KTK

ENERGY FOR GROWTH

Annual Review 2012

Ticker on MICEX: KBTK

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OJSC Kuzbasskaya Toplivnaya Company is one of the largest coal-mining enterprises in Western Siberia. Each year, the Company, which is one of Russia's fastest growing independent energy coal producers, achieves increasing recognition in both domestic and foreign markets.

OJSC Kuzbasskaya Toplivnaya Company strives to be a modern and progressive mining company – the undisputed industry leader in effective mining and coal conversion. The Company achieves this by investing in modern technologies and using advanced management methods.

To strengthen its competitiveness in the global coal market, the Company is implementing a series of actions, from creating optimum logistics schemes to upgrading coal quality by constructing washing plants.

Our goal – working for the benefit of our shareholders, clients, personnel and all regions as a whole, to become one of Russia's leading thermal coal producers.

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ENERGY FOR GROWTH
RESULTS ACHIEVEMENTS

OJSC Kuzbasskaya Toplivnaya Company (RTS/MICEX: KBTK)

– The Company's main product is high quality rough, sorted and enriched thermal coal of the mark "D".
– In 2012, according to *Metal Expert* magazine, the Company ranked sixth among Russia's major thermal coal producers.
– The largest retail supplier of coal in Western Siberia.
– The Company employs 4,261 people; 1,988 people are involved in production.

Since it was founded in 2000, three open-pit coal mines have been put into operation, two washing plants have been launched and production and sales infrastructure built:

– In 2012, 8.71 mln tonnes of thermal coal were extracted.
– Developed railroad infrastructure in the integrated production cluster.
– Two modern washing plants with 6 mln tonnes of aggregate capacity.
– The Company's fleet includes: 239 units of the newest, most highly efficient mining equipment, which allows the Company to retain its low production cost for extracted coal (USD 20 per one tonne of coal in 2012).
– A diversified sales policy that provides for a balance between domestic sales (4.29 mln tonnes in 2012) and export sales (5.91 mln tonnes in 2012).
– The Company's retail network in four regions of Western Siberia includes 70 points of sale and provides for more than 400,000 households and over 1,000 legal entities.
– Key export destinations – Eastern Europe and countries of the Asia-Pacific Region.

Production Capacity and Reserves

	3 operating open-pit mines	The Bryansky open-pit mine (under construction)
Design capacity, mln tonnes per annum	11	3-4
Category A+B+C1 reserves, mln tonnes	289.9*	
Category C2 reserves, mln tonnes	18.31*	250.2

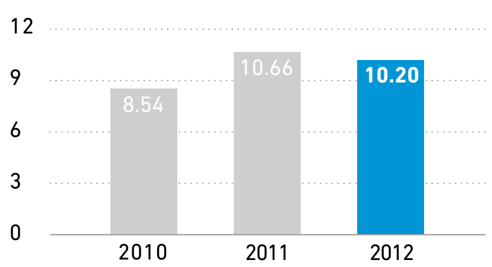
* Source: JORC

– Igor Prokudin is the Company's CEO and controlling shareholder.
– The Company's shares have been traded on RTS and MICEX since May 2010. 65.61% of the share capital is owned by its managers (Igor Prokudin and Vadim Danilov); the remaining 34.39% stake is free float and is distributed among more than 20 investment funds.

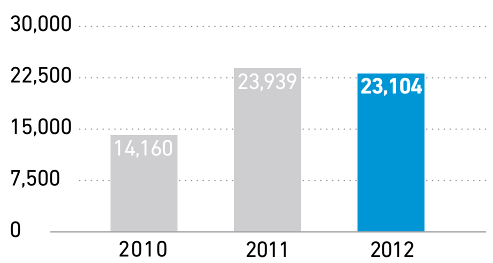
Key Operating and Financial Indicators

	2010	2011	2012
Coal production, mln tonnes	6.80	8.73	**8.71**
Coal sales, mln tonnes	8.54	10.66	**10.20**
Revenues, RUB mln	14,160	23,939	**23,104**
EBITDA, RUB mln	2,134	3,911	**3,479**
EBITDA margin	15%	16%	**15%**
Net profit, RUB mln	823	2,013	**1,810**
Net profit margin	6%	8%	**8%**

