



# VTB Capital “RUSSIA CALLING!” Investment Forum

Presentation

Moscow, 5-7 October 2010

[www.oaoktk.ru](http://www.oaoktk.ru)

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**Eduard Alekseenko**

*First Deputy Chief Executive Officer*



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*Investor Relations Manager*



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## Section I

# KTK at a Glance

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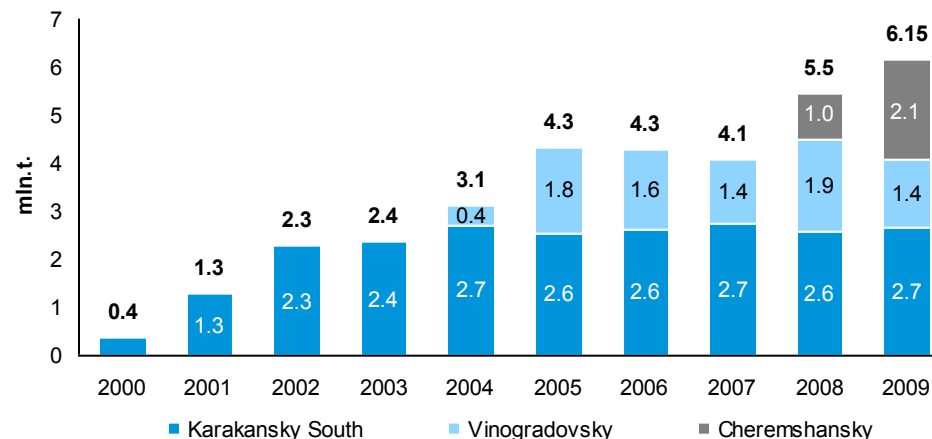
- The Company is one of the fastest-growing thermal coal producers in Russia and a major supplier of coal in Western Siberia
- In 2009 the Company became 7<sup>th</sup> largest coal producer in Russia <sup>(1)</sup>
- Since its establishment in 2000, the Company has launched 3 open-pit mines and developed an extensive production and distribution infrastructure
  - ▲ 6.15 mln. t. of thermal coal produced in 2009
  - ▲ 100% high-quality grade “D” thermal coal under Russian classification
  - ▲ structural capacity <sup>(2)</sup> of 11 mln. t.
  - ▲ 409 mln. t. of coal resources and 192 mln. t. of proven and probable reserves <sup>(3)</sup>
  - ▲ Developed railway network and facilities
- The Company utilizes a modern and high-performance equipment fleet supporting efficient low-cost production
- The Company has diversified sales capabilities balanced between domestic (4.7 mln. t. sold in 2009) and export markets (2.7 mln. t.), and supported by one of the largest retail coal distribution networks in Western Siberia
- The Company employed almost 3,800 people as at 30 June 2010
- In Q2 2010 company made an IPO on RTS and MICEX and raised RUR 2.83 bln. net of IPO costs
- Main shareholders after IPO: Igor Prokudin (48%) and Vadim Danilov (16%); free-float – 36%

(1) Metal Expert, February 2010

(2) here and further through the presentation structural capacity means the maximum production capacity that the Company believes could be achieved (taking into account projected stoppages for planned repair and maintenance) in an annual period if the Company were able to process all the coal that could be mined using the Company's existing mine facilities after acquisition of certain mining and transportation equipment in accordance with its current capital expenditure program

(3) run-of-mine coal, JORC classification; Coal reserves and resources are audited by IMC as of 1 January 2010 (measured, indicated and inferred); reserves are based on auditing methodology adopted by IMC, under which only resources recoverable within a 20-year period can be deemed as reserves

## Coal production history



Source: Company

## Key operating and financial indicators <sup>(1)</sup>

US\$ mln.	2007	2008	2009
Coal sales (mln t)	5.4	7.5	7.4
incl. coal re-sale	1.5	2.3	1.4
Revenue	151	344	336
% growth		128%	-2%
EBITDA <sup>(2)</sup>	19	87	69
% margin	12%	25%	20%
Net Income	(4)	44	21
% margin	-3%	13%	6%

Source: audited IFRS financial statements for 2007-2009 in which all amounts are presented in RUR, Company

(1) in the table US\$ are converted from RUR using average Central Bank of the Russian Federation exchange rates for each year (2007: 25.58 RUR/US\$; 2008: 24.86 RUR/US\$; 2009: 31.72 RUR/US\$)

(2) EBITDA for each period is defined as results from operating activities, adjusted for amortization and depreciation, impairment loss and loss on disposal of property, plant and equipment



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## Section II

# Market Review

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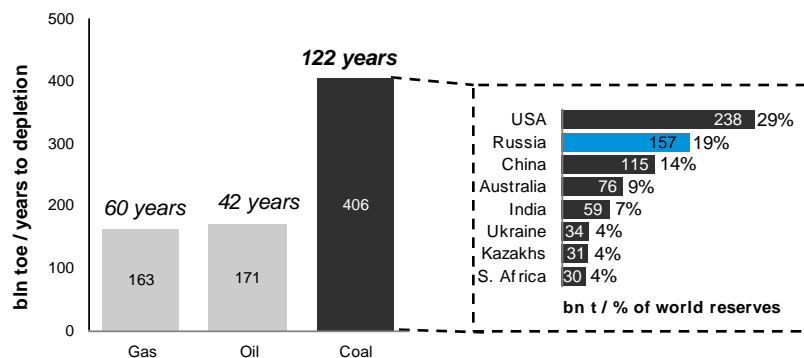
# II. Thermal Coal Prospects – Global Market Drivers



## Growth of coal-fired power generation in the world

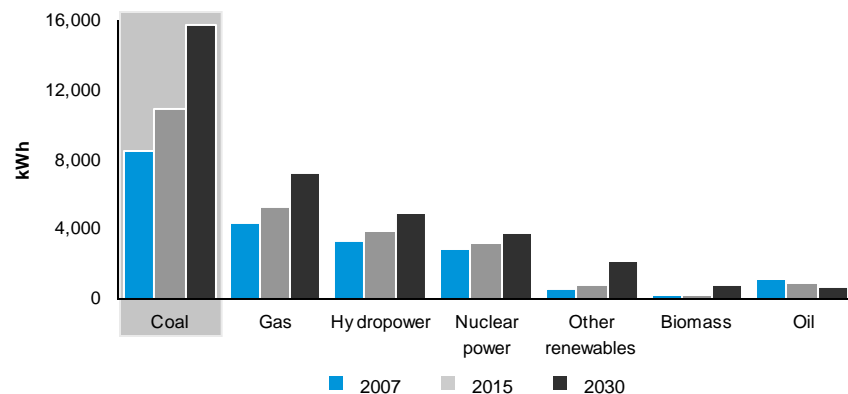
- ▶ Coal remains the most abundant mineral fuel in the world
  - ▲ Main fuel for power generation
  - ▲ Second primary energy source by volume
- ▶ Demand for the coal is increasing in response to oil and gas deficit

## World major energy resources



Source: BP Statistical Review 2009

## Power generation structure by fuel type

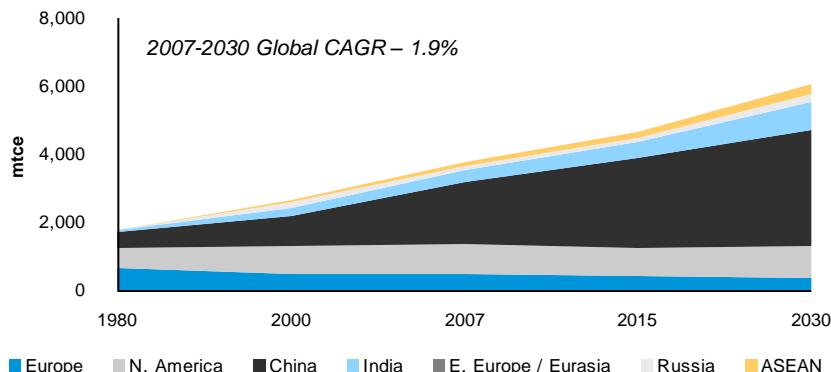


Source: IEA World Energy Outlook 2009, Reference Scenario

## Rising consumption in the emerging markets

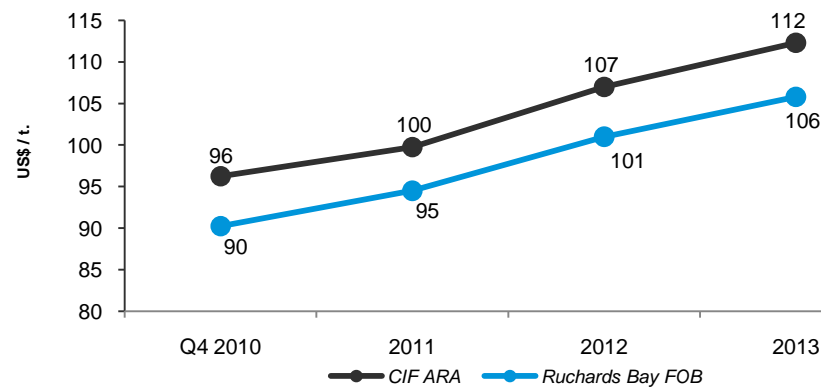
- ▶ Large-scale coal-fired power generation construction projects in China and India may further stimulate demand growth in the future
- ▶ Consumption of coal per capita in China may double from 2007 to 2030, according to IEA

## Coal consumption growth in the key markets



Source: IEA World Energy Outlook 2009, Reference Scenario

## International thermal coal forward prices



Source: Argus as of 30 September 2010



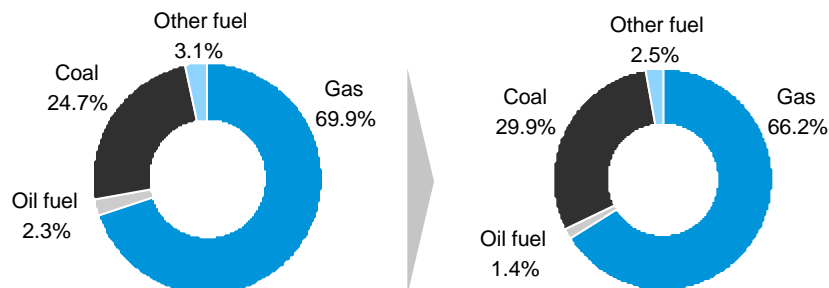
## Rising share of thermal coal in the Russian fuel balance

