reporting date.

Revenue from sales of power and heat energy is recognized on the delivery of electricity and heat and is based on the quantities actually measured or estimated on the basis of the output less expected grid losses, and authorized tariffs for electricity and heat as approved by the Regional Energy Commission.

(iii) Compensation from government

Compensation from government relates to retail sales of coal to the general public at fixed prices regulated by the government. The Group receives reimbursement from the state budget for the difference between the regulated price and an average market price, which is agreed with the government. Compensation from government is accrued when respective sales are made to end customer.

(m) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic

EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Company's General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available – refer to note 2(e)(i).

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective:

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

> Various Improvements to IFRSs are to be dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Reclassifications

With effect from 1 January 2010, the Group changed the functional classification of certain personnel expenses and cost of services provided by third parties. Comparative information for the year ended 31 December 2009 was reclassified for consistency, which resulted in decrease of cost of sales by RUB 70 million, with a respective increase of distribution expenses by RUB 51 million and an increase of administrative expenses by RUB 19 million. The purpose of the change in presentation is to provide a more transparent classification of expenses.

5 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable,

further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6 Reportable segments

The Group determines and presents operating segments based on the information that internally is provided to the General director, who is the Group's chief operating decision maker. The Company's General director reviews operating results for purposes of assessing performance and making resource allocation decisions.

The segmented financial information is prepared and reported to general director at least quarterly. Management selected gross profit as the measure of the segment's result.

For the year ended and as at 31 December 2010 Mln RUB	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	Total
Revenue	3 144	8 178	2 273	565	14 160
Cost of sales	(2 373)	(6 907)	(1 786)	(391)	(11 457)
Gross profit and segment result	**771**	**1 271**	**487**	**174**	**2 703**
Unallocated expenses					
Other operating expenses					(1 350)
Finance income and expenses					(281)
Profit before income tax					**1 072**
Trade receivables	260	95	187	62	604
Advances received	(50)	(641)	(36)	(9)	(736)

For the year ended and as at 31 December 2009 Mln RUB	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	Total
Revenue	3 624	5 004	1 501	529	10 658
Cost of sales	(2 685)	(3 897)	(1 152)	(367)	(8 101)
Gross profit and segment result	**939**	**1 107**	**349**	**162**	**2 557**
Unallocated expenses					
Other operating expenses					(1 088)
Finance income and expenses					(591)
Profit before income tax					**878**
Trade receivables	421	51	174	74	720
Advances received	(79)	(103)	(33)	(54)	(269)

(i) Geographical information

The Group operates in three principal geographical areas: Russia, European Union and Asia (by location of customers).

Mln RUB	Revenues		Trade receivables		Advances received	
	2010	2009	2010	2009	2010	2009
Russia	5 982	5 654	509	669	95	166
European Union	5 338	2 476	28	2	641	103
Asia	2 940	2 528	67	49	—	
Total	**14 160**	**10 658**	**604**	**720**	**736**	**269**

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

(ii) Major customers

During 2010 sales to three most significant clients comprising more than 10% of revenue each, amounted to RUB 2 940 million (2009: RUB 2 579 million), RUB 1 712 million (2009: RUB 1 929 million) and RUB 1 731 million (sales to the same customer in 2009 amounted to RUB 296 million) respectively.

7 Acquisition of non-controlling interests

In July 2010, the Group acquired a 25% interest in OJSC KuzbassToplivoSbyt Company for a consideration of RUB 20 million. Also, during 2009 and 2010, the Group acquired additional interests in certain coal retail entities for a consideration of RUB 5 million in 2010 (2009: RUB 4 million).

The above acquisitions resulted in reduction of non-controlling interest by RUB 27 million (2009: RUB 15 million) and in increase of net assets attributable to minority participants of LLC entities by RUB 2 million (2009: RUB 6 million).

8 Revenue

Mln RUB	2010	2009
Sales of coal	13 000	9 225
Compensation from government	596	904
Sales of electrical and heat power	236	202
Provision of transportation services	170	137
Provision of storage services	50	67
Other revenue	108	123
	14 160	**10 658**

Compensation from government refers to amounts received from the local authorities as part of the consideration for coal sold to local municipalities. Such compensation is due to the company in accordance with Russian legislation.

9 Cost of sales

Mln RUB	2010	2009
Railway tariff and transportation services	5 437	3 542
Coal purchased	1 595	942
Wages, salaries and social charges	924	747
Extraction, processing and sorting of coal	723	659
Fuel	804	546
Depreciation	755	615
Spare parts	499	323
Mining and environmental taxes	248	204
Repair and maintenance	228	111
Operating leases	75	57
Electricity	57	33
Security services	38	32
Change in provision for site restoration	3	(1)
Land rent	4	31
Storage services	1	4
Other materials	142	106
Other services	79	123
Other costs	10	25
Change in coal stock	(165)	2
	11 457	**8 101**

10 Distribution expenses

Mln RUB	2010	2009
Services	257	132
Wages, salaries and social charges	193	158
Materials	45	31
Depreciation	45	42
	540	**363**

11 Administrative expenses

Mln RUB	2010	2009
Wages, salaries and social charges	421	287
Services	160	129
Taxes other than income tax	123	92
Charity and welfare	40	33
Fees and penalties	9	57
Materials	25	18
Depreciation	20	31
Sundry payments to personnel	12	36
Other administrative expenses	39	23
	849	**706**

12 Other income and expenses, net

Mln RUB	2010	2009
Impairment loss	(7)	(15)
Profit / (loss) on disposal of property, plant and equipment	46	(4)
	39	**(19)**

13 Personnel costs

Mln RUB	2010	2009
Wages, salaries and other payments to personnel	1 282	1 006
Social charges	268	222
	1 550	**1 228**

14 Finance income and finance costs

Mln RUB	2010	2009
Foreign exchange gain	—	41
Interest income on loans granted	13	19
Compensation of interest paid in prior periods received from the State	86	—
Discount at initial recognition of interest-free loan received	—	5
Finance income	**99**	**65**
Foreign exchange loss	(83)	—
Interest expense	(250)	(615)
Allowance for doubtful debts and write-offs	(21)	(9)
Unwinding of discount on provision for site restoration	(21)	(22)
Unwinding of discount on retirement benefit liability	(1)	—
Unwinding of discount on long-term promissory notes	(9)	(10)
Finance costs	**(385)**	**(656)**
	(286)	**(591)**

In addition to interest expense shown above, the Group has capitalised RUB 30 million (2009: 49 million) to property, plant and equipment under construction using a capitalisation rate of 7.7% (2009: 11.1 %).

15 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2009: 20%).

Mln RUB	2010	2009
Current tax expense		
Current year	(170)	(144)
Underprovided in prior years	(4)	(7)
	(174)	**(151)**
Deferred tax expense		
Origination and reversal of temporary differences	(75)	(73)
Change in unrecognised temporary differences	—	9
	(75)	**(64)**
	(249)	**(215)**

Reconciliation of effective tax rate:

	2010 Mln RUB	%	2009 Mln RUB	%
Profit before income tax	1 072		878	
Income tax at applicable tax rate	(214)	(20)	(176)	(20)
Non-deductible expenses	(31)	(3)	(41)	(5)
Change in unrecognised temporary differences	—	—	9	1
Underprovided in prior years	(4)	(0)	(7)	(1)
	(249)	**(23)**	**(215)**	**(25)**

(a) Income tax recognised in other comprehensive income

Mln RUB	2010			2009		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Actuarial losses on retirement benefit liability	(9)	2	(7)	–	–	–
	(9)	**2**	**(7)**	**–**	**–**	**–**

(b) Income tax recognised directly in equity

Mln RUB	2010			2009		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Share issue costs	(165)	33	(132)	–	–	–
	(165)	**33**	**(132)**	**–**	**–**	**–**

16 Property, plant and equipment

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Cost / deemed cost								
Balance at 1 January 2009	850	918	2 592	2 640	6	596	364	7 966
Additions	302	–	16	106	1	570	317	1 312
Transfers	2	11	89	1 378	14	(847)	(647)	–
Disposals	(4)	(9)	(2)	(87)	–	(5)	(2)	(109)
Balance at 31 December 2009	**1 150**	**920**	**2 695**	**4 037**	**21**	**314**	**32**	**9 169**
Additions	117	5	5	340	8	332	1 524	2 331
Transfers	896	–	178	824	23	(559)	(1 362)	–
Disposals	(9)	–	–	(120)	(1)	–	–	(130)
Balance at 31 December 2010	**2 154**	**925**	**2 878**	**5 081**	**51**	**87**	**194**	**11 370**

Mln RUB	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
Depreciation and impairment losses								
Balance at 1 January 2009	(52)	(33)	(369)	(737)	(3)	—	—	(1 194)
Depreciation charge	(22)	(18)	(162)	(486)	(2)	—	—	(690)
Impairment loss	—	—	2	(17)	—	—	—	(15)
Disposals	—	—	2	60	1	—	—	63
Balance at 31 December 2009	**(74)**	**(51)**	**(527)**	**(1 180)**	**(4)**	**—**	**—**	**(1 836)**
Depreciation charge	(43)	(19)	(133)	(607)	(18)	—	—	(820)
Impairment loss	—	—	—	(7)	—	—	—	(7)
Disposals	—	—	—	96	1	—	—	97
Balance at 31 December 2010	**(117)**	**(70)**	**(660)**	**(1 698)**	**(21)**	**—**	**—**	**(2 566)**
Net book value								
At 1 January 2009	**798**	**885**	**2 223**	**1 903**	**3**	**596**	**364**	**6 772**
At 31 December 2009	**1 076**	**869**	**2 168**	**2 857**	**17**	**314**	**32**	**7 333**
At 31 December 2010	**2 037**	**855**	**2 218**	**3 384**	**30**	**87**	**194**	**8 804**

The allocation of depreciation charge is presented in the table below:

Mln RUB	2010	2009
Cost of sales	755	615
Distribution expenses	45	42
Administrative expenses	20	31
Capitalised in property, plant and equipment under construction	—	2
	820	**690**

Additions to property, plant and equipment include RUB 30 million (2009: RUB 49 million) of capitalised interest.