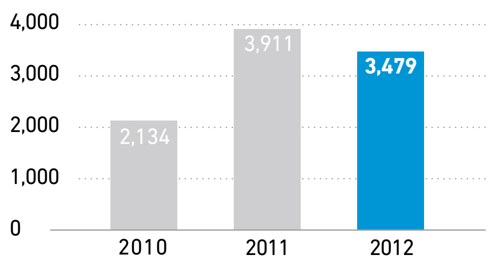
Sales of coal, mln tonnes



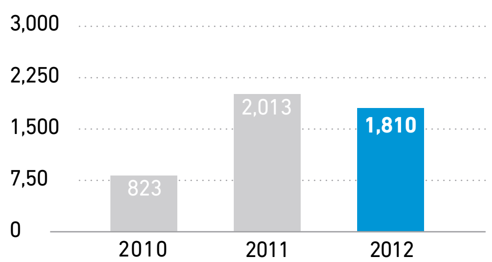
Revenue, RUB mln



EBITDA, RUB mln



Net profit, RUB mln



For more information on Corporate Social Responsibility see pages 26-29

More information about the Company is available at : **www.oaoktk.ru/en**

February 2012
The Company released up its 2011 operating results. As compared with 2010 indicators, production volume grew 28%, coal sales volume increased 25%, and average sales price rose 26%.

In 2012, the Company signed a social and economic agreement with the Kemerovo Region Administration. The Company made a commitment to: invest RUB 3.9 bn in production development, spend RUB 25 mln on labour safety at its facilities, spend RUB 45 mln for social payments to employees and pensioners, and RUB 22.1 mln to finance the Region's social programmes and to supply sorted coal on a charitable basis to the disadvantaged population of the Kemerovo Region.

March 2012
The Board of Directors recommended that the Annual General Meeting of the Company's shareholders approve a dividend payment for 2011 in the amount of RUB 6 per one common registered share, which totalled RUB 595.6 mln.

April 2012
The Company summarised its 2011 financial results, based on IFRS. Compared with 2010 levels, revenues grew 69%, EBITDA increased 83%, and net profit rose 145%. The net debt/EBITDA ratio stood at 0.68.

The Company held the Annual General Meeting of its shareholders; the Meeting summed up 2011 results and adopted the recommendations of the Board of Directors regarding the 2011 dividend payment in the amount of RUB 6 per one common registered share (or RUB 595.6 mln in total). Shareholders also approved the following members of the Company's Board of Directors: Vadim Danilov, Igor Prokudin, Eduard Alexeenko, Yury Fridman and Alexander Williams. CJSC Balance Consulting Group was selected to conduct the RAS audit for 2012, and CJSC KPMG was selected to conduct the Company's 2012 IFRS audit.

May 2012
The Company's retail network in Altai was complemented by four new retail coal storage yards. In May 2012, the retail network in the Siberian Federal District included 71 points of thermal coal sale.

LLC Kuzbass Transport Company's coal rail car fleet was increased by 210 rail cars and reached a total of 3,128 rail cars.

The Company put into operation the new fuel and lubricants warehouse; the launch contributed to a reduction in production costs. This project has a high potential return on investment, independent of export prices.

July 2012
Due to changes in the market situation, the Company's managers decided to reduce the annual production plan 6%, from 9.3 mln (2011 production volume) tonnes to 8.7 mln tonnes.

August 2012
H1 2012 IFRS financial results were released. Compared with H1 2011 indicators, the Company's revenues grew 13%, and EBITDA and net profit decreased by 7% and 36%, respectively. The net profit/EBITDA ratio stood at 1.05.

The Company published its H1 2012 operating results. Coal production volume grew 9% (compared with the previous year); the average sales price increased 13%.

September 2012
The Company's retail network in Altai was complemented by five new retail coal storage yards. As of September 2012, the retail network in the Siberian Federal District included 75 points of thermal coal sale.

October 2012
An Extraordinary General Meeting (EGM) of the Company's shareholders approved the appointment of Igor Prokudin as the Company's CEO for a five-year term.

December 2012
The Company completed construction of the overhead system for six tracks for Russian Railways' electric locomotives at the Uba sorting station. The overhead system was necessary to increase the station's traffic capacity. In December 2012, 15 tracks for electric locomotives were functioning; the tracks serviced more than 700 rail cars per day. In December 2012, the station's traffic capacity stood at 16.7 mln tonnes per annum, with the possibility of increasing capacity to 20 mln tonnes per annum.