- Share of coal in the Russian fuel balance is expected to increase due to the rising power generation, gas export and liberalization of the domestic gas prices

### Fuel consumption by the Russian power generation

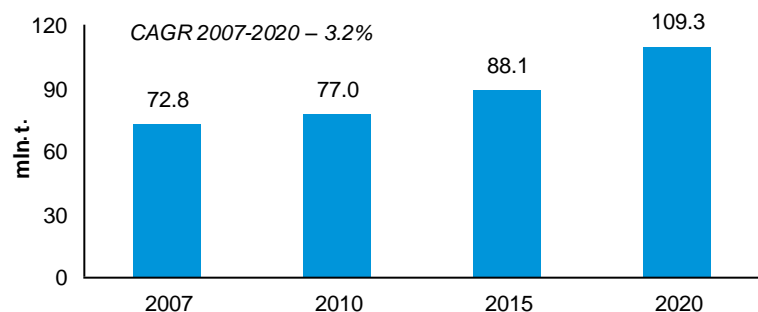
2007

2020



Source: Russian Energy Balance Forecasting Agency, August 2009

### Coal consumption by the Russian power generation

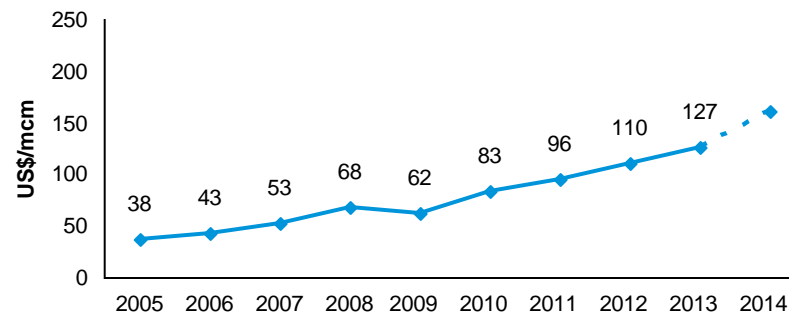


Source: Russian Energy Balance Forecasting Agency, August 2009

## Liberalization of domestic gas and electricity markets

- Potential increase of domestic gas prices to export net-back parity level and growth of gas exports
- Domestic liberalization of power generation market may lead to growth in coal prices

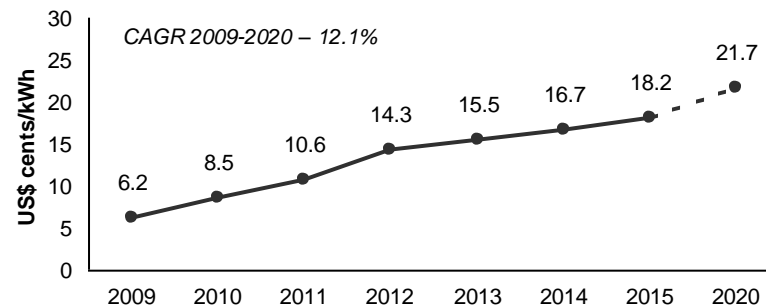
### Domestic wholesale gas price outlook <sup>(1)</sup>



Source: Gazprom, Investor day presentation, Feb 2010

Note: (1) Pursuant to "General assumptions and forecast of social and economic development in Russia 15% annual price growth for the period from 2010 to 2012" designed by the Russian Ministry of Economic Development in July 2009, assuming 76 \$/bbl – oil price forecast in 2014

### Electricity price forecast in Russia



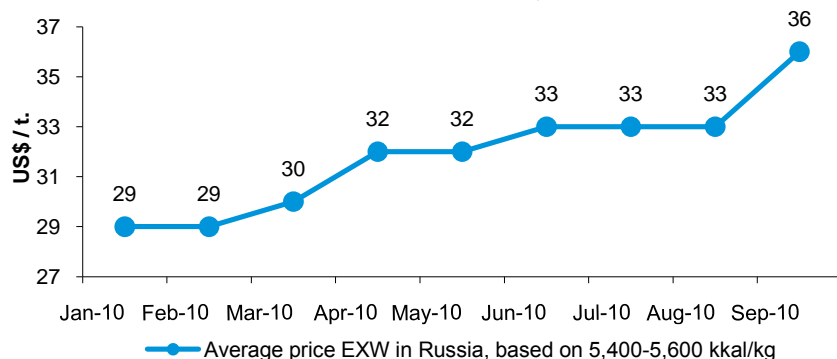
Source: Russian Energy Balance Forecasting Agency, August 2009

Note: converted from RUR to US\$ at exchange rate 31.72RUR/US\$

## In Autumn coal prices in Russia started to grow

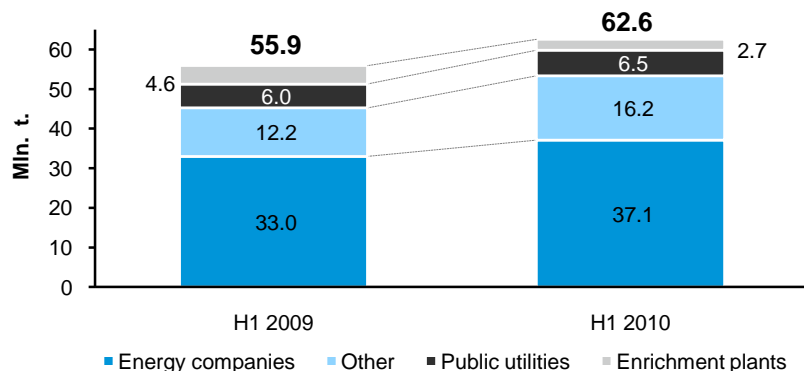
- Russian domestic thermal coal prices have remained stable during summer season because of low trading activity reflecting the seasonality of demand
- In September increased demand from energy companies and public utilities led to coal price growth, expected by the market

### Russian thermal coal benchmark, 9m2010



Source: Metal Expert

### Thermal coal purchases in Russia H1 2010-2009

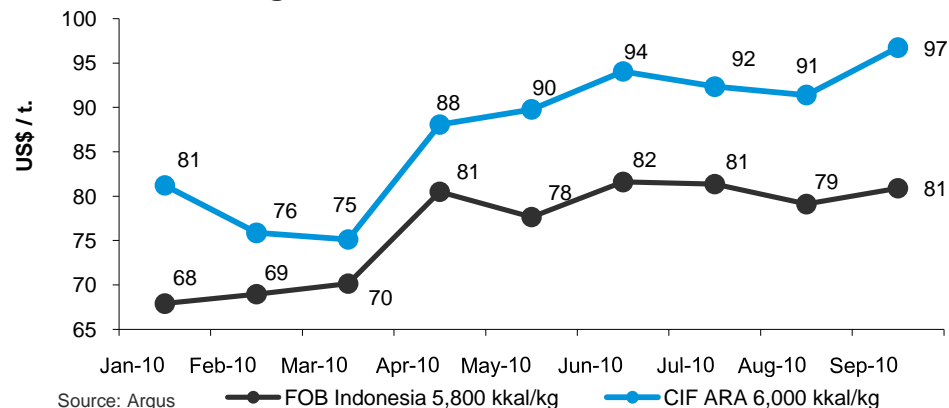


Source: Metal Expert

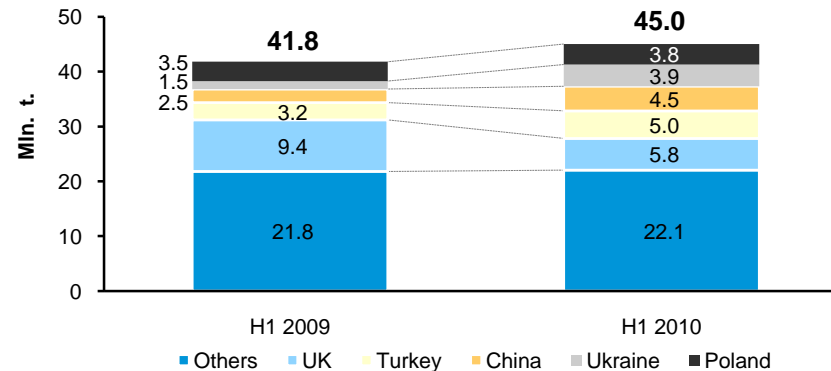
## Global supply and demand are balanced

- After active growth in April global benchmarks remained more or less stable till the end of August, reflecting high stock levels in major ports and absence of thermal coal supply deficit. Trading activity on European market has increased only in the last 2 weeks of September
- Current forward quotes do not show significant potential of growth till the end of the year

### International grade "D" thermal coal benchmarks, 9m2010



### Russian thermal coal export H1 2010-2009



Source: Metal Expert



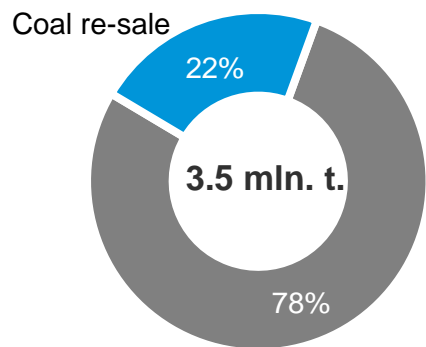
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## Section III

# Sales and Distribution

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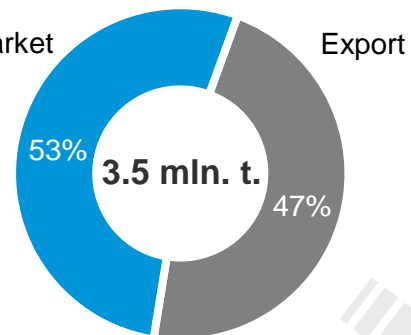
## Coal sales breakdown in H1 2010