At 31 December 2010 items of property, plant and equipment with a carrying amount of RUB 2 555 million (2009: RUB 3 421 million) have been pledged to secure bank loans (refer to note 27).

17 Goodwill and intangible assets

Mln RUB	Goodwill	Other	Total
Cost			
Balance at 1 January 2009	14	1	15
Additions	–	–	–
Balance at 31 December 2009	14	1	15
Additions	–	–	–
Balance at 31 December 2010	14	1	15
Amortisation			
Balance at 1 January 2009	–	–	–
Amortisation charge	–	(1)	(1)
Balance at 31 December 2009	–	(1)	(1)
Amortisation charge	–	–	–
Balance at 31 December 2010	–	(1)	(1)
Net book value			
At 1 January 2009	**14**	**1**	**15**
At 31 December 2009	**14**	**–**	**14**
At 31 December 2010	**14**	**–**	**14**

Impairment testing of goodwill

Goodwill arising from previous business combinations has been entirely allocated to the operating segment "domestic sales of coal produced", which is the lowest level at which the goodwill is monitored for internal management purposes.

The Group tested the goodwill for impairment as at 31 December 2010. The results of the test did not identify any impairment of the goodwill as at 31 December 2010.

18 Investments in equity accounted investees

Mln RUB	31 December 2010	31 December 2009
Suzunsky raitop OJSC, 49% ownership share	3	3
Kuzbass Transport Company LLC, 45% ownership share	5	–
	8	**3**

Movements in carrying value of investments in equity accounted investees were as follows:

Mln RUB	2010	2009
Carrying value as at the beginning of year	3	3
Share of income of associates	5	–
Carrying value as at the end of year	**8**	**3**

The following aggregate financial information relates to the Group's associates:

Mln RUB	31 December 2010	31 December 2009
Assets	943	—
Liabilities	(932)	—
Equity	(11)	—

Mln RUB	2010	2009
Revenue	458	—
Net profit and total comprehensive income	10	—

19 Other investments

Mln RUB	31 December 2010	31 December 2009
Non-current		
Loan granted to shareholder	—	67
Loan granted to other companies	6	—
	6	**67**
Current		
Loan granted to other companies	39	7
	39	**7**

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 31.

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Mln RUB	Assets		Liabilities		Net balance	
	2009	2010	2009	2010	2009	2010
Property, plant and equipment	—	—	(422)	(490)	(422)	(490)
Inventories	15	8	(14)	(48)	1	(40)
Trade and other receivables	7	44	(7)	(8)	—	36
Trade and other payables	16	23	—	(6)	16	17
Loans and borrowings	5	5	(12)	(10)	(7)	(5)
Provisions and retirement benefit liability	47	53	—	—	47	53
Tax loss carry-forwards	9	—	—	—	9	—
Deferred tax assets / liabilities	**99**	**133**	**(455)**	**(562)**	**(356)**	**(429)**
Set-off of tax	(93)	(114)	93	114	—	—
Net tax assets / liabilities	**6**	**19**	**(362)**	**(448)**	**(356)**	**(429)**

As at 31 December 2010, tax losses carried forward were utilised against taxable profits.

(b) Unrecognised deferred tax liabilities

As at 31 December 2010, the Group has not recognised a deferred tax liability with respect to taxable temporary differences relating to investments in subsidiaries, because management believes all such differences will not be reversed in the foreseeable future. The amount of these differences is RUB 852 million (2009: RUB 757 million).

(c) Movement in temporary differences during the year

	1 January 2009	Recognised within profit for the period	31 December 2009	Recognised within profit for the period	Recognised in other comprehensive income	31 December 2010
Property, plant and equipment	(363)	(59)	(422)	(68)	—	(490)
Inventories	128	(127)	1	(41)	—	(40)
Trade and other receivables	(6)	6	—	36	—	36
Trade and other payables	(74)	90	16	1	—	17
Loans and borrowings	(9)	2	(7)	2	—	(5)
Provisions and retirement benefit liabilities	32	15	47	4	2	53
Tax loss carry-forwards	—	9	9	(9)	—	—
	(292)	**(64)**	**(356)**	**(75)**	**2**	**(429)**

21 Inventories

Mln RUB	31 December 2010	31 December 2009
Raw materials and consumables	334	132
Coal in stock	347	150
Coal in transit	75	114
Other	3	9
	759	**405**

Inventories with a carrying amount of RUB nil million (2009: 45 million) have been pledged as security for borrowings (note 27).

22 Trade and other receivables

Mln RUB	31 December 2010	31 December 2009
Trade receivables	604	720
VAT receivable	288	279
Compensation receivable from budget	91	96
Receivables for railway tariff	55	72
Receivable from personnel	16	14
Other receivables	94	91
Provision for doubtful debts	(62)	(45)
	1 086	**1 227**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 31.

23 Prepayments and deferred expenses

Mln RUB	31 December 2010	31 December 2009
Advances given	419	209
Deferred expenses	21	21
	440	**230**

24 Cash and cash equivalents

Mln RUB	31 December 2010	31 December 2009
Petty cash	2	1
Bank accounts and term deposits	455	85
	457	**86**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

25 Capital and reserves

Number of shares unless otherwise stated	31 December 2010	31 December 2009
On issue at 1 January	84 399 400	1 687 988
Share split	—	82 711 412
Issued for cash	14 858 955	—
On issue at 31 December - fully paid	99 258 355	84 399 400
Authorized shares	99 299 400	93 777 100
Par value, Russian roubles	0.2	0.2
Share capital, RUB million	**20**	**17**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In December 2009, the Company performed a share split in the ratio of 1:50, which resulted in an increase in the number of shares to 84 399 400. The split was registered with the regulating authorities on 28 December 2009. On 17 February 2010, the shareholders resolved to increase the number of the Company's authorised shares to 99 299 400 and to issue an additional 14 900 000 shares.

In April 2010, the Company made an initial public offering of its shares at RTS and MICEX stock exchanges, raising RUB 2 964 million for 15% of its shares. As a result of public offering, 14 858 955 shares were issued and paid in cash. Transaction costs of the issue amounted to RUB 132 million net of income tax effect and have been offset against the share issue proceeds in the statement of changes in equity.

(a) Dividends

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the Russian Accounting Principles, which differs from the balance of retained earnings reported in these consolidated financial statements.

The following dividends were declared and paid by the Company:

Mln RUB	2010	2009
3 RUB per qualifying ordinary share (2009: nil)	253	—

26 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders of RUB 826 million (2009: RUB 637 million), and a weighted average number of ordinary shares outstanding of 90 058 016 (2009: 84 399 400). The Company has neither preference shares nor dilutive potential ordinary shares. Per share calculations for comparative periods are based on the number of shares after the share split.

27 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 31.

Mln RUB	31 December 2010	31 December 2009
Non-current liabilities		
Secured bank loans	1 618	2 130
Loans from other companies	37	41
Promissory notes issued	21	33
	1 676	**2 204**
Current liabilities		
Secured bank loans	511	1 622
Promissory notes issued	15	11
Loans from other companies	5	18
Interest accrued	4	4
	535	**1 655**

(a) Terms and debt repayment schedule:

Mln RUB	Currency	Nominal interest rate	Year of maturity	2010		2009	
				Carrying amount	Face value	Carrying amount	Face value
Secured bank loan	USD	7.5%	2011 - 2014	1 981	1 981	—	—
Secured bank loan	USD	8% - 9.1%	2011 - 2014	—	—	1 966	1 966
Secured bank loan	RUB	11.5%	2011 - 2012	103	103	—	—
Secured bank loan	RUB	12% - 17.8%	2010	—	—	800	800
Secured bank loan	RUB	3m Mosprime+4.55%	2011	45	45	—	—
Secured bank loan	RUB	1m Mosprime+3.5%	2010	—	—	350	350
Secured bank loan	RUB	20% - 22%	2010	—	—	246	246
Secured bank loan	RUB	12% - 22%	2011 - 2014	—	—	184	184
Secured bank loan	USD	8% - 9.1%	2010	—	—	136	136
Secured bank loan	RUB	16.5%	2010	—	—	60	60
Secured bank loan	RUB	10.5% - 14.0%	2010 - 2012	—	—	10	10
Promissory notes issued	RUB	0%	2011 - 2013	36	45	44	57
Loans from other companies	RUB	0%	2011 - 2028	42	85	44	92
Loans from other companies	RUB	20%	2010	—	—	15	15
				2 207	2 259	3 855	3 916

The borrowings above are stated net of interest payable.

Bank loans are secured by the following:

- Property plant and equipment with a carrying amount of RUB 2 555 million (2009: RUB 3 421 million) (refer to note16).
- Inventory with a carrying amount of nil (2009: RUB 45 million) (refer to note 21).
- 100% shares of LLC TEK Meret, a subsidiary of the Group (2009: 100%) with a carrying amount of RUB 547 million (2009: RUB 478 million).

28 Net assets attributable to minority participants in LLC entities

	Mln RUB
Balance at 1 January 2009	50
Comprehensive income attributable to minority participants	4
Effect of share issue by LLC subsidiary	6
Effect of change in non-controlling interests	6
Balance at 31 December 2009	**66**
Comprehensive income attributable to minority participants	—
Effect of change in non-controlling interests	2
Balance at 31 December 2010	**68**

As minority participants in limited liability companies of the Group have a unilateral right to withdraw their share of net assets from the entity, their interests in the net assets of these entities have been recognised as a liability.

29 Provisions

All of the Group's provisions are represented by non-current site restoration liabilities.

Mln RUB	Site restoration liability
Balance at 1 January 2009	224
Provisions made during the year	28
Unwinding of discount	22
Change of accounting estimates	(37)
Balance at 31 December 2009	**237**
Provisions made during the year	29
Unwinding of discount	21
Change of accounting estimates	(22)
Balance at 31 December 2010	**265**

(a) Site restoration

Site restoration provision includes expected costs of levelling, clean-up and re-vegetation of soil at open pit mines and related overburden banks operated by the Group.

During 2010, RUB 29 million (2009: RUB 28 million) was charged to cost of sales in the course of coal extraction.

Additionally, as a result of change in accounting estimates, increase of RUB 5 million was recognised (2009: RUB 8 million was derecognised) in mining assets and decrease of RUB 26 million (2009: RUB 29 million) was credited to cost of sales.