Financial events
Operational events
Other

Events Occurring after the Reporting Date

February 2013

The Company released its 2012 operating results. Compared with 2011 indicators, production volume remained the same; sales volume fell 4%; and the average sales price increased 5%.

In 2013, the Company signed a social and economic agreement with the Kemerovo Region Administration. The Company made a commitment to invest RUB 0.5 bn in production development, to spend: RUB 25 mln on labour safety at its facilities, RUB 45 mln for social payments to its employees and pensioners, and RUB 26.6 mln to finance the Region's social programmes and to supply sorted coal on a charitable basis to the disadvantaged population of the Kemerovo Region.

In line with its cost reduction programmes, the Company ceased participation in the associated Kuzbass Transport Company and concluded a new long-term agreement for coal transportation (for the 2013-2018 period) with ZapSib-Transservice, the new owner of a rail car fleet. As of the time of the transaction, the rail car fleet included 3,128 coal rail cars, and its total debt was RUB 7 bn (which includes financial leasing and bank loans). The agreement guaranteed the new partner a minimum transportation volume of 5,000 shipments per month (which constitutes 65% of the Company's freight base). Coal transportation prices will be established based on current market prices.

March 2013

The Board of Directors recommended that the Annual General Meeting of shareholders adopt the resolution on 2012 dividend payments in the amount of RUB 5 per one registered common share (devoting a total of RUB 496.2 mln for this purpose).

The Company completed construction of the second washing plant, Kaskad-2, with an input capacity of 4 mln tonnes of coal per annum, at the Vinogradovsky open-pit mine. In February 2013, the plant was presented to the Company's existing and potential partners for coal sales on the export market and received favourable international appraisals.

More information about corporate events which have already occurred or which are planned is available at: www.oaoktk.ru/en/investors

April 2013

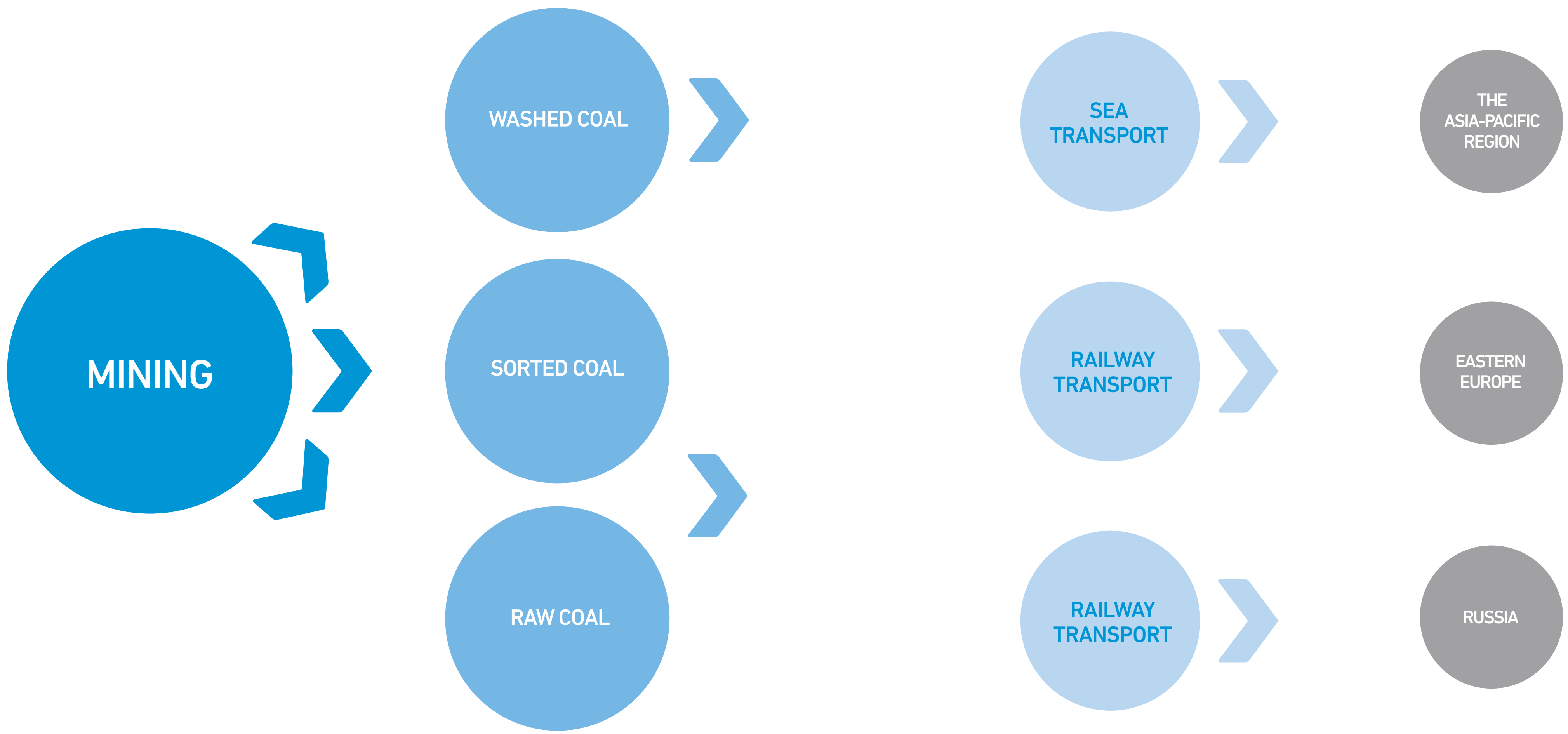
The Company announced its 2012 IFRS financial results. Year-on-year, its revenues dropped 3%, EBITDA decreased 11%, and net profit dropped 10%. The net debt/EBITDA ratio stood at 1.35.