Own coal

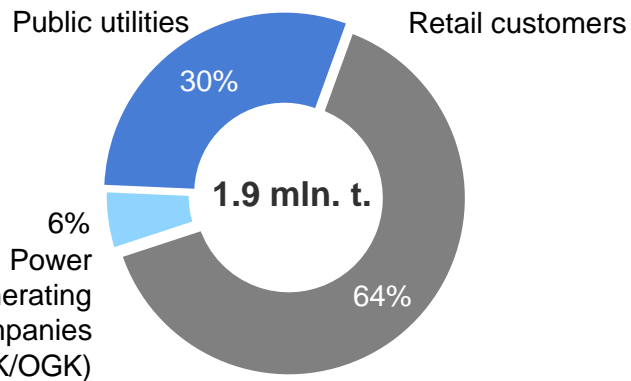
Domestic market

Domestic market

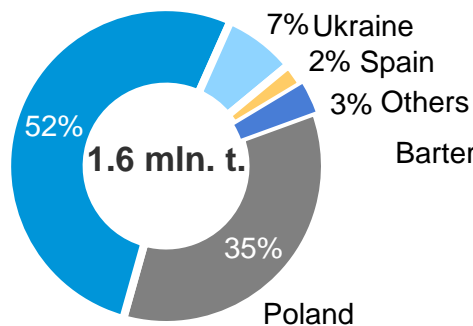


Export

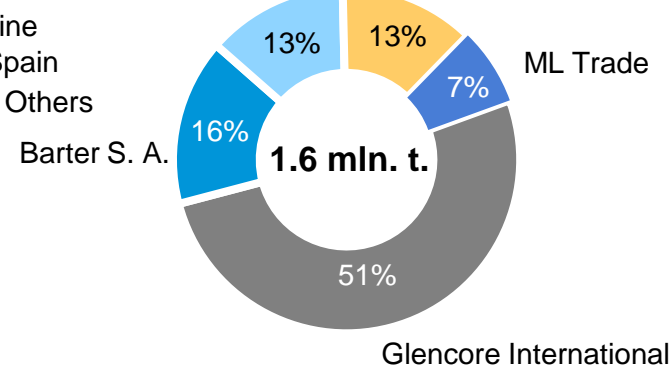
Export



China and South Korea



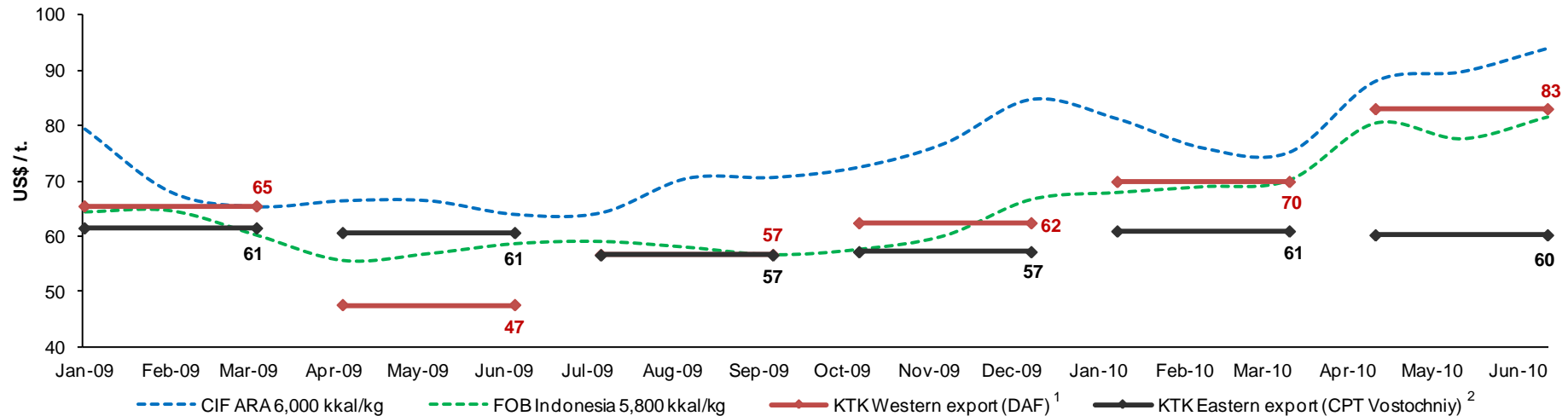
Kort Enterprises



# III. Average realised prices VS benchmarks

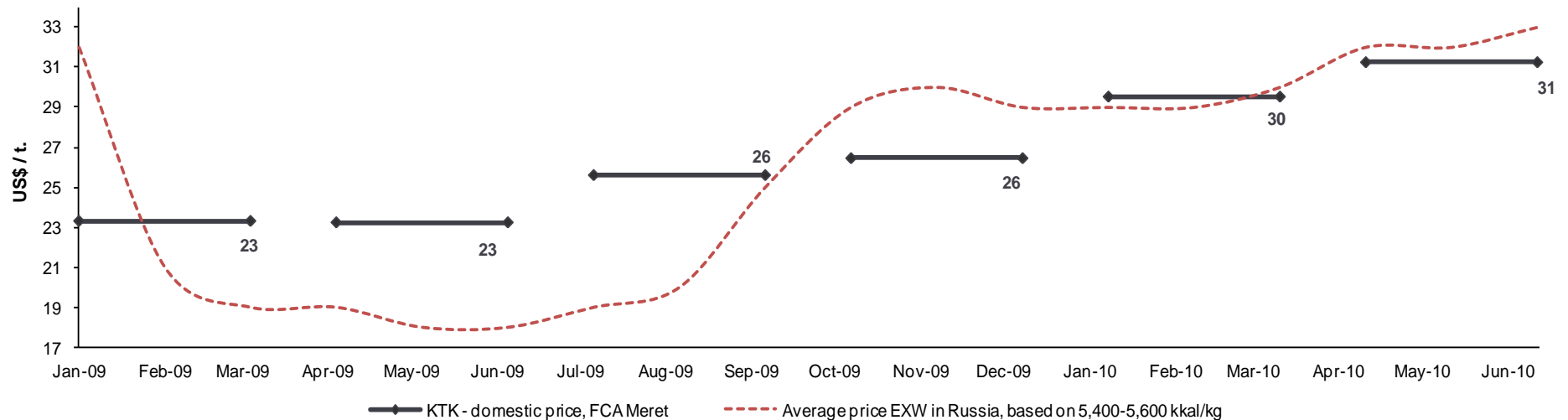


## KTK realized export prices vs. international FOB and CIF benchmarks, \$/t



Source: Company, Argus for FOB Indonesia and CIF ARA

## KTK FCA prices vs. Russian EXW benchmark, \$/t

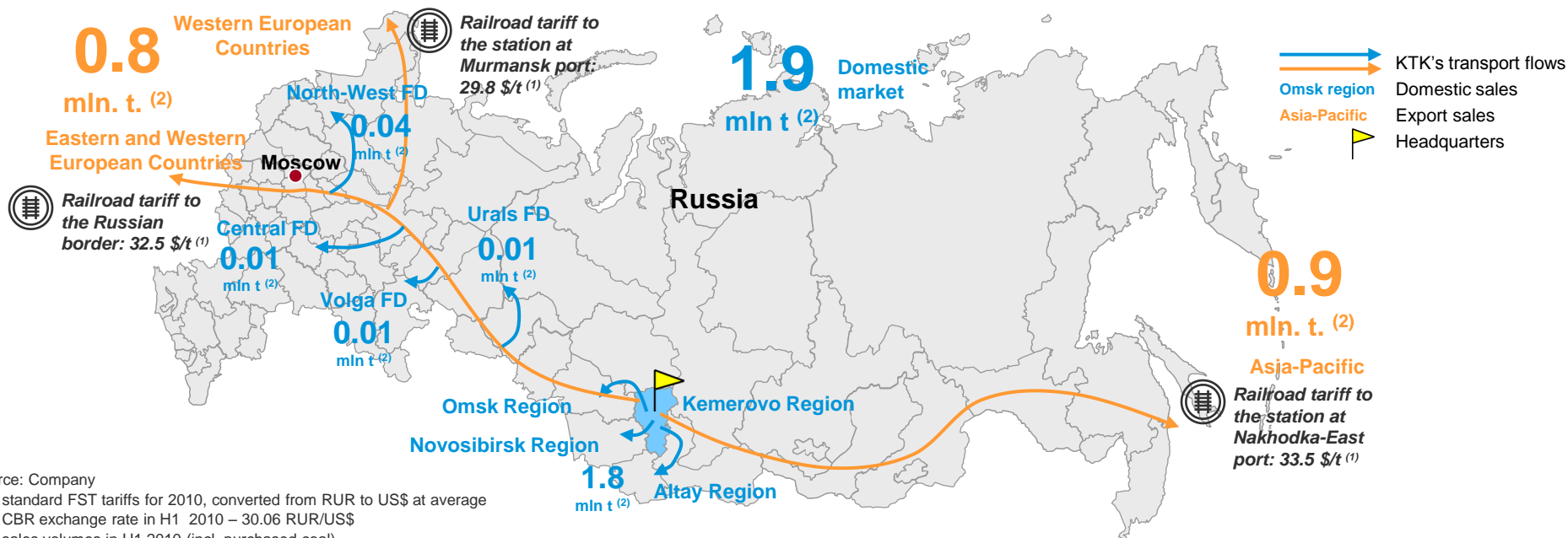


Source: Company, Metal Expert for average EXW prices in Russia

(1) - Average KTK realized quarterly Western shipments price DAF, excluding shipments to Ukraine