Because of the nature of the liability, the most significant uncertainty in estimating the provision is the costs which will be incurred. Environmental legislation in the Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as those operating by the Group. Generally the standard of restoration is determined based on discussions with federal and local government officials at the time when restoration is about to commence.

In making the assumptions for the calculation of the expected costs management has consulted with its in-house engineers who have considered statutory requirements in respect of similar sites that require similar site restoration activities.

Future costs were discounted using an average yield on Russian government bonds with similar maturities. As at 31 December 2010 the average yield amounted to 7.4% p. a. (2009: 8.8 % p.a.).

30 Trade and other payables

Mln RUB	31 December 2010	31 December 2009
Trade payables	645	576
Advances received	736	269
Taxes (other than income tax) payable	139	205
Payables for property, plant and equipment	29	238
Payables to personnel	149	113
Other payables	69	13
	1 767	**1 414**

Advances received as at 31 December 2009 include RUB 52 million of prepayments received for land plots, which were disposed in 2010.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

31 Financial instruments and risk management

(a) Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hedge its exposure to such risks.

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group does not have formalized risk management policies, however procedures are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management procedures are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The actual execution of financial instruments risk analysis and management is the responsibility of First Deputy General Director of the Group, who reviews on a regular basis risk exposure and risk profiles and recommends management actions aimed at mitigating risks beyond levels of tolerance.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, deposits with banks and financial institutions, loans given and outstanding trade and other receivables. Credit risk is managed on a group basis.

The Group does not require collateral in respect of its financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The Group primarily transacts with its customers on a prepayment basis, however sales to related parties, government bodies and established customers, who have been trading with the Group for several years are made on credit terms.

As at 31 December 2010 the Group had one significant customer with an accounts receivable balance which individually exceeded 10 % of total trade accounts receivable amounting to RUB 67 million (2009: RUB 48 million due from the same customer).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance is made for individually significant exposures where objective evidence of impairment loss exists.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Mln RUB	31 December 2010	31 December 2009
Loans granted	45	74
Trade and other receivables	1 087	1 234
Cash and cash equivalents	457	86
	1 589	**1 394**

The Group's exposure to credit risk in respect of trade and other receivables at the end of the reporting period is primarily represented by receivables from wholesale customers and other counterparties in Russia.

Impairment losses

The ageing of trade receivables together with allowances as at the reporting dates was:

Mln RUB	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	383	—	505	1
Past due 0-30 days	94	3	114	—
Past due 31-60 days	30	—	33	—
Past due 61-90 days	16	—	19	—
Past due 91-180 days	18	—	18	3
Past due more than 180 days	63	27	31	17
	604	**30**	**720**	**21**

The impairment losses as at 31 December 2010 mostly relate to customers that experienced difficulties in obtaining finance from municipal budgets.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Mln RUB	2010	2009
Balance, as at beginning of the year	45	36
Recognised within profit for the year	21	9
Utilised	(4)	—
Balance, as at end of the year	**62**	**45**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 60 days. Impairment allowance for receivables which are overdue by more than 60 days is determined on a case-by-case basis.

Overdue but not impaired trade receivables primarily comprise amounts due from government bodies and customers who have a good track record with the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To date, the Group has significantly relied upon short-term and long-term financing to fund the development of its production facilities. This financing has historically been provided through bank loans, and through proceeds from the initial public offering in 2010.

In 2011 and beyond, the Group anticipates funding for further capital investments from cash generated from operations and additional bank loans. Management believes that based on the expected levels of operating profit and cash flows, the Group will be able to meet its short-term liabilities as they fall due.

As at 31 December 2010, the Group had some open credit facilities with a number of major Russian banks. In accordance with the agreement the Group may borrow from these banks at 8% p.a (2009: 15% p.a.). The unused amount of these facilities was RUB 1 603 million (31 December 2009: RUB 248 million) as at the reporting date.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	2 129	234	423	770	706	287	—	—	2 419
Promissory notes issued	36	—	15	15	15	—	—	—	45
Loans from other companies	42	3	3	5	5	5	5	58	85
Trade and other payables	892	892	—	—	—	—	—	—	892
	3 099	**1 129**	**441**	**790**	**726**	**292**	**5**	**58**	**3 441**

Mln RUB	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	3 752	1 358	754	491	746	673	330	—	4 352
Promissory notes issued	44	—	12	15	15	15	—	—	57
Loans from other companies	59	3	19	5	5	5	5	64	106
Trade and other payables	940	940	—	—	—	—	—	—	940
	4 795	**2 301**	**785**	**511**	**766**	**693**	**335**	**64**	**5 455**

Amounts of trade and other payables exclude advances received and other taxes payable.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of Group entities, the Russian Rouble (RUB).

Part of the Group's borrowings is denominated in foreign currencies so that they partially offset foreign currency cash inflows generated by the underlying operations of the Group.

Companies in the Group do not use foreign exchange hedges to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

Mln RUB	USD denominated 31 December 2010	USD denominated 31 December 2009
Trade and other receivables	106	62
Cash and cash equivalents	—	1
Trade and other payables	(3)	—
Loans and borrowings	(1 981)	(2 102)
Net exposure	**(1 878)**	**(2 039)**

The following significant exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD 1	30.3765	31.7205	30.4769	30.2442

Sensitivity analysis

A 10 % strengthening (weakening) of the RUB against the US dollar based on the Group exposure as at the reporting date would have increased (decreased) profit or loss by RUB 188 mln (2009: RUB 204 mln). The analysis assumes that all other variables, in particular interest rates, remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Mln RUB	31 December 2010	31 December 2009
Fixed rate interest-bearing instruments:		
Financial assets	45	74
Financial liabilities	(2 166)	(3 509)
	(2 121)	(3 435)
Variable rate interest-bearing instruments:		
Financial liabilities	(45)	(350)
Net amount	**(2 166)**	**(3 785)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 1% p.a. in Mosprime rates based on the Group's exposure as at the reporting date would increase (decrease) future annual cash flow related to interest payments of the Group by less than RUB 1 million (2009: RUB 4 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(e) Fair values versus carrying amounts

Except for items stated below, management believes that the carrying amounts of financial assets and liabilities as at 31 December 2010 approximate their fair values:

Mln RUB	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Loans received measured at amortised cost	2 211	2 432	3 859	3 840

The interest rates used to discount estimated cash flows, where applicable, are based on the incremental borrowing interest rate at the reporting date:

Mln RUB	2010	2009
Loans received measured at amortised cost	5%-6% (USD) 10%-11% (RUB)	9%-11% (USD) 14%-16% (RUB)

(f) Capital management

The Group's objectives when managing capital is to provide an adequate return to shareholders by investing in financial assets which provide a return proportionate to the associated level of risk, and to safeguard the Group's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Group may adjust the return capital to shareholders, issue new shares, or sell assets to reduce debt.

With effect from 2010, the Board of Directors adopted a policy, under which the Company shall pay dividends annually in the amount of 25% of the Company's net profit for the preceding year, as determined under Russian statutory accounting principles.

Loans amounting to RUB 2 088 million as at 31 December 2010 (2009: RUB 1 966 million) are subject to imposed capital requirement on the Group to maintain a prescribed debt to EBITDA ratio of 4:1, determined on the basis of the Russian statutory financial statements.

32 Operating leases

The Group leases a number of machinery and equipment items under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. During the year RUB 84 million (2009: RUB 57 million) was recognised as an expense in the income statement in respect of leased machinery and equipment.

Additionally, the Group leases land plots from various municipal bodies. The leases of land plots are non-cancellable by nature as most of the Group's production assets are located on the leased land. The leases typically run for a period of one year and are prolonged on an annual basis, except for one lease agreement with the lease term until 2024. As at year end the Group leased in excess of 100 hectares of land and made payments during the year of RUB 9 million (2009: RUB 31 million) including RUB 1 million relating to the long-term lease agreement indicated above. Payments of land rent in subsequent years will depend on the size of land plots under lease and changes in the rent rate per hectare.

33 Capital commitments

As at 31 December 2010, the Group has entered into a number of contracts to purchase plant and equipment for RUB 430 million (2009: RUB 970 million).

34 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

35 Related party transactions

(a) Control relationships

The Company's shares are owned by several entities, neither of which owns more than 50% of the Company's share capital. Mr Igor Yurievich Prokudin is the Company's ultimate controlling party as at 31 December 2010.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (refer to note 13):

Mln RUB	2010	2009
Salaries and bonuses	165	127
Contributions to State pension fund	7	8
Total management remuneration	**172**	**135**

(ii) Other transactions

As at 31 December 2009, a loan to a shareholder amounting to RUB 60 million was classified as "other investments" within non-current assets (refer to note 19). The loan was repaid during 2010.

(b) Transactions with other related parties

The Group's other related party transactions are disclosed below:

(i) Revenue

Mln RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Sale of coal	28	21	1	—
Other revenue	2	2	2	—
	30	23	3	—

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(ii) Expenses

Mln RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Purchase of goods	—	4	1	—
Services received	9	44	—	3
	9	**48**	**1**	**3**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

Mln RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Loans given:				
Shareholders of the Group	—	(60)	—	60
	—	**(60)**	**—**	**60**

Loan granted to one of the shareholders as at 31 December 2009 bears interest rate of 18% (2009: 10.5%) and was repaid in 2010.

Mln RUB	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Interest income on loans given:				
Shareholders of the Group	3	13	—	6
	3	**13**	**—**	**6**

36 Events subsequent to the reporting date

There were no significant events subsequent to the reporting date.

APPENDIX 1.
Compliance with Corporate Code of Conduct of Federal Securities Commission (FCSM) of Russia

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
General Shareholders Meeting			
1.	Shareholders should be notified about a general shareholders meeting at least 30 days prior to the date it is to be held regardless of the issues included on the meeting's agenda, if legislation does not specify a longer period	Not observed	Under pts 16.1-16.3 of the Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders and pt 8.9 of the Company Charter: "Notification about an extraordinary General Meeting of Shareholders must be made not later than 20 days prior, while notification of a General Shareholders Meeting for which the agenda includes the issue of company reorganization must be made not later than 30 days before the date of the meeting. Notification of an annual General Shareholders Meeting must be made not later than 30 days prior to the date of the meeting. In cases specified by pts 2 and 8 of Article 53 of the Federal Law On Joint-stock Companies, notification of an extraordinary general meeting must be made not later than 30 days before the date of the meeting." Under pt 8.10 of the Company Charter: "Within the stated timeframe notification of a General Shareholders Meeting must be sent to each person indicated in the list of persons who have a right to participate in the General Shareholders Meeting, by registered mail or delivered under signed receipt or published in Kommersant newspaper. As an additional means of notifying shareholders of a General Shareholders Meeting, the Company can use the publication of a notice on the Company's website." The issue of making the appropriate amendments to the Charter and Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders will be included in the agenda of the annual general meeting held in 2011.
2.	Shareholders should have the opportunity to review the list of persons who are entitled to participate in the general shareholders meeting from the date of notification of the general shareholders meeting until the closing of the in presentia shareholders meeting, or if the shareholder meeting is held in absentia then until the deadline for acceptance of voting ballots	Observed	Under Article 51 of the Federal Law On Joint-stock Companies , pts 3.8 and 3.9, provisions on additional requirements for the procedure of calling and holding a general shareholders meeting approved by FCSM Resolution No. 17/ps dated May 31, 2002 (pts 15.1, 15.2), and Kuzbasskaya Toplivnaya Company's Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders, the list of persons entitled to participate in the meeting is provided by the Company for review at the request of persons included in this list and holding at least 1% of votes at the premises of the Company's chief executive body within five days of receiving such a request.
3.	Shareholders should have the opportunity to review information (materials) due to be provided during preparations for a general shareholders meeting by electronic means, including via the Internet	Not observed	The Company's internal documents do not include such a requirement. The issue of making the appropriate amendments to the Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders, giving the Company the right to post information (materials) due to be provided ahead of a general shareholder meeting on its website, will be included in the agenda of the annual general meeting held in 2011.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
4.	Shareholders should have the opportunity to submit an item for the agenda of a general shareholders meeting or request that a general shareholders meeting be called without providing a statement from the shareholder register if the shareholder's rights to shares are recorded in the shareholder registration system; if the shareholder's rights to shares are recorded in a custody account, an extract from the custody account is sufficient to exercise the said rights	Observed	When accepting proposals for the agenda of a general meeting, including on candidates for the Board of Directors, the Company independently requests confirmation in the shareholder register. Under pt 5.6 of the Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders: "The Company's Board of Directors, on its own initiative, receives information from the register of owners of registered securities about the number of shares of the corresponding category (type) held by the shareholder who signed the proposal to enter an item (items) into the agenda of the annual general shareholders meeting and proposal on nomination of candidates to Company bodies."
5.	The Charter or internal documents of the joint-stock company should require the general director, members of the executive board, members of the board of directors, members of the internal audit commission and the company's auditor to be present at the general shareholders meeting	Not observed	These persons usually attend the Company's general shareholder meetings, but the Company's Charter and internal documents do not include provisions requiring their mandatory presence at general shareholder meetings. Under pt 20.2 of the Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders: "The Company takes all possible steps to ensure the presence at the General Shareholders Meeting of the general director, members of the Board of Directors, Internal Audit Commission and other Company bodies." The issue of making the appropriate amendments to the Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders will be included in the agenda of the annual general meeting held in 2011.
6.	Candidates must be present when the general shareholders meeting considers the election of members of the Board of Directors, the general director, members of the executive board and the internal audit commission, as well as the confirmation of the company's auditor	Observed	The specified persons are present at such general shareholders meetings, but the Company's Charter and internal documents do not include provisions requiring their mandatory presence at general shareholders meetings.
7.	The joint-stock company's internal documents should include procedures for the registration of participants in general shareholders meetings	Observed	Under pt 26.1 of the Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders: "Registration of persons entitled to participate in the General Shareholders Meeting is carried out by the person who counts votes at the General Shareholders Meeting, at the location of the General Shareholders Meeting stated in the notification of the meeting." Under pt 13.1 of the Regulation, the start time for registration of persons participating in the General Shareholders Meeting is determined by the Board of Directors during preparations for the meeting.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
Board of Directors			
8.	The company's charter should specify that the Board of Directors has the authority to annually approve the company's financial and business plan	Observed	Company Charter, pt 9.2.1: "Determination of the priority areas of the Company's activities, including approval of the annual financial and business plan for Company operations and other documents that establish the financial indicators of the Company's business activities."
9.	The company should have risk management procedures that are approved by the Board of Directors	Not observed	This procedure will be developed in the near future.
10.	The company's charter should specify that the Board of Directors has the authority to suspend the authority of the general director appointed by the general shareholders meeting	Not observed	The Company Charter does not include an articulation of this right.
11.	The company's charter should specify that the Board of Directors has the right establish requirements for the qualifications and remuneration of the general director, members of the executive board and directors of the company's principal divisions	Not observed	The Company Charter does not include an articulation of this right.
12.	The company's charter should specify that the Board of Directors has the right to approve the terms of contracts with the general director and members of the executive board	Not observed	Under pt 8.3.4 of the Company Charter, election and dismissal of the chief executive falls under the authority of the General Shareholders Meeting. The issue of making the appropriate amendments to the Regulation on the Board of Directors will be included in the agenda of the annual general meeting held in 2011.
13.	The company's charter or internal documents should stipulate that when the terms of contracts with the general director (management organization, external manager) and members of the executive board are approved, the votes of members of the Board of Directors who are the general director or members of the executive board are not to be counted	Not observed	The Company's internal documents do not include this requirement. The issue of making the appropriate amendments to the Charter and Regulation on the Board of Directors will be included in the agenda of the annual general meeting held in 2011.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
14.	The company's Board of Directors should include at least three independent directors who meet the requirements of the Corporate Code of Conduct	Not observed	The Company's Board of Directors (5 members) includes two independent directors. In order to determine the independence of Board members, the Company uses the following criteria, specified in the Regulation on the Board of Directors: > is not an officer or employee of the Company at the time of appointment or in the preceding three years > is not an officer of another company in which any Company officers are members of the human resources and remuneration committee of the board of directors > is not affiliated with the Company or affiliates of the Company > is not the spouse, parent, son/daughter, brother/sister of a Company officer > is not a party to obligations with the Company under which he/she could acquire property (moneys) worth 10% or more of the said person's annual income, not including remuneration for participation in the activities of the Board of Directors > is not a major counterparty of the Company, i.e. a counterparty with which combined transactions in the course of a year amount to 10% or more of the book value of the Company's assets > is not a representative of the government, i.e. a person who is a representative of Russia, constituent members of the Russian Federation or municipalities on the boards of directors of companies at which a decision has been made to use special right (golden share), or a person elected to the Board from among candidates nominated by Russia, constituent members of the Russian Federation or municipalities, if such a Board director is supposed to vote on the basis of written directives (instructions, etc.) from Russia, constituent members of the Russian Federation or municipalities.
15.	The company's Board of Directors should not include persons who have been convicted of economic crimes or crimes against the state, the interests of the civil service or service in local government bodies, or persons against whom administrative action has been taken for legal violations in the area of business activities, or in the area of finance, taxes and levies, and the securities market	Observed	There are no such persons on the Company's Board of Directors, but the Company's Charter and internal documents do not include provisions requiring disclosure of such information about candidates to the Board.
16.	The company's Board of Directors should not include persons who are participants, general director (manager), member of a management body or employee of a legal entity that competes with the company	Observed	There are no such persons on the Company's Board of Directors, but the Company's Charter and internal documents do not include such prohibitions. The issue of making the appropriate amendments to the Regulation on the Board of Directors will be included in the agenda of the annual general meeting held in 2011.
17.	The company's charter should stipulate that the Board of Directors should be elected by cumulative voting	Observed	Under pt 9.5 of the Company's Charter: "Elections of members of the Company's Board of Directors are conducted by cumulative voting. The candidates who receive the largest number of votes are considered to be elected to the Board of Directors." In accordance with pt 4, Article 66 of the Federal Law On Joint-stock Companies, elections to the Company's Board of Directors are conducted by cumulative voting.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
18.	The company's internal documents should stipulate that members of the Board of Directors must not take any actions that could create or potentially create a conflict between their own interests or the interests of their affiliated parties (on one side) and the interests of the company and its affiliated parties (on the other side); if such a conflict of interests exists or could arise, Board members must notify the company secretary in writing	Observed	Under pts 8.1.3, 8.1.4 and 8.1.11.-8.1.14 of the Company's Regulation on the Board of Directors, Board members are obligated: > to act in the interests of the Company reasonably and in good faith, demonstrating the diligence and prudence that should be expected of a good manager, and take all measures to properly fulfill their responsibilities. A member of the Board of Directors is considered to be acting reasonably and in good faith if he/she has no personal interest in the adoption of a specific decision and carefully studied all information necessary for making a decision. Furthermore, other attendant circumstances should demonstrate that the member acted exclusively in the interests of the Company > to act in the interests of the Company as a whole, rather than in the interests of individual shareholders, officers or other parties > to inform the Company of their affiliated parties and relevant changes in a timely fashion > to disclose to the Board of Directors, Internal Audit Commission and company auditor information about legal entities in whose management bodies they hold positions > to disclose to the Board of Directors, Internal Audit Commission and company auditor information about proposed transactions in which they might be considered an interested party > to abstain from voting on issues in which they have a vested interest
19.	The company's internal documents should stipulate that members of the Board of Directors should refrain from acquiring or transferring company securities at any time when they have substantive non-public information about the company's activities, shares, other securities and transactions with them, and that they should disclose in writing information about their ownership of company securities, as well as acquisition or transfer of company securities promptly and at the request of the company Secretary	Observed	Under pt 5.1.1, persons who hold insider information do not have the right to conclude (or instruct other parties to conclude) transactions with insider securities in their own interests or in the interests of third parties. Under pt 8.2 of the Regulation on the Board of Directors: "Members of the Board of Directors must disclose to the Company's general director, auditor and Internal Audit Commission information about their ownership of Company securities, as well as about the sale and/or purchase of Company securities by them not later than five days from the date of the relevant event."
20.	The company's internal documents should stipulate that the Board of Directors hold meetings at least once every six weeks	Not observed	Under pt 19.1 of the Regulation on the Board of Directors: "Meetings of the Board of Directors are held as needed, but not less than once every three months." The issue of making the appropriate amendments to the Regulation on the Board of Directors will be included in the agenda of the annual general meeting held in 2011.
21.	The company's Board of Directors should meet at least once every six weeks in the year for which the company's annual report is being prepared	Observed	In the 2010 reporting year, the Board of Directors held 25 meetings.
22.	The company's internal documents should include a procedure for holding meetings of the Board of Directors	Observed	Regulation on the Board of Directors, Part VII Meetings of the Board of Directors
23.	The company's internal documents should include provisions specifying that the Board of Directors must approve company transactions worth 10% or more of the company's assets, with the exception of transactions conducted in the normal course of business	Not observed	The Company's internal documents do not include such a requirement.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
24.	The company's internal documents should stipulate that members of the Board of Directors have the right to receive information (materials) and clarification from executive bodies and company officers on issues regarding company activities that is necessary for making balanced decisions within the scope of the Board of Directors	Observed	Regulation on the Board of Directors, Article 10 Obligations of the Company's General Director and other Company officers and employees to fulfill requirements of the Board of Directors
25.	The Board of Directors should have a strategic planning committee or entrust the functions of such a committee to another committee, other than the audit committee and the human resources and remuneration committee	Not observed	Such a committee will be created in the near future.
26.	The Board of Directors should have a committee (audit committee) that recommends a company auditor to the Board and cooperates with this auditor and the company's internal audit commission	Observed	The Board of Directors on December 29, 2008 approved a Regulation on the Audit Committee of the Board of Directors of Kuzbasskaya Toplivnaya Company. By decision of the Board of Directors (Protocol No. 4/03, dated May 24, 2010), the Audit Committee includes: David Stewart (independent director), Chairman; Yury Fridman (independent director); and Eduard Alexeenko (non-executive director). Under Article 5 of the regulation on the Audit Committee, its responsibilities include assessment of candidates for auditor of the Company. The Audit Committee's cooperation with the Internal Audit Commission is regulated by Article 7 of the regulation on the Audit Committee.
27.	The audit committee members should be only independent directors and non-executive directors	Observed	Under pt 12.2 of the Regulation on Audit Committee of the Board of Directors: "The Audit Committee should consist only of members of the Board of Directors who are not the chief executive officer and/or members of the collegial executive body of the Company. The Audit Committee should be chaired by an independent director."
28.	The audit committee should be chaired by an independent director	Observed	Under Section 19 of the Regulation on the Audit Committee of the Board of Directors, the requirements established for the chairman of the Audit Committee are similar to the criteria for determining the independence of members of the Board of Directors as set out in the Regulation on the Board of Directors. By decision of the Board of Directors (Protocol No. 4/03, dated May 24, 2010), the Audit Committee includes: David Stewart (independent director), Chairman; Yury Fridman (independent director); and Eduard Alexeenko (nonexecutive director).
29.	The company's internal documents should stipulate that all members of the audit committee have the right to access any documents and information of the company on the condition that they do not disclose confidential information	Observed	Under pt 5.7 of the Regulation on the Audit Committee of the Board of Directors, in order to fulfill the responsibilities of the Committee all its members should have unrestricted access to any Company documents and obtain any necessary information. Under Article 8 of the regulation on the Audit Committee: "The General Director is obliged to provide the Audit Committee with required information, ensure that this information is complete and provided in a timely manner, and show personal initiative in providing information, not restricting himself to responses to requests of the Audit Committee, taking into account restrictions stipulated by regulations of the Russian Federation and the Company's Charter and internal documents." Under pt 15.1.5, members of the Audit Committee are prohibited from disclosing confidential information.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
30.	The Board of Directors should have a committee (human resources and remuneration committee) responsible for determining the criteria for selection of candidates to the Board of Directors and developing the company's policies on remuneration	Observed	The Regulation on the Board of Directors (pt 24.1) allows for the possibility of forming Board committee made up of members of the Board of Directors. The Board of Directors in 2010 (Protocol No. 9/03, dated August 26, 2010) approved a Regulation on the Human Resources and Remuneration Committee of the Board of Directors of Kuzbasskaya Toplivnaya Company. Under pt 2.1 of the regulation, the main purpose of the Human Resources and Remuneration Committee is to develop and present to the Board of Directors recommendations on the following issues: > Company priorities in the area of human resources and remuneration for members of management bodies and the Internal Audit Commission > Company policies and standards for selection of candidates for management bodies, aimed at recruiting qualified management professionals By decision of the Board of Directors (Protocol No. 9/03, dated August 26, 2010), the Human Resources and Remuneration Committee includes: Yury Fridman (independent director), Chairman; David Stewart (independent director); and Eduard Alexeenko (nonexecutive director).