(2) - Average KTK realized Eastern shipments price CPT Vostochniy

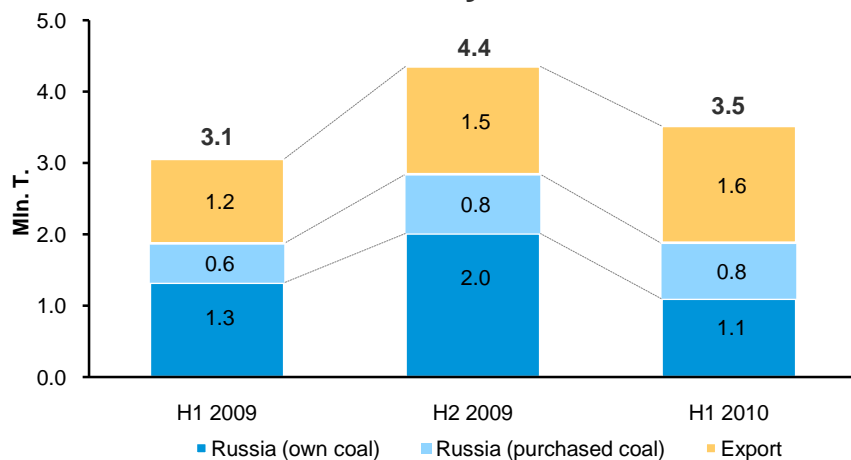
# III. Distribution Map



Source: Company

- (1) standard FST tariffs for 2010, converted from RUR to US\$ at average CBR exchange rate in H1 2010 – 30.06 RUR/US\$
- (2) sales volumes in H1 2010 (incl. purchased coal)

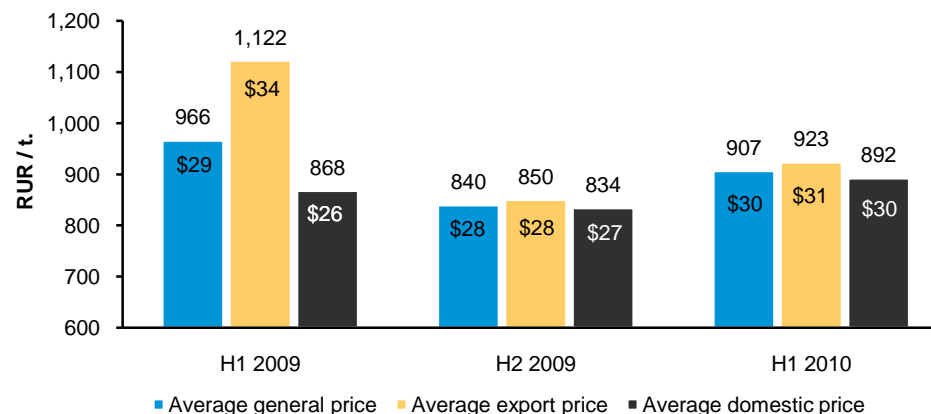
## Coal sales breakdown by market



Source: Company

- (1) - prices are net of VAT and railroad tariffs; domestic prices include costs associated with retail distribution network; prices are converted into US\$ using average CBR exchange rate for each year (H1 2009: 33.27 RUR/US\$; H2 2009: 30.41 RUR/US\$; H1 2010: 30.06 RUR/US\$)

## Average domestic and export prices (1)



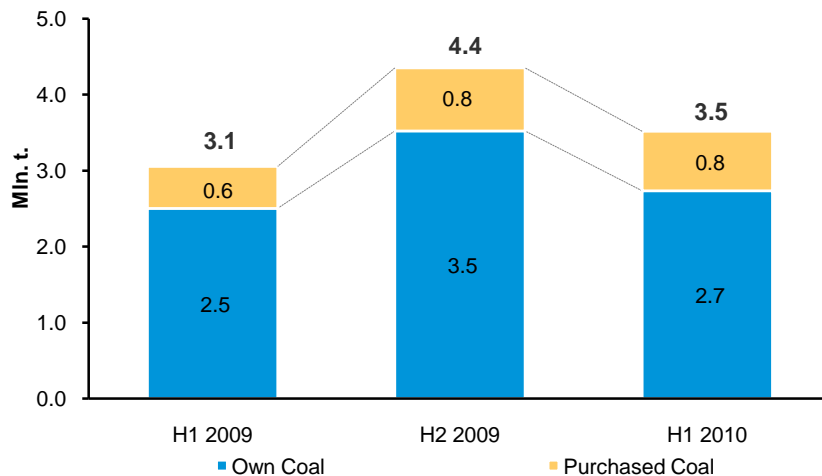
Source: Company

## III. Retail Network



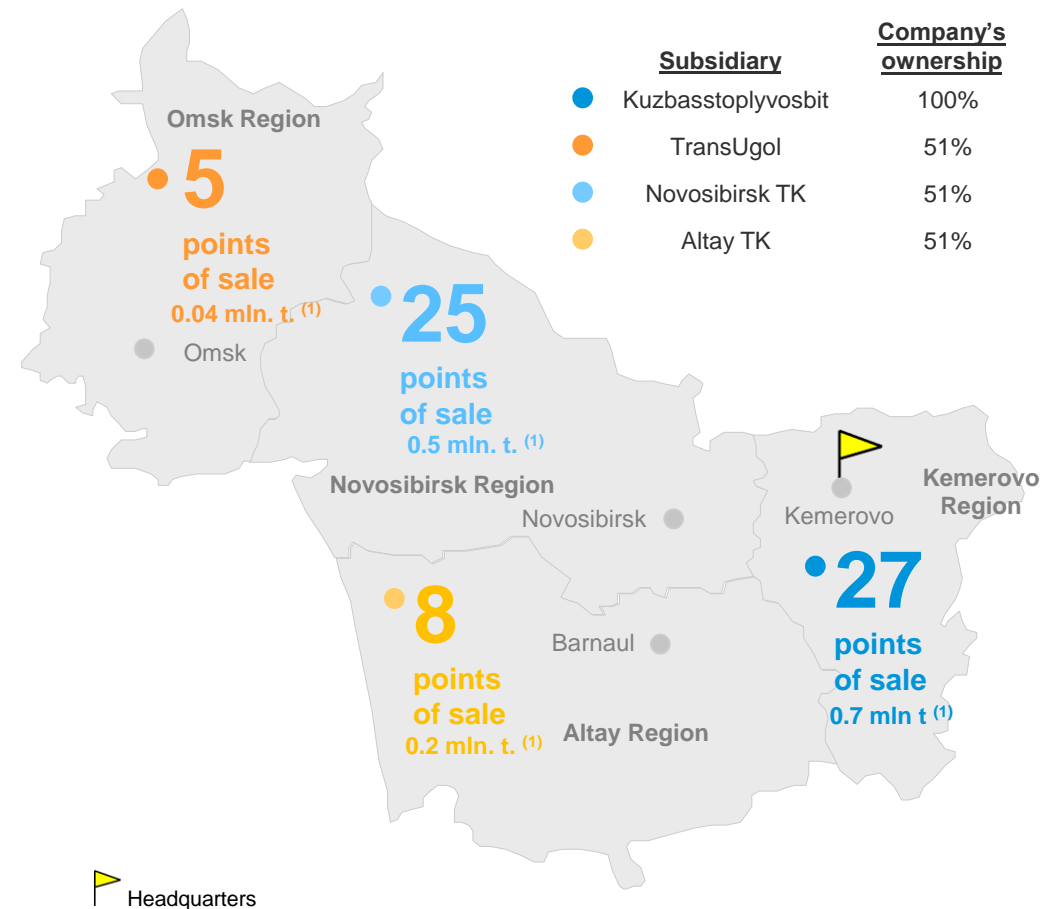
- Since its establishment, the Company has been continuously expanding and building its retail sale and storage network:
  - ▲ 65 points of sale
  - ▲ additional points of sale planned to be acquired or established
- Wide distribution network and strong regional presence position the Company as one of the principal suppliers of coal to retail costumers, municipalities, and public utilities in Western Siberia
- When export prices are high, the Company uses lower quality third-party coal to satisfy domestic demand, while shifting its own higher quality coal to export markets

### Breakdown of own and purchased coal sales



Source: Company

### Retail network in Western Siberia



Source: Company

(1) sales volumes in H1 2010, including coal re-sale

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## Section IV

# Business Strategy

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## IV. Key Strategic Directions



### Further Production Growth

- Further production growth at the existing facilities and infrastructure up to the structural capacity of the three mines
- Expansion of coal reserves through reclassification of existing resources, development of deeper deposits at existing mines, exploring neighboring land plots in the Company's property, and acquiring new licenses in the region

### Enhancement of Product Quality and Entering New Markets

- Coal quality enhancement through construction of 3 coal processing and enrichment facilities utilizing steeply inclined and dense-medium separation processes with an aggregate capacity of 8.5 mln. t. per year
- Focus on value-added products with higher profitability margins
- Entering new export markets with more stringent coal quality requirements

### Further Strengthening of Distribution and Sales Capabilities

- Strengthening of regional presence through further expansion of retail network, broadening product range and improving customer services
- Widening export capabilities through signing contracts with major global coal traders and power companies, and establishing trading representatives at key locations abroad

### Cost Optimization and Efficiency Improvements

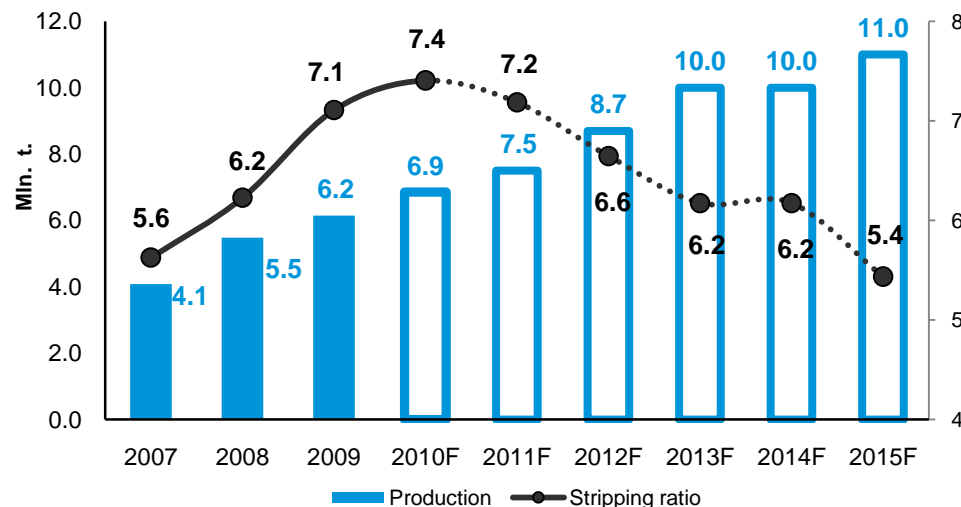
- Further upgrade of mining equipment and optimization of labor, administrative and overhead costs
- Hedging against transportation costs through entering into long-term leasing contracts for railway cars with "Kuzbasskaya Transportnaya Company"

## IV. KTK Production Growth Prospects



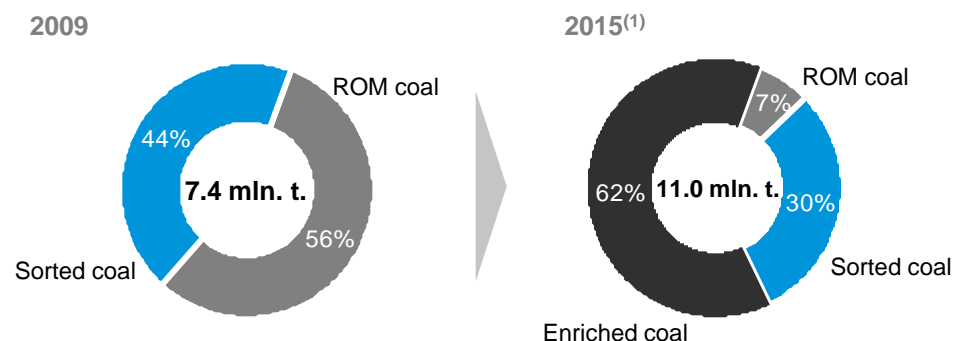
- The Company has established a well-developed production, logistics and distribution infrastructure required to sustain production at the level of the structural capacity <sup>(1)</sup> of the existing mining facilities – 11 mln. t. per year
  - ▲ Modern high-performance mining and transportation equipment (Komatsu, P&H and BelAZ)
  - ▲ 100% of coal transported to the Russian Railway network by the Company's own railway company (70 km of railroads, 6 railway stations, 12 mln. t. p.a. capacity)
  - ▲ Own repair and maintenance services
  - ▲ Own power infrastructure
- Growth of production will be followed by decrease of stripping ratio – the key driver of the Company's production cash costs. It will reach its peak in 2010 – 7.4, and then start to fall to 5.4 in 2015
- Further expansion of the production will be based on existing facilities, licenses, and infrastructure and will not require significant capital expenditure, other than into additional mining and transportation equipment. The total volume of Company's investment program for 2010-2015 is RUR 9.5 bln. (US\$ 317 mln.)
- In August 2010 the Company has commissioned its first coal enrichment plant with 2 mln. t. annual capacity. Furthermore, in the period of 2011-2013, the Company plans to commission another 2 coal enrichment facilities that will increase the total installed annual capacity to 8.5 mln. t.

### Production and stripping ratio development forecast



Source: Company

### Targeted sale structure change



Source: Company

(1) subject to the attainment of the structural capacity by 2015 and CAPEX plan

(1) here and further through the presentation structural capacity means the maximum production capacity that the Company believes could be achieved (taking into account projected stoppages for planned repair and maintenance) in an annual period if the Company were able to process all the coal that could be mined using the Company's existing mine facilities after acquisition of certain mining and transportation equipment in accordance with its current capital expenditure program

# IV. Investment Program



## 2 major investment directions:






- ▲ procurement of mining equipment to increase production at the existing open-pit mines
- ▲ construction of new coal processing and enrichment facilities to improve coal quality and raise production efficiency

## Enrichment facilities launching schedule:

- ▲ KNS enrichment plant #1 with 2 mln. t. annual capacity commissioned in August 2010
- ▲ KNS enrichment plant #2 with 2 mln. t. annual capacity planned to be launched in H1 2012
- ▲ Dense-medium enrichment plant with 4.5 mln. t. annual capacity planned to be launched in H1 2013

1

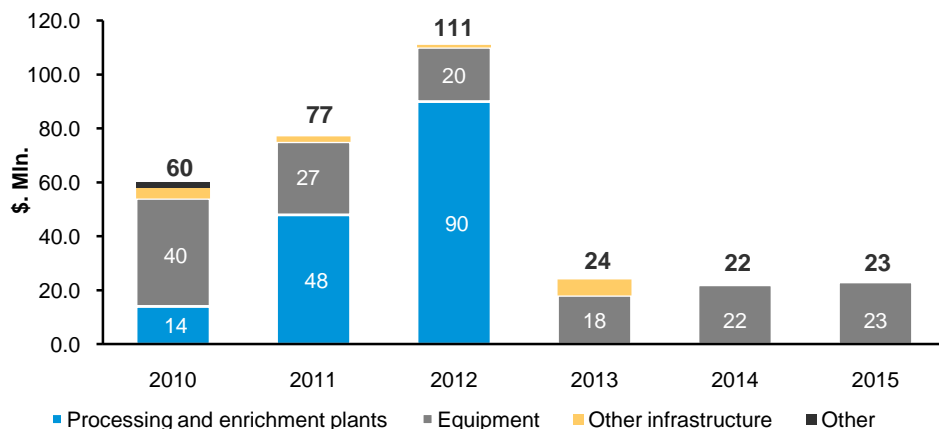
## Equipment procurement plan

	30 June 2010	CAPEX '10-'15
 <b>Shovels</b> (P&H, Komatsu, EO)	22 (2 P&H) <sup>(1)</sup>	21 (1 P&H)
 <b>Trucks</b> (BelAZ)	82	76
 <b>Dozers</b> (Komatsu and others)	24	18
 <b>Loaders</b> (Komatsu and others)	21	29
 <b>Drill Rigs</b> (Ingersoll Rand)	3	3

Source: Company

(1) the number of shovels does not include 19 EKG units that have been or are planned to be taken out of production and sold

## CAPEX plan for 2010-2015<sup>(2)</sup>

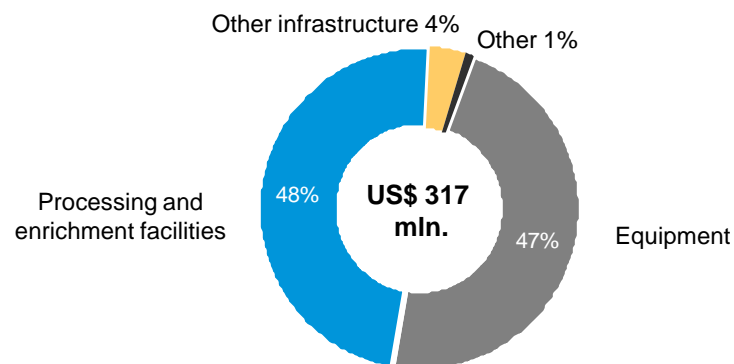


Source: Company

(2) net of VAT, converted to RUR at 30 RUR/US\$ exchange rate

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## CAPEX plan breakdown, 2010-2015<sup>(2)</sup>





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## Section V

# Operational and Financial Highlights

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## V. H1 2010 Operational highlights



### Moderate growth of coal extraction, but strong increase of high-margin sorted coal production

- ▶ Coal production volume increased by 3% to 2.72 mln. t. (H1 2009: 2.64 mln. tonnes). The moderate growth had been anticipated by the Management and related to technological schedules of the Company's open-pit mines development
- ▶ The volume of sorted coal increased by 48% to 1.78 mln. t. (H1 2009: 1.20 mln. t.) in line with the Company's high-marginal product strategy

### Increase of total coal sales and strong growth of export, but decline of average realised price

- ▶ H1 2010 coal sales volume increased by 15% to 3.52 mln. t. (H1 2009: 3.06 mln. t.)
- ▶ Export volumes increased by 38% to 1.64 mln. t. (H1 2009: 1.18 mln. t.)
- ▶ Average realised coal price <sup>(1)</sup> declined by 6% to RUB 907 per t. (H1 2009: 966 mln. t.), because of 2008 peak price export contracts shipments in H1 2009 and Q4 2009 low priced contracts shipments in H1 2010

### Strong increase of technological costs due to starting 2 new mining blocks

- ▶ Commencing 2 new mining blocks at "Cheremshanskiy" and "Vinogradovski" open-pit mines resulted in an increase of the blasted rock mass volume by 51% to 13.8 mln. cbm. (H1 2009: 9.1 mln. cbm.)
- ▶ The average transportation distance of rock mass raised by 20% to 2.7 km (H1 2009: 2.2 km)

### Large-scale investments in production equipment and enrichment plant

- ▶ During 6 months of 2010 the total volume of CAPEX reached RUR 1.35 bln., which is 2.6 times more than in H1 2009 (RUR 0.5 bln.). Investments included purchase of mining equipment and construction of the 1<sup>st</sup> enrichment plant of the Company

### Implementing of transportation cost hedging policy

- ▶ The Company created JV company "Kuzbasskaya Transportnaya Company" in partnership with one of Russian railroad transport operators and plans to rent railroad-cars purchased by "KTC" for a 10-year fixed price