31.	The human resources and remuneration committee should be chaired by an independent director	Observed	Under pt 4.1 of the regulation on the Human Resources and Remuneration Committee, the committee is appointed from among members of the Board of Directors and includes at least three people, at least one of which must be an independent director. Under pt 5.2 of the regulation on the Human Resources and Remuneration Committee, the chairman of the committee is elected from among independent directors. The committee is currently chaired by independent director Yury Fridman.
32.	The human resources and remuneration committee should not include any company officers	Not observed	The Company's internal documents do not include such a requirement.
33.	The Board of Directors should have a risk committee or entrust the functions of such a committee to another committee, other than the audit committee and the human resources and remuneration committee	Not observed	The Regulation on the Board of Directors (pt 24.1) allows for the possibility of forming Board committees made up of members of the Board of Directors. The Company does not currently have a Board risk committee.
34.	The Board of Directors should have a committee for resolution of corporate disputes or entrust the functions of such a committee to another committee, other than the audit committee and the human resources and remuneration committee	Not observed	The Regulation on the Board of Directors (pt 24.1) allows for the possibility of forming Board committees made up of members of the Board of Directors. The Company does not currently have a Board committee for corporate dispute resolution.
35.	The committee for corporate dispute resolution should not include company officers	Not observed	The Company does not currently have a Board of Directors committee for corporate dispute resolution.
36.	The committee for corporate dispute resolution should be chaired by an independent director	Not observed	The Company does not currently have a Board of Directors committee for corporate dispute resolution.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
37.	The company should have internal documents approved by the Board of Directors that define the procedure for the formation and work of Board committees	Observed	The Regulation on the Board of Directors (pt 24.1) allows for the possibility of forming Board committee made up of members of the Board of Directors. The Board of Directors in 2010 (Protocol No. 9/03, dated August 26, 2010) approved a Regulation on the Human Resources and Remuneration Committee of the Board of Directors of Kuzbasskaya Toplivnaya Company. The Board of Directors in December 2008 approved (Protocol No. 8, dated December 29, 2008) a Regulation on the Audit Committee of the Board of Directors of Kuzbasskaya Toplivnaya Company. These documents set out the procedure for the formation and work of, respectively, the Human Resources and Remuneration Committee and Audit Committee.
38.	The Board of Directors should have a committee (budget committee) to assist the Board by conducting preliminary reviews of issues and drafting policy recommendations in the area of finance, budgeting and business planning	Not observed	The Regulation on the Board of Directors (pt 24.1) allows for the possibility of forming Board committee made up of members of the Board of Directors. Such a committee will be formed in the near future.
39.	The company's charter should stipulate a procedure for determining a quorum of the Board of Directors that would ensure mandatory participation of independent directors at Board meetings	Not observed	The Company Charter does not include a clause for determining a quorum of the Board of Directors.
Executive Bodies			
40.	The company should have a collegial executive body (management board)	Not observed	Not prescribed by the Company Charter
41.	The company's Charter or internal documents should stipulate that the management board should approve transactions with real estate and the receipt of loans by the company if these transactions are not classified as major transactions and they are not conducted in the normal course of business	Not observed	The Company Charter does not provide for a collegial executive body (see Provision 40).
42.	The company's internal documents should include procedures for approval of operations that fall outside of the company's financial and business plan	Not observed	Virtually all major operations that fall outside the Company's financial and business plan are reviewed by the Board of Directors.
43.	The company's executive bodies should not include persons who are participants, general director (manager), member of a management body or employee of a legal entity that competes with the company	Observed	The recommendation is observed, but the Company's Charter and internal documents do not include provisions that establish the recommended restrictions for persons who are members of the Company's executive bodies.
44.	The company's executive bodies should not include persons who have been convicted of economic crimes or crimes against the state, the interests of the civil service or service in local government bodies, or persons against whom administrative action has been taken for legal violations in the area of business activities, or in the area of finance, taxes and levies, and the securities market. If the duties of chief executive are carried out by a management organization or external manager, the general director and management board members of the management organization or the external manager must meet the requirements stipulated for the company's general director and management board members.	Observed	The recommendation is observed, but the Company's Charter and internal documents do not include provisions that establish the recommended restrictions for persons who are members of the Company's executive bodies.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
45.	The company's charter or internal documents should prohibit the management organization (external manager) from carrying out similar duties at competing companies or from being in any property relations with the company other than provision of the services of a management organization (manager)	Not observed	The responsibilities of the Company's chief executive body have not been transferred to a management organization (external manager). The Company's chief executive is the general director. However, the Company's Charter and internal documents do not prescribe such prohibitions in regard to the chief executive.
46.	The company's internal documents should stipulate that executive bodies must not take any actions that would create or potentially create a conflict between their own interests and the interests of the company; if such a conflict of interests should arise, they must notify the company secretary	Observed	The Company's internal documents do not articulate these obligations. Under pt 6.4.14 of the Regulation on the General Director of Kuzbasskaya Toplivnaya Company, the general director must refrain from actions that would result in a conflict arising between his interests and the interests of the Company, and if such a conflict arises the general director must immediately notify the Board of Directors through the Board Secretary.
47.	The company's charter or internal documents should include criteria for the selection of a management organization (external manager)	Not observed	The responsibilities of the Company's chief executive body have not been transferred to a management organization (external manager). The Company's chief executive is the general director. However, the Company's Charter and internal documents do not prescribe criteria for selection of the chief executive.
48.	The company's executive bodies should present monthly reports on their work to the Board of Directors	Not observed	The Company's internal documents do not include such a requirement.
49.	Contracts that the company enters into with the general director (management organization, external manager) and members of the management board should stipulate liability for violations of provisions about the use of confidential and proprietary information	Not observed	The contract with the general director does not include such clauses, but under pt 11.1 of the Regulation on Insider Information of Kuzbasskaya Toplivnaya Company, Company insiders who illegally disseminate or use insider information can face disciplinary and/or civil legal action in accordance with the terms of contracts with the Company and current legislation, as well as administrative and criminal liability under the law. The issue of making the appropriate amendments to the Regulation on the General Director will be included in the agenda of the annual general meeting held in 2011. The appropriate amendments to the employment contract with the general director will be made in the near future.
Company Secretary			
50.	The company should have a special officer (company secretary) responsible for ensuring that the company's bodies and officers comply with procedural requirements that guarantee enforcement of the rights and legal interests of company shareholders	Not observed	The Company's internal documents do not include such a requirement.
51.	The company's charter or internal documents should stipulate the procedure for appointing or electing the company secretary and specify the secretary's responsibilities	Not observed	The Company's internal documents do not include such a requirement.
52.	The company charter should specify requirements for candidates for the position of company secretary	Not observed	The Company Charter does not define these requirements.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
Material Corporate Actions			
53.	The company's charter or internal documents should stipulate the requirements for approval of major transactions before they are carried out	Observed	Under pt 9.2.3 of the Company Charter, the Board of Directors approves major transactions in cases stipulated in Chapter X of the Federal Law On Joint-stock Companies. Under pt 8.3.17 of the Company Charter, the General Shareholders Meeting approves major transactions in cases stipulated in Article 79 of the Federal Law On Joint-stock Companies.
54.	It should be mandatory to hire an independent appraiser to appraise the market value of assets involved in a major transaction	Observed	The recommendation is observed, but the Charter and internal documents do not regulate this issue.
55.	The company's charter should prohibit any actions taken during the acquisition of large stakes in the company (merger) that are intended to protect the interests of executive bodies (members of these bodies) and members of the Board of Directors of the company, or that deteriorate the position of shareholders (including a prohibition on the Board of Directors making any decisions, before the proposed period of the share acquisition is over, to issue additional shares, issue securities convertible into shares or securities that provide the right to acquire shares in the company, even if the charter gives it the right to make such a decision)	Not observed	The Company Charter does not define these requirements.
56.	The company's charter should stipulate that an independent appraiser must be hired to appraise the current market value of shares and potential changes in their market value as a result of a merger	Not observed	The Company's shares are traded on Russia's leading stock exchanges: the Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System (RTS), where their current market value is determined.
57.	The company's charter should not exempt the buyer from the obligation of offering to allow shareholders to sell their common shares (securities convertible into common shares) in the event of a merger	Observed	
58.	The company's charter or internal documents should stipulate that an independent appraiser must be hired to determine the share conversion ratio in the event of restructuring	Not observed	The Company Charter or internal documents do not define this requirement.
Disclosure of Information			
59.	The company should have an internal document approved by the Board of Directors that defines the company's rules and policies for disclosure of information (regulation on information policy)	Not observed	The rules and policies on disclosure of information are defined in General Director's Order No. 67, dated September 21, 2010.
60.	The company's internal documents should require disclosure of information about the goals of share offerings, about persons who intend to acquire offered shares, including large stakes, and about whether senior company officers intend to participate in the acquisition of company shares being offered	Not observed	The Company's internal documents do not define this requirement.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
61.	The company's internal documents should include a list of information, documents and materials that must be provided to shareholders to make decisions on issues brought before the general shareholders meeting	Observed	Under pt 8.12 of the Company's Charter, during preparations for a general meeting, persons entitled to participate in the General Shareholders Meeting must be given the opportunity to review information and materials within the timeframe and scope stipulated by the Federal Law On Joint-stock Companies. Article 18 of the Company's Regulation on Procedures for Preparing and Holding a General Meeting of Shareholders: Content of information (materials) to be provided to persons eligible to participate in the General Shareholders Meeting
62.	The company should have a website and regularly disclose information about the company on this website	Observed	This recommendation is observed, but internal documents do not stipulate regular disclosure of information about the Company on the website.
63.	The company's internal documents should require disclosure of information about company transactions with persons who, according to the charter, are senior officers of the company, as well as about company transactions with organizations in which senior company officers directly or indirectly own 20% or more of charter capital, and other transactions on which such persons could have a significant influence	Not observed	This requirement is not specified by the Company's internal documents. In accordance with pt 8.6.1 (g) of the Regulation on Disclosure of Information by Issuers of Securities, approved by the Russian Federal Securities Markets Service on October 10, 2006 (Decree No. 06-117/pz-n), the Company discloses information about transactions in which there is an interested party and Russian legislation requires it be approved by an authorized management body of the Company if the price of such a transaction is equivalent to 5% or more of the book value of the Company's assets based on the financial statement on the last reporting date before the approval of such a transaction by the authorized management body.
64.	The company's internal documents should require disclosure of information about all transactions that could affect the market price of the company's shares	Not observed	The Company's internal documents do not include such a requirement. In accordance with the Regulation on Disclosure of Information by Issuers of Securities, approved by the Russian Federal Securities Markets Service on October 10, 2006 (Decree No. 06-117/pz-n), the Company discloses information affecting the market price of its securities, as well as information in the form of corporate action notices.
65.	The company should have an internal document approved by the Board of Directors on the use of material information about the activities of the company, its shares and other securities and transactions with them, that is not publicly available and the disclosure of which could have a significant impact on the market value of the company's shares and other securities	Observed	The Company has a Regulation on Insider Information of Kuzbasskaya Toplivnaya Company that was approved by the Board of Directors on December 29, 2008 (Protocol No. 8, dated December 29, 2008).
66.	It is recommended that the company disclose information about members of the Board of Directors, the general director (management organization, external manager) and members of the management board, as well as other company officers (a list of which is provided in the regulation on the company's information policy), including brief biographical data, remuneration and criteria for determining this remuneration, ownership of company shares, transactions between such persons, and changes in the composition of the Board of Directors	Not observed	The rules and policies on disclosure of information are defined in General Director's Order No. 67, dated September 21, 2010.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
Control over Financial and Business Activities			
67.	The company should have procedures, approved by the Board of Directors, for internal control over the company's financial and business activities	Observed	The Company has a Regulation on Internal Control of Kuzbasskaya Toplivnaya Company that was approved by the Board of Directors on December 29, 2008 (Protocol No. 8, dated December 29, 2008); a new version of the regulation was approved by the Board of Directors on March 30, 2010 (Protocol No. 28/02, dated March 30, 2010).
68.	The company should have a special department responsible for compliance with internal control procedures (control and internal audit service)	Observed	Under pt 7.1 of the Regulation on Internal Control: "In order to ensure systemic control over the Company's financial and business activities, and compliance with internal control procedures a department has been created at the Company – the Internal Control Committee."
69.	The company's internal documents should stipulate that the Board of Directors determines the structure and composition of the control and internal audit service	Not observed	Under pt 7.1 of the Regulation on Internal Control: "The Company's General Director determines the number of members and organizational structure of the Internal Control Committee, as well as appoints and dismisses employees in this department." The issue of making the appropriate amendments to the Company Charter will be included in the agenda of the annual general meeting held in 2011. The corresponding amendments to the Regulation on Internal Control will be made by the Board of Directors in 2011.
70.	The control and internal audit service should not include persons who have been convicted of economic crimes or crimes against the state, the interests of the civil service or service in local government bodies, or persons against whom administrative action has been taken for legal violations in the area of business activities, or in the area of finance, taxes and levies, and the securities market.	Observed	Under pt 9.1 of the Regulation on Internal Control, when appointing an employee to the Internal Control Committee the company certainly considers the following as factors that adversely affect their reputation: - commission of an economic crime or crime against the state, the interests of the civil service or service in local government bodies - commission of an administrative legal violation in the areas of business activities, finance, taxes and levies, and the securities market.
71.	The company's control and internal audit service should not include persons who are members of the company's executive bodies, or persons who are participants, general director (manager), members of a management body or employees of a legal entity that competes with the company	Observed	Under pt 9.2 of the Regulation on Internal Control, members of the Internal Control Committee cannot hold positions in other organizations that compete with the Company.
72.	The company's internal documents should specify the timeframe for providing documents and materials to the control and internal audit service for assessment of completed financial and business operations, as well as the liability of company officers and employees for failing to provide them within the specified timeframe	Not observed	This requirement is not stipulated in the Company's internal documents. The corresponding amendments to the Regulation on Internal Control will be made by the Board of Directors in 2011
73.	The company's internal documents should require the control and internal audit service to notify the audit committee, or in its absence the Board of Directors, of any violations found	Observed	Under pt 9.5.9 of the Regulation on Internal Control, the head of the Internal Control Committee informs the Board's Audit Committee and the General Director about any violations of internal control procedures
74.	The company's charter should require the control and internal audit service give a preliminary assessment of operations not envisioned by the company's financial and business plan (non-standard operations)	Not observed	The Company Charter does not stipulate such a requirement.
75.	The company's internal documents should specify the procedure for vetting non-standard operations with the Board of Directors	Not observed	Virtually all major, non-standard operations are reviewed by the Company's Board of Directors.

N	Provision of Corporate Code of Conduct	Observed or Not Observed	Comments
76.	The company should have an internal document approved by the Board of Directors that specifies the procedure for internal audit commission audits of the company's financial and business operations	Not observed	In accordance with pt 2, Article 85 of the Federal Law On Joint-stock Companies, the procedure for the activities of the company's Internal Audit Commission is determined by an internal document approved by the General Shareholders Meeting. Such a document will be drafted in the near future and the issue of its approval will be included in the agenda of the annual general meeting held in 2011.
Dividends			
77.	The audit committee should assess the auditor's report before it is presented to shareholders at a general meeting	Observed	Under pt 6.1 of the Regulation on the Audit Committee: "The Audit Committee informs the Board of Directors of the content of the auditor's report, as well as assesses the report of the Company's auditor and presents its assessment in writing to the Board of Directors. The assessment of the report of the Company's auditor prepared by the Audit Committee should be presented as part of the materials for the annual General Meeting of Shareholders."
78.	The company should have an internal document, approved by the Board of Directors, that is used as a guide by the Board in making recommendations on the amount of dividends (regulation on dividend policy)	Observed	The Regulation on Dividend Policy of Kuzbasskaya Toplivnaya Company was approved by the Board of Directors on November 3, 2009 (Protocol No. 16/02, dated November 3, 2009).
79.	The regulation on dividend policy should specify the procedure for determining the minimum proportion of the company's net profit allocated for payment of dividends and the conditions under which dividends are not paid or not paid in full on preferred shares, for which the amount of dividends is specified in the company's charter	Observed	Under pt 4.2 of the Regulation on Dividend Policy: "The amount of dividend payments is determined on the basis of the Company's financial results and amount to not less than 25% of the Company's net profit." Under pt 9.2 of the Regulation on Dividend Policy: "In the case of circumstances envisioned by federal law, under which the Company does not have the right to pay declared dividends on shares, the Company must suspend payment of dividends. The decision to suspend payment of declared dividends is made by the General Shareholders Meeting. The suspension of dividend payments in such cases does not deprive shareholders of the right to receive the declared dividends after the lapse of the circumstances preventing their payment. After the lapse (elimination) of such circumstances, the Company is obligated to pay shareholders the declared dividends within a reasonable period of time." The recommendation concerning conditions for payment of dividends on preferred shares does not apply to the Company, as it does not have this type of shares.
80.	The company should publish information about its dividend policy and amendments to it in a periodical designated by the company charter for publication of notifications about general shareholders meetings, as well as on the company's website	Observed	Information about dividend policy is posted on the Company's website. The Regulation on Dividend Policy was approved by the Board of Directors on November 3, 2009 and it has not been amended. Amendments to the Company Charter calling for the publication of notifications about general shareholders meetings in a periodical were registered on July 2, 2010. Information on dividend policy has not been published in a periodical. If there are any changes to information on dividend policy they will be published in a periodical, specifically Kommersant newspaper.