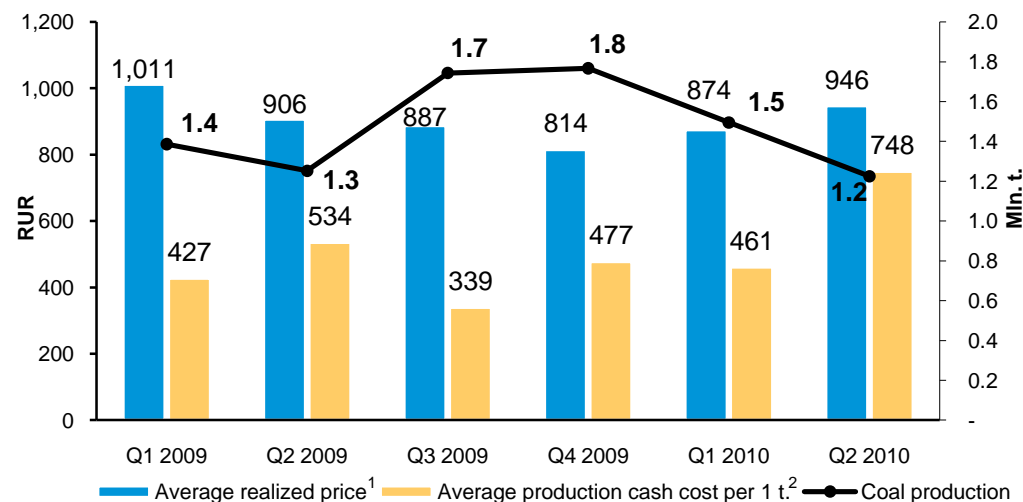
(1) - excl. VAT, Russian Railways tariff (FCA Meret, incl. KTK retail margin)

## V. Production volumes and cash costs analysis



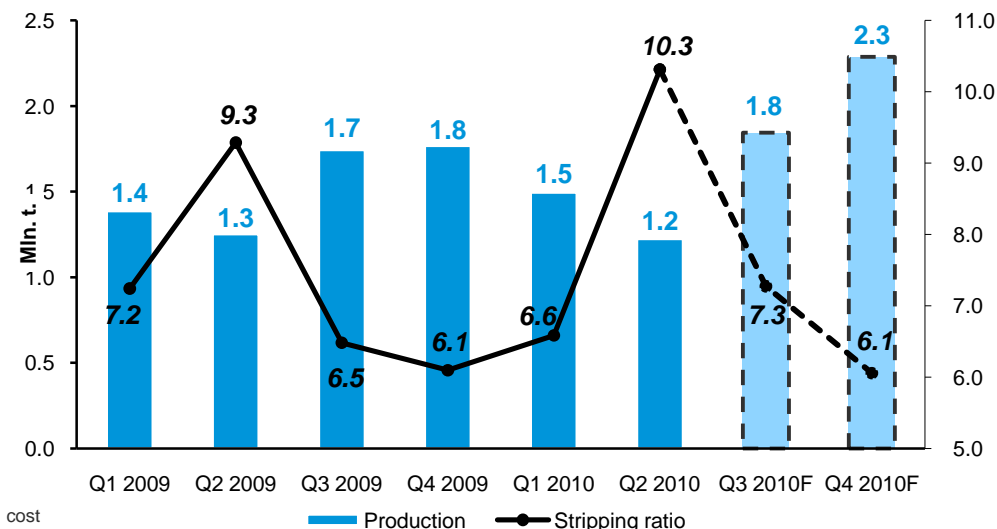
- ▶ The total volume of coal production in Q1 and Q2 2010 composed 2.72 mln. t. being 3% higher than H1 2009 figure. The moderate production in H1 2010 compared to annual volume is traditional for the Company, because of seasonality of thermal coal demand
- ▶ After the end of reporting period in July and August the Company increased monthly coal extraction and sorting volumes and plans to produce 1.8 and 2.3 mln. t. in Q3 and Q4 2010 and fulfil the annual production plan – 6.85 mln. t.
- ▶ The average realised price<sup>(1)</sup> in H1 2010 was 6% lower than in H1 2009 because some part of Q4 2009 low-priced export contracts has been shipped in this period. The Company estimates a growth of average export price<sup>(1)</sup> in H2 2010 by 10-15% affected by increasing of 2010 contracts shipments in total export structure
- ▶ In Q1 2010 and Q2 2010 the Company's production cash costs<sup>(2)</sup> per 1 ton of produced coal amounted to RUR 461 and RUR 749, having increased by 8% and 40% to Q1 2009 and Q2 2009 levels, accordingly. This led to a 24% increase of H1 2010 production cash costs (RUR 590) compared to H2 2009. Considerable cost growth in Q2 2010 reflected the start of 2 new mining sectors, characterized by increase of stripping ratio, as well as blasted rock volume and transportation distance to waste bank
- ▶ The Company estimates a significant drop of stripping ratio in Q3 and Q4 of 2010 because of strong production growth in these quarters, which should have positive effect on the production margin

Average realized price and production cash cost per 1 t. of coal



Source: Company

KTK coal production and stripping ratio



Source: Company

(1) – excl. VAT, Russian Railways tariff (FCA Meret, incl. KTK retail margin)

(2) – cash cost of production is calculated as cost of sales, net of (a) costs of retail distribution, (b) depreciation, (c) cost of coal for resale, (d) change in inventories, (e) railway tariff and transportation services, (f) expenses restated/roll-forwarded, plus distribution costs at the our mining facilities divided by production volume for the year

## V. H1 2010 Financial Highlights



**Revenue**  
**RUR 5,651 mln.**

- Revenue increased by 23% to RUR 5,651 mln. compared to RUR 4,596 mln. in H1 2009
- The total revenue increased owing to 40% growth in “Export sales of own-produced coal” segment and 48% gain in “Sale of purchased coal” segment

**EBITDA**  
**RUR 540 mln.**

- EBITDA<sup>(1)</sup> fell by 44% to RUR 540 mln. compared to RUR 961 mln. in H1 2009.
- EBITDA margin<sup>(2)</sup> decreased to 15% from 30% in H1 2009
- Main drivers of EBITDA decrease:
  1. Average realized price fell by 6% y-o-y because of 2009 export contracts shipments in Q1 2010
  2. Production costs<sup>(3)</sup> raised by 28% by y-o-y mainly because of starting 2 new mining blocks

**Net Income**  
**RUR 4 mln.**

- Net profit reduced by 98% to RUR 4 mln. (H1 2009: RUR 266 mln.)
- In the H1 2010 the Company produced and sold only 40% of planned annual volume of coal owing to seasonality of its sales. Simultaneously it processed 45% of planned annual stripping volume, which, together with temporary change of stripping structure and increase of rock mass transportation distance, resulted in weaker net income

**Net Debt**  
**2,613 mln.**

- Net debt reduced by 35% and amounted RUR 2,613 mln. (H1 2009: RUR 4,042 mln.)
- Net debt/EBITDA ratio composed 2.4 (H1 2009: 2.1)

Source: Unaudited IFRS financial statements for H1 2009-2010

(1) - EBITDA for each period is defined as results from operating activities, adjusted for amortization and depreciation, impairment loss and loss on disposal of property, plant and equipment

(2) - EBITDA margin was adjusted on railroad tariffs and transportation services

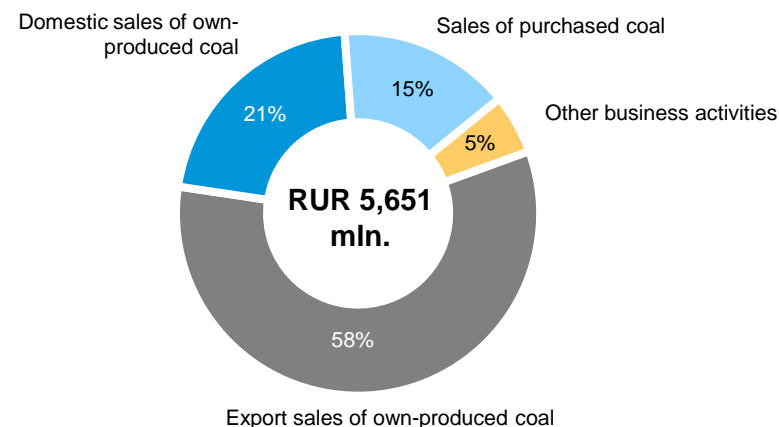
(3) - Production costs include wages of production personnel, cost of fuel, extraction, processing and sorting of coal, spare parts, repair and maintenance costs

## V. Revenue by Operational Segments



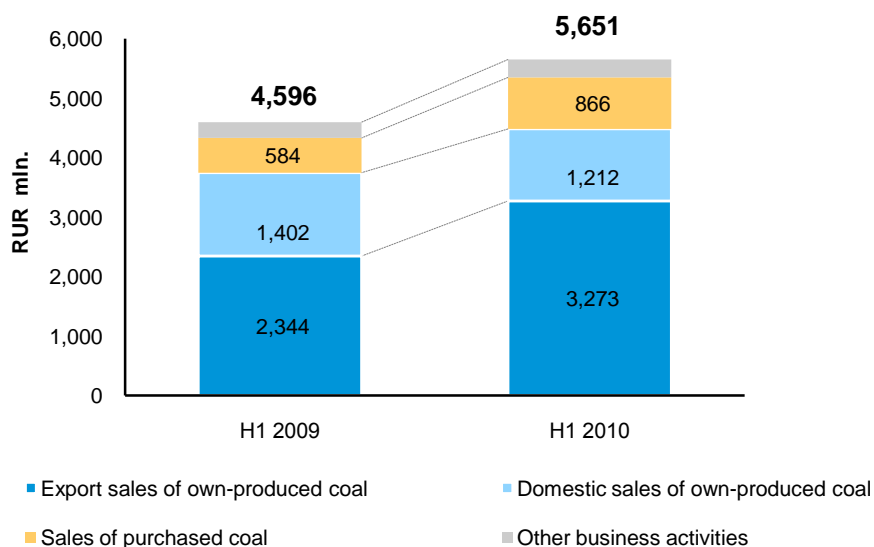
- The revenue of “Export sales of own-produced coal” segment in H1 2010 increased by 40% y-o-y to RUR 3,273 mln. The growth caused by 38% y-o-y increase of export volumes of coal and changing of some contracts terms from FCA to DAF/CPT base. The revenue was negatively affected by the 18% decline y-o-y of average realized export coal price<sup>(1)</sup>
- The revenue of “Domestic sales of own-produced coal” segment declined by 14% y-o-y to RUR 1,212 mln. The decrease was caused by relative reduction of transport costs included in retail coal price because of growth of Kemerovo region part in total domestic sales structure in H1 2010. The revenue was positively affected by 3% growth y-o-y of average realized domestic coal price<sup>(1)</sup>
- The revenue of “Sales of purchased coal” segment increased by 48% y-o-y to RUR 866 mln., mainly affected by 42% growth of volumes of purchased coal sold
- The revenue of “Other business activities” segment, including electricity generating, railroad transport and warehouse services, increased by 13% y-o-y to RUR 300 mln.