APPENDIX 2.
List of Major and/or Interested-party Transactions Conducted by Company in 2010

Major transactions

N	Subject of transaction	Size of transaction	Details of transaction	Approved by, date, protocol
1.	Placement of 7 123 714 new common shares	In percentage of outstanding common shares before date of transaction: 8.44%	Parties to transaction: UBS AG London Branch (buyer) and the Company (seller) Interested parties: 1. Vadim Danilov Reason: member of the Board of Directors of Kuzbasskaya Toplivnaya Company and owns, together with Laycraft Limited, more than 20% of shares in the Company 2. Igor Prokudin Reason: is general director and a member of the Board of Directors of Kuzbasskaya Toplivnaya Company, and owns, together with Mizar Management Limited, more than 20% of shares in the Company 3. Laycraft Limited Reason: owns, with Vadim Danilov, more than 20% of shares in the Company 4. Mizar Management Limited Reason: owns, with Igor Prokudin, more than 20% of shares in the Company	General Shareholders Meeting, Feb 17, 2010 (Protocol No. b/n, Feb 17, 2010)
2.	Placement of 7 134 972 new common shares	In percentage of outstanding common shares before date of transaction: 8.45%	Parties to transaction: TD Investments Ltd (buyer) and the Company (seller) Interested parties: 1. Vadim Danilov Reason: member of the Board of Directors of Kuzbasskaya Toplivnaya Company and owns, together with Laycraft Limited, more than 20% of shares in the Company 2. Igor Prokudin Reason: is general director and a member of the Board of Directors of Kuzbasskaya Toplivnaya Company, and owns, together with Mizar Management Limited, more than 20% of shares in the Company 3. Laycraft Limited Reason: owns, with Vadim Danilov, more than 20% of shares in the Company 4. Mizar Management Limited Reason: owns, with Igor Prokudin, more than 20% of shares in the Company	General Shareholders Meeting, Feb 17, 2010 (Protocol No. b/n, Feb 17, 2010)

Interested-party transactions

N	Subject of transaction	Size of transaction	Details of transaction, interested parties	Approved by, date, protocol
1.	Placement of 7 123 714 new common shares	In percentage of outstanding common shares before date of transaction: 8.44%	Parties to transaction: UBS AG London Branch (buyer) and the Company (seller) Interested parties: 1. Vadim Danilov Reason: member of the Board of Directors of Kuzbasskaya Toplivnaya Company and owns, together with Laycraft Limited, more than 20% of shares in the Company 2. Igor Prokudin Reason: is general director and a member of the Board of Directors of Kuzbasskaya Toplivnaya Company, and owns, together with Mizar Management Limited, more than 20% of shares in the Company 3. Laycraft Limited Reason: owns, with Vadim Danilov, more than 20% of shares in the Company 4. Mizar Management Limited Reason: owns, with Igor Prokudin, more than 20% of shares in the Company	General Shareholders Meeting, Feb 17, 2010 (Protocol No. b/n, Feb 17, 2010)
2.	Placement of 7 134 972 new common shares	In percentage of outstanding common shares before date of transaction: 8.45%	Parties to transaction: TD Investments Ltd (buyer) and the Company (seller) Interested parties: 1. Vadim Danilov Reason: member of the Board of Directors of Kuzbasskaya Toplivnaya Company and owns, together with Laycraft Limited, more than 20% of shares in the Company 2. Igor Prokudin Reason: is general director and a member of the Board of Directors of Kuzbasskaya Toplivnaya Company, and owns, together with Mizar Management Limited, more than 20% of shares in the Company 3. Laycraft Limited Reason: owns, with Vadim Danilov, more than 20% of shares in the Company 4. Mizar Management Limited Reason: owns, with Igor Prokudin, more than 20% of shares in the Company	General Shareholders Meeting, Feb 17, 2010 (Protocol No. b/n, Feb 17, 2010)

N	Subject of transaction	Size of transaction	Details of transaction, interested parties	Approved by, date, protocol
3.	Surety agreement for obligations of Kuzbasstoplivosbyt to Uralsib Bank on a loan agreement (loan amount 20 million roubles; duration 12 months; interest rate no more than 13% per annum)	Less than 2% of the book value of the Company's assets on Dec 31, 2009	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, March 16, 2010 (Protocol No. 27/02, March 16, 2010)
4.	Surety agreement and collateral agreement for obligations of Kuzbasstoplivosbyt to Bank of Moscow on a loan agreement (loan amount up to 80 million roubles; duration to September 26, 2011; interest rate 11.5% per annum)	Less than 2% of the book value of the Company's assets on Dec 31, 2009	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, March 29, 2010 (Protocol No. 28, March 29, 2010)
5.	Additional agreement to surety agreement for obligations of Kuzbasstoplivosbyt to Bank of Moscow (change of interest rate)	Less than 2% of the book value of the Company's assets on Dec 31, 2009	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, March 29, 2010 (Protocol No. 28, March 29, 2010)
6.	Surety agreement for obligations of Novosibirsk Fuel Corporation to Otkrytie Commercial Bank on a loan agreement (loan amount 80 million roubles; duration to April 13, 2012; interest rate no more than 14% per annum)	Less than 2% of the book value of the Company's assets on Dec 31, 2009	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and a director at Novosibirsk Fuel Corporation	Board of Directors, April 12, 2010 (Protocol No. 29/02, April 12, 2010)
7.	Surety agreement for obligations of Novosibirsk Fuel Corporation to Otkrytie Commercial Bank on a loan agreement (loan amount 20 million roubles; duration to May 31, 2011; interest rate no more than 11% per annum)	Less than 2% of the book value of the Company's assets on Dec 31, 2009	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and a director at Novosibirsk Fuel Corporation	Board of Directors, April 12, 2010 (Protocol No. 29/02, April 12, 2010)
8.	Surety agreement for obligations of Novosibirsk Fuel Corporation to UniCredit Bank on a loan agreement (loan amount 35 million roubles; duration 18 months; interest rate MosPrime + 4% per annum)	Less than 2% of the book value of the Company's assets on Dec 31, 2009	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and a director at Novosibirsk Fuel Corporation	Board of Directors, April 14, 2010 (Protocol No. 31/02, April 14, 2010)

N	Subject of transaction	Size of transaction	Details of transaction, interested parties	Approved by, date, protocol
9.	Surety agreement for obligations of Kuzbasstoplivosbyt to UniCredit Bank on a loan agreement (loan amount 30 million roubles; duration 18 months; interest rate MosPrime + 4% per annum)	Less than 2% of the book value of the Company's assets on Dec 31, 2009	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, April 15, 2010 (Protocol No. 32/02, April 15, 2010)
10.	Placement of 46 154 new common shares	In percentage of outstanding common shares before date of transaction: 0.05%	Parties to transaction: Laycraft Limited (buyer) and the Company (seller) Interested parties: 1. Vadim Danilov Reason: member of the Board of Directors of Kuzbasskaya Toplivnaya Company and owns, together with Laycraft Limited, more than 20% of shares in the Company 2. Laycraft Limited Reason: owns, with Vadim Danilov, more than 20% of shares in the Company	Board of Directors, April 30, 2010 (Protocol No. 1/03, April 30, 2010)
11.	Surety agreement for obligations of Novosibirsk Fuel Corporation to UniCredit Bank on a loan agreement (loan amount 33 million roubles; duration 18 months; interest rate MosPrime + 4% per annum)	Less than 2% of the book value of the Company's assets on March 31, 2010	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and a director at Novosibirsk Fuel Corporation	Board of Directors, May 17, 2010 (Protocol No. 3/03, May 17, 2010)
12.	Contract to lease non-residential property between Kuzbasskaya Toplivnaya Company (lessor) and LLC Kaskad Travel (lessee)	Less than 2% of the book value of the Company's assets on March 31, 2010	Leased property: non-residential premises with total area of 223.9 m2; address: 4 Ul. 50 let Oktyabrya, Kemerovo, Kemerovo Region 650000 Duration of lease: July 1, 2010 to Dec 31, 2035 Interested parties: Igor Prokudin Reason: 1. is general director and a member of the Board of Directors of Kuzbasskaya Toplivnaya Company, and owns, together with Mizar Management Limited, more than 20% of shares in the Company 2. is the spouse of L. Prokudina, who is general director of Kaskad Travel and owns more than a 20% stake in Kaskad Travel 3. is the father of E. Prokudina, who owns more than a 20% stake in Kaskad Travel	Board of Directors, May 24, 2010 (Protocol No. 4/03, May 24, 2010)
13.	Surety agreement for obligations of Novosibirsk Fuel Corporation to UniCredit Bank on a loan agreement (loan amount 30 million roubles; duration 18 months; interest rate MosPrime + 4% per annum)	Less than 2% of the book value of the Company's assets on March 31, 2010	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and a director at Novosibirsk Fuel Corporation	Board of Directors, May 31, 2010 (Protocol No. 5/03, May 31, 2010)