### H1 2010 Revenue breakdown by segments



Source: Unaudited IFRS financial statements for H1 2009-2010

### Segment revenue dynamics



Source: Unaudited IFRS financial statements for H1 2009-2010

(1) – excl. VAT, Russian Railways tariff (FCA Meret, incl. KTK retail margin)



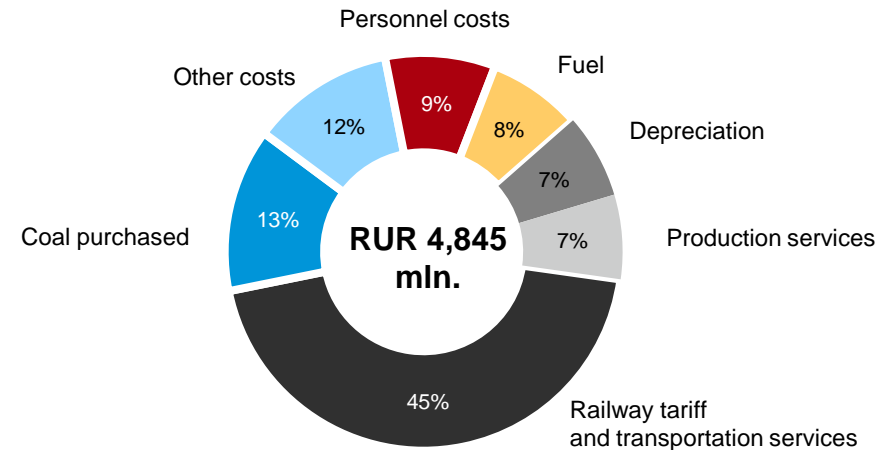
## V. Cost of Sales



In H1 2010 Cost of sales increased by 39% to RUR 4,845 mln. compared to RUR 3,485 mln. in H1 2009

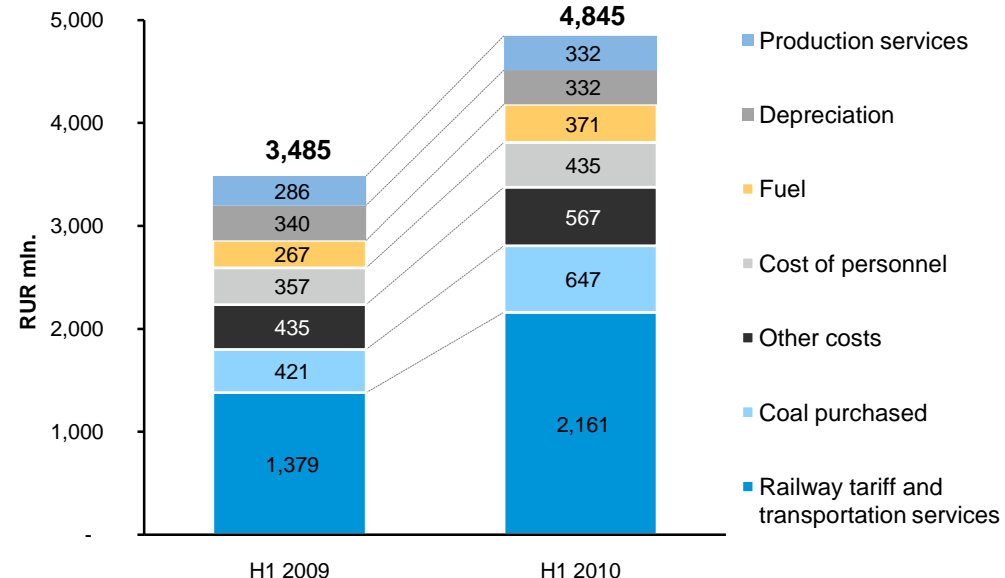
- ▶ Transport costs raised by 57% y-o-y to RUR 2,161 mln. mainly because of changing of some contracts terms from FCA to DAF/CPT base and increasing of export coal volumes by 0,5 mln. t.
- ▶ Personnel costs increased by 22% y-o-y to RUR 2,161 mln. owing to 10% indexation of salary and increase of cargo turn-over
- ▶ Fuel costs gained 39% y-o-y and composed RUR 371 mln. because of transported volumes growth, increasing of transportation distance to waste bank and raising of diesel fuel prices by 17% y-o-y
- ▶ Total of Spare parts costs and Repair costs increased by 40% y-o-y to RUR 328 mln. because of large scale annual and thorough machinery repairs being scheduled on H1 2010
- ▶ Cost of extraction, processing and sorting of coal came up to RUR 332 mln., having increased by 16% y-o-y because of 51% y-o-y growth of blasted rock volume and 48% y-o-y growth of coal sorting volumes. The reason for such strong growth was starting of 2 new mine sectors at Cheremshanskiy and Vinogradovskiy open-pit mines

### H1 2010 Cost of sales breakdown



Source: Unaudited IFRS financial statements for H1 2009-2010

### Cost of sales dynamics



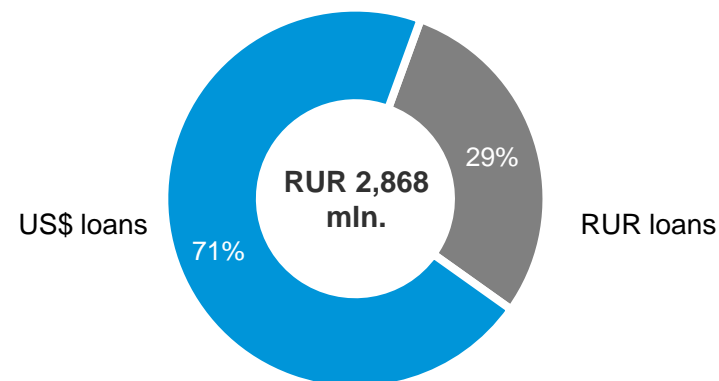
Source: Unaudited IFRS financial statements for H1 2009-2010

## V. Financial Leverage



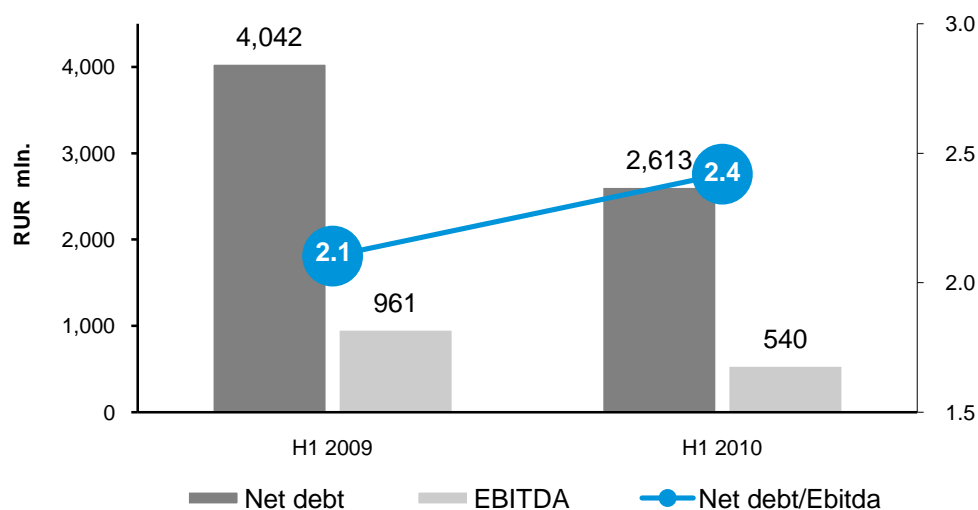
- In H1 2010 the Company retained a relatively low leverage, with Net Debt/EBITDA H1 2010 of 2.4x
- After IPO a part of proceeds has been spent on premature repayment of the most expensive part of the Company's indebtedness. As a result the net debt decreased by 35% y-o-y to RUR 2,613 mln.
- As of 30 June 2010, average interest rate of the Company's indebtedness has been 8.2%
- The Company does not envisage significant increase in borrowings in the future and intends to maintain its debt at the level of 2009

### Debt structure by currency as of 30 June 2010



Source: Unaudited IFRS financial statements for H1 2009-2010

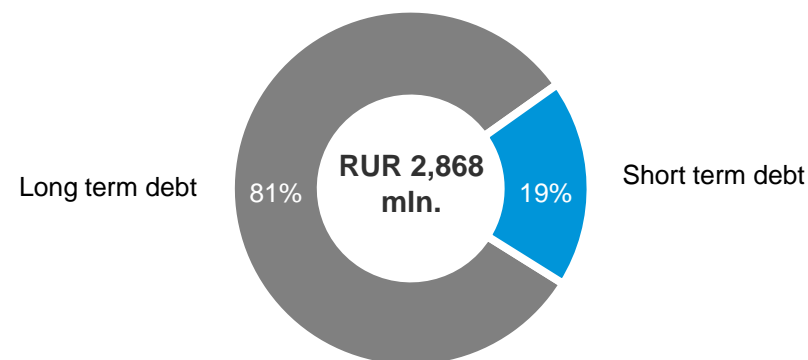
### Net Debt to EBITDA <sup>(1)</sup>



Source: Unaudited IFRS financial statements for H1 2009-2010

(1) - for the purpose of Net Debt/EBITDA ratio calculation EBITDA for H1 2010 was multiplied by 2 to receive annual figure

### Debt maturity structure as of 30 June 2010



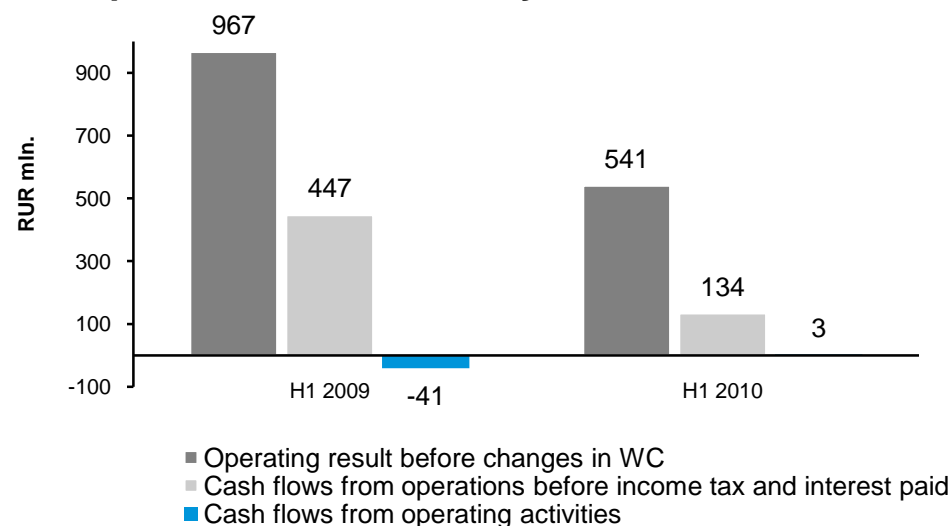
Source: Unaudited IFRS financial statements for H1 2009-2010

## V. Cash Flow and CAPEX



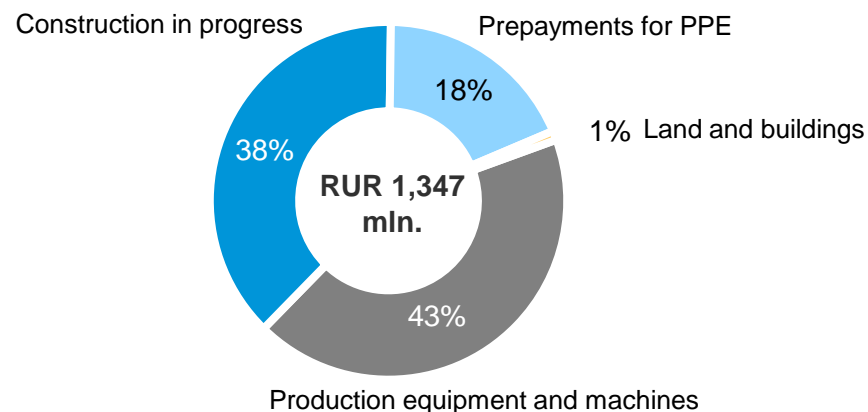
- ▶ In H1 2010 Cash flow from operations before income tax and interest paid decreased by 70% y-o-y to RUR 134 mln. Nevertheless, because of reduction of interest expenses it has been sufficient to cover interest and taxes
- ▶ The company received positive cash flow from operations which composed RUR 3 mln. compared to RUR 41 mln. of operating cash outflow in H1 2009
- ▶ During 6 months of 2010 the total volume of CAPEX composed RUR 1,347 mln. being 2.6 times higher than in H1 2009 (RUR 0.5 bln.). Investments included purchase of mining equipment and construction of the 1<sup>st</sup> enrichment plant of the Company
- ▶ The 1<sup>st</sup> enrichment plant of the Company with design capacity of 2 mln. t. p.a. has been commissioned after the Reporting date, in August. The plant is based on steeply inclined separator technology (KNS) and designed to enrich diluted raw material and high ash ROM coal to high-quality coal concentrate.

### Operational Cash Flow Dynamics



Source: Unaudited IFRS financial statements for H1 2010-2009

### H1 2010 CAPEX breakdown



Source: Unaudited IFRS financial statements for H1 2009-2010

### Strong production growth

- After the Reporting date the Company has significantly increased coal production and sorting volumes and plans to raise H2 2010 production by 50% compared to H1 2010 result
- The Company reiterates 6.85 mln. t. production plan for 2010, including about 0.3 mln. t. of enriched coal

### Export and domestic average realized prices growth

- In H2 2010 the average realized domestic price of the Company can raise by 5-8% to H1 2010 due to the beginning of heating season in Russia and growth of sorted coal sales
- Based on current volumes contracted for 2010, the Company estimates a growth of average export price by 10-15% to H1 2010

### EBITDA growth

- On the assumption of H2 2010 production growth to 4.1 mln. t., the stripping ratio should go down to about 6.5-7, reducing cash costs of production 1 t. of coal.
- According to the Company's estimations, production cash cost reduction together with raising of average realized prices should positively affect EBITDA, which can outperform the result of H2 2009

### Continue of large-scale investment program

- The Company expects to continue large-scale investment program in H2 2010, and plans to spend about RUR 0.5 bln.<sup>(1)</sup> on purchasing of production equipment and machinery, construction of heated repair bay for trucks and 2<sup>nd</sup> enrichment plant

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## Appendix

# IFRS Financial Statements for H1 2009-2010

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# Income Statement for H1 2009-2010



RUR mln.	H1 2010	H1 2009
<b>Revenue</b>	<b>5,651</b>	<b>4,596</b>
Cost of sales	(4,845)	(3,485)
<b>Gross profit</b>	<b>806</b>	<b>1,111</b>
<i>Gross margin</i>	<i>14%</i>	<i>24%</i>
Distribution expenses	(221)	(193)
Administrative expenses	(413)	(326)
Other operating income and expenses, net	35	(5)
<b>Results from operating activities</b>	<b>207</b>	<b>587</b>
<i>Operating margin</i>	<i>4%</i>	<i>13%</i>
Finance income	6	79
Finance costs	(206)	(322)
<b>Profit / (loss) before income tax</b>	<b>7</b>	<b>344</b>
Income tax expense	(3)	(78)
<b>Profit / (loss) for the period</b>	<b>4</b>	<b>266</b>
<i>Net margin</i>	<i>0%</i>	<i>6%</i>
<b>EBITDA<sup>(1)</sup></b>	<b>540</b>	<b>961</b>
EBITDA margin <sup>(2)</sup>	15%	30%

Source: Unaudited IFRS financial statements for H1 2009-2010

(1) - EBITDA for each period is defined as results from operating activities, adjusted for amortization and depreciation, impairment loss and loss on disposal of property, plant and equipment

(2) - EBITDA margin was adjusted on railroad tariffs and transportation services

# Balance Sheet for H1 2009-2010



RUR mln.	30-Jun-10	31-Dec-09
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	8,083	7,333
Goodwill	14	14
Investments in equity accounted investees	3	3
Other investments	37	67
Long-term receivables	7	7
Deferred tax assets	17	6
<b>Total non-current assets</b>	<b>8,161</b>	<b>7,430</b>
<b>Current assets</b>		
Inventories	521	405
Other investments	28	7
Income tax receivable	36	30
Trade and other receivables	1,152	1,227
Prepayments and deferred expenses	573	230
Cash and cash equivalents	255	86
<b>Total current assets</b>	<b>2,565</b>	<b>1,985</b>
<b>Total assets</b>	<b>10,726</b>	<b>9,415</b>

RUR mln.	30-Jun-10	31-Dec-09
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	20	17
Retained earnings	3,189	3,409
Additional paid-in capital	2,830	-
<b>Total equity attributable to equity holders of the Company</b>	<b>6,039</b>	<b>3,426</b>
Minority interest	21	41
<b>Total equity</b>	<b>6,060</b>	<b>3,467</b>
<b>Non-current liabilities</b>		
Loans and borrowings	2,331	2,204
Net assets attributable to minority participants in LLC subsidiaries	51	66
Provisions	247	237
Deferred tax liabilities	319	362
<b>Total non-current liabilities</b>	<b>2,948</b>	<b>2,869</b>
<b>Current liabilities</b>		
Bank overdrafts	-	-
Loans and borrowings	537	1,655
Trade and other payables	1,179	1,414
Provisions	-	-
Income tax payable	2	10
<b>Total current liabilities</b>	<b>1,718</b>	<b>3,079</b>
<b>Total liabilities</b>	<b>4,666</b>	<b>5,948</b>
<b>Total equity and liabilities</b>	<b>10,726</b>	<b>9,415</b>

Source: Unaudited IFRS financial statements for H1 2009-2010

# Cash Flow Statement for H1 2009-2010



RUR mln.	H1 2010	H1 2009
<b>OPERATING ACTIVITIES</b>		
Profit / (loss) for the period	4	266
<i>Adjustments for:</i>		
Depreciation and amortisation	368	369
Change in provision for site restoration	-	-
Impairment loss	-	-
(Gain)/loss on disposal of property, plant and equipment	(34)	11
Net finance expense	200	243
Income tax expense	3	78
<b>Operating result before changes in working capital and provisions</b>	<b>541</b>	<b>967</b>
Change in inventories	(116)	85
Change in trade and other receivables	46	(90)
Change in prepayments for current assets	(343)	68
Change in trade and other payables	6	(583)
<b>Cash flows from operations before income tax and interest paid</b>	<b>134</b>	<b>447</b>
Income taxes and penalties paid	(39)	(196)
Interest paid	(92)	(292)
<b>Cash flows from operating activities</b>	<b>3</b>	<b>(41)</b>

RUR mln.	H1 2010	H1 2009
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	3	-
Loans issued	(79)	(115)
Proceeds from loans issued including interest received	92	32
Acquisition of property, plant and equipment	(1,347)	(522)
Acquisition of subsidiaries, net of cash acquired	-	-
Acquisition of minority interests	(7)	(3)
<b>Cash flows used in investing activities</b>	<b>(1,338)</b>	<b>(608)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	4,090	3,112
Repayment of borrowings	(5,155)	(2,635)
Proceeds from cash issue, net of issue costs	2,822	-
Dividends paid	(253)	-
<b>Cash flows from financing activities</b>	<b>1,504</b>	<b>477</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>169</b>	<b>(172)</b>

Source: Unaudited IFRS financial statements for H1 2009-2010