N	Subject of transaction	Size of transaction	Details of transaction, interested parties	Approved by, date, protocol
14.	Surety agreement for obligations of Kuzbasstoplivosbyt to UniCredit Bank on a loan agreement (loan amount 20 million roubles; duration 18 months; interest rate MosPrime + 4% per annum)	Less than 2% of the book value of the Company's assets on March 31, 2010	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, June 4, 2010 (Protocol No. 6/03, June 4, 2010)
15.	Additional agreements to surety agreement and collateral agreement for obligations of Kuzbasstoplivosbyt to Bank of Moscow (change of interest rate)		Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, July 26, 2010 (Protocol No. 8/03, July 26, 2010)
16.	Additional agreement to surety agreement for obligations of Kuzbasstoplivosbyt to Bank of Moscow (change of interest rate)		Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, July 26, 2010 (Protocol No. 8/03, July 26, 2010)
17.	Surety agreement for obligations of Kuzbasstoplivosbyt to UniCredit Bank on a loan agreement (loan amount 100 million roubles; duration 18 months; interest rate MosPrime + 3.8% per annum)	Less than 2% of the book value of the Company's assets on June 30, 2010	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt 2. Eduard Alexeenko Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Kuzbasstoplivosbyt	Board of Directors, July 26, 2010 (Protocol No. 8/03, July 26, 2010)
18.	Surety agreement for obligations of Altay Fuel Company to UniCredit Bank on a loan agreement (loan amount 80 million roubles; duration 18 months; interest rate MosPrime + 3.8% per annum)	Less than 2% of the book value of the Company's assets on June 30, 2010	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Altay Fuel Company	Board of Directors, July 26, 2010 (Protocol No. 8/03, July 26, 2010)

N	Subject of transaction	Size of transaction	Details of transaction, interested parties	Approved by, date, protocol
19.	Surety agreement for obligations of Transugol to UniCredit Bank on a loan agreement (loan amount 20 million roubles; duration 18 months; interest rate MosPrime + 3.8% per annum)	Less than 2% of the book value of the Company's assets on June 30, 2010	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Transugol	Board of Directors, July 26, 2010 (Protocol No. 8/03, July 26, 2010)
20.	Additional agreement to surety agreement for obligations of Altay Fuel Company to UniCredit Bank on a loan agreement (clarification of purpose of loan)		Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Altay Fuel Company	Board of Directors, Oct 11, 2010 (Protocol No. 11/03, Oct 11, 2010)
21.	Surety agreement for obligations of Altay Fuel Company to Gazprombank on a loan agreement (loan amount 20 million roubles; duration 24 months; interest rate not more than 9.25% per annum)	Less than 2% of the book value of the Company's assets on Oct 1, 2010	Interested parties: 1.Vadim Danilov Reason: is a member of the Board of Directors of Kuzbasskaya Toplivnaya Company and the Board of Directors of Altay Fuel Company	Board of Directors, Oct 11, 2010 (Protocol No. 11/03, Oct 11, 2010)

APPENDIX 3.
Glossary

ARA	Acronym for Amsterdam, Rotterdam, Antwerp
CIF	Cost, Insurance, Freight – an Incoterms term meaning that the seller has completed delivery once the goods are loaded on the ship at the port of destination, and the sales price includes the cost of the goods, freight and insurance for maritime transport
DAF	Delivered At Frontier – an Incoterms term meaning that the seller is responsible for transporting the goods to a designated destination on the border and payment of duties; the buyer is responsible for customs clearance and transportation from the border to the required destination. Risks are transferred at the border
FOB	Free On Board – an Incoterms term meaning that the seller pays for the delivery of goods to the port and loading them on the ship. The seller is also responsible for clearing the goods for export. The buyer pays for shipment, insurance, unloading and transport to the final destination. Risks are transferred at ship's rail.
Incoterms	International Commerce Terms are international rules for the interpretation of the most commonly used terms in international trade. Incoterms are a series of standard contract terms that are used in international commercial transactions, and are defined in an internationally recognized document.
Stripping	The process of removing overburden to enable mining of minerals
Volatile content (ash content)	Content of non-combustible substances in coal, which affect its burn quality
Proved reserves	Under the JORC Code, the economically mineable portion of measured resources
Dragline	An excavator with a large bucket suspended from a boom with wire ropes

Deep (shaft) mining	Mining of minerals using underground shafts
Calorific value	The amount of heat produced by burning a unit of coal; can be measured in kilocalories per kg, megajoules per kg or British thermal units (BTU) per pound and determines the energy value of coal
JORC Code	The Australian Code for assessing reserves of ore and metals, in effect since December 2004
Coking coal	Coal suitable for coking – baking in an airless furnace to drive off volatile constituents of the coal and form a hard product: coke, which is used as fuel and a reducing agent for ore in the iron and steel industry
Stripping ratio	The amount of overburden that must be removed to mine one tonne of coal; usually measured in cubic meters per tonne
Enrichment of coal	The process of reducing the content of mineral impurities and waste rock in coal, or sorting raw coal by size, chemical or physical properties; sorting, dry and wet enrichment are used in the coal enrichment process
OREM	Wholesale market for electricity and capacity within the context of Russia's unified energy system and within the borders of the unified economic space of Russia; participants include large producers and buyers of electricity and capacity, as well as persons who have secured the status of a subject of the wholesale market and operate by the rules of the wholesale market, approved in accordance with the Federal Law On Electricity
Open-pit/strip/surface mining	Mining of minerals from the Earth's surface using open-pit mining operations
Vitrinite reflectance	A key method for identifying the temperature history of sediments in sedimentary basins, used to diagnose the thermal maturity, or rank of coal beds; expressed as a percentage
Diluted raw coal	Mine material containing coal in economically insufficient quantities to be used
Sorted coal	Various brands of coal produced by mechanical crushing and sorting
Raw coal	Coal obtained directly from the mining site and not sorted into separate brands by size
Netback	For gas exported from Russia, pricing that would result in equal profitability for sales on the foreign and domestic markets, less transportation costs; in general, the price obtained by subtracting from the sales price the costs of getting the product to market
Thickness of plastic layer	Maximum distance between separation surfaces: coal – plastic mass – semicoke, determined by testing the coal under load with one-sided heating in a controlled environment
Thermal/steam coal	Coal suitable for use as fuel in production of thermal energy and electricity

DISCLAIMER

This Annual Report may contain statements that are or could be considered "forward-looking statements" as defined by U.S. federal securities laws and, consequently, these statements fall under provisions of these laws that provide release from liability for acts committed in good faith.

Examples of such statements include, but are not limited to, forecasts, projections, strategies, plans, targets, expectations, estimates, intentions and beliefs of the Company, including in regard to acquisitions, sales of goods or services, operating results, financial position, liquidity, prospects and dividend policy; statements concerning future production and business operations; other statements that do not strictly apply to events (facts), both past and present; and assumptions on which such statements are based.

Forward-looking statements are inherently subject to risks and uncertainties, both general and specific, as well as risks that these statements will not be realized. In addition to other factors, forward-looking statements are based on many assumptions concerning the current and future strategy of the Company, as well as the circumstances in which the Company will be conducting business in the future.

The Company cautions that certain important factors could result in the Company's assumptions being incorrect and could cause actual results to differ materially from the forecasts, projections, strategies, plans targets, expectations, estimates, intentions and beliefs of the Company expressed in these forward-looking statements.

These factors include:

> changes in political, social, legal or economic conditions in Russia as a whole or in regions of Russia where the Company conducts business, including changes in the level of spending on and demand for some or all of the Company's goods

> growth of market share of competitors, reduction of prices by competitors, unforeseen actions by competitors that could affect market share, growth of expenses or hinder the growth of the Company

> ability to conduct mergers, acquisitions, transfer of companies and shares, both present and future, and achieve integration and expected benefits from joint operations and/or synergies

> level of spending on market research, promotion of goods and innovation by the Company and its competitors

> ability of the Company to protect its rights to intellectual property

> changes in legislation and regulations, changes in the policies of the Russian government and regional authorities, including taxation

> changes in the cost of resources and labor

> renewal of rights to distribution of goods and contracts on favorable terms following their expiration

> technological changes that could affect distribution of goods

> changes on the financial and securities markets, including significant fluctuations in interest rates and currency exchange rates, that could affect the Company's access to financial resources, increase the cost of financing or affect the Company's financial results

> changes in reporting standards, applied policies and practices

> availability of qualified personnel, including accounting personnel

> ability to determine other risks related to the Company's operations and avoid risks based on the above factors

This list of factors is not comprehensive. Readers of this Annual Report should carefully review these factors and other uncertainties and events that apply particularly to the political, economic, social and legal environment in which the Company conducts its business. These forward-looking statements are only relevant as of the date of this Annual Report, and the Company does not assume any obligation to update or revise any of them.

Readers should not place undue reliance on forward-looking statements. The Company is not making any assertions, assurances or forecasts that the expected results specified in such forward-looking statements will be achieved. Such statements represent, in each case, only one possible case scenario and should be viewed as the more probable or standard case scenarios.

This Annual Report is not a solicitation or an offering of any securities. In some jurisdictions the use of information contained in this Annual Report may be restricted or prohibited, either completely or to certain economic groups, such as persons who are not qualified investors. The reader should therefore inform themselves about any such restrictions and act accordingly.

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