The Company approved its 2013 adjusted investment programme in the amount of RUB 956 mln. In Q1 2013, the Company did not make any new investments; the majority of investment will be made in Q2-Q4 2013. The Company will invest in financing the operations of the Kaskad-2 washing plant, the acquisition of production and support equipment, the expansion of the resource base, the development of the sales infrastructure in the Altai Region, the modernisation of production and railroad infrastructure, and the continuation of exploration and design work at the promising Bryansky open-pit mine.

The Company held the Annual General Meeting of its shareholders, which summarised the Company's 2012 results and adopted the recommendations of the Board of Directors regarding the previous year's dividend payment in the amount of RUB 5 per one common registered share (or RUB 496.2 mln in total). The shareholders also approved the updated list of members of the Company's Board of Directors: Vadim Danilov, Igor Prokudin, Ivan Gepting, Yury Fridman, and Alexander Williams. KPMG was selected to conduct both the RAS and IFRS audit for 2012.

ENERGY FOR GROWTH
EFFICIENCY PROFITABILITY

The business model used by KTK includes: coal mining, processing, transportation and sale. Despite its simplicity, the business model allows the Company to manage risks and, using the well-managed and adjusted corporate structure, to select the optimal development way from many others and to achieve the key objective – to increase products' added value and, consequently, the Company's profitability.



№6

Ranking among Russia's thermal coal producers in 2012

58%

of coal sales are exports

400,000

retail customers in Russia

For information on sales see pages 24-27

For information on Corporate Governance see pages 32-36

For more information visit: www.oaoktk.ru/en

Open-pit coal mines

KTK specialises in coal mining in the Kuznetsk Coal Basin; it is one of the major coal producers in Western Siberia. According to the MetalExpert trade publication, KTK ranks sixth among Russian producers of thermal coal. The Company's production base includes three operating open-pit coal mines (the Vinogradovsky open-pit mine, the Karakansky-South open-pit mine and the Cheremshansky open-pit mine); the Company expects to put the Bryansky open-pit mine into operation around 2015.

Coal Processing

To improve product quality and increase the share of products with high added value, the Company processes coal. Coal processing is conducted using two methods: sorting coal by size and coal washing in the Kaskad-1 and Kaskad-2 washing plants. Coal washing allows the Company to offer higher quality products in its foreign markets.

Coal Transportation

In Russia, the Company delivers coal to its consumers by rail. Export supplies are conducted by rail to sea ports, and then onwards by sea. The Company uses the following terms for supply: FCA – to the Meret Station, the Kemerovo Region; DAF – to the Polish-Belarusian border or the Polish-Ukrainian border, CPT – to the Vostochny Port. Coal for the Company's retail network is also transported by rail.

Markets

Key export destinations for KTK in the Asia-Pacific Region are China and South Korea. The main coal consumers are energy companies and cement manufacturers. Export supplies to Europe are mainly focused on Poland and are designed for electric energy plants and retail customers. In Russia, the Company's key sales are made via the retail network which covers the Kemerovo, Novosibirsk, Omsk and Altai Regions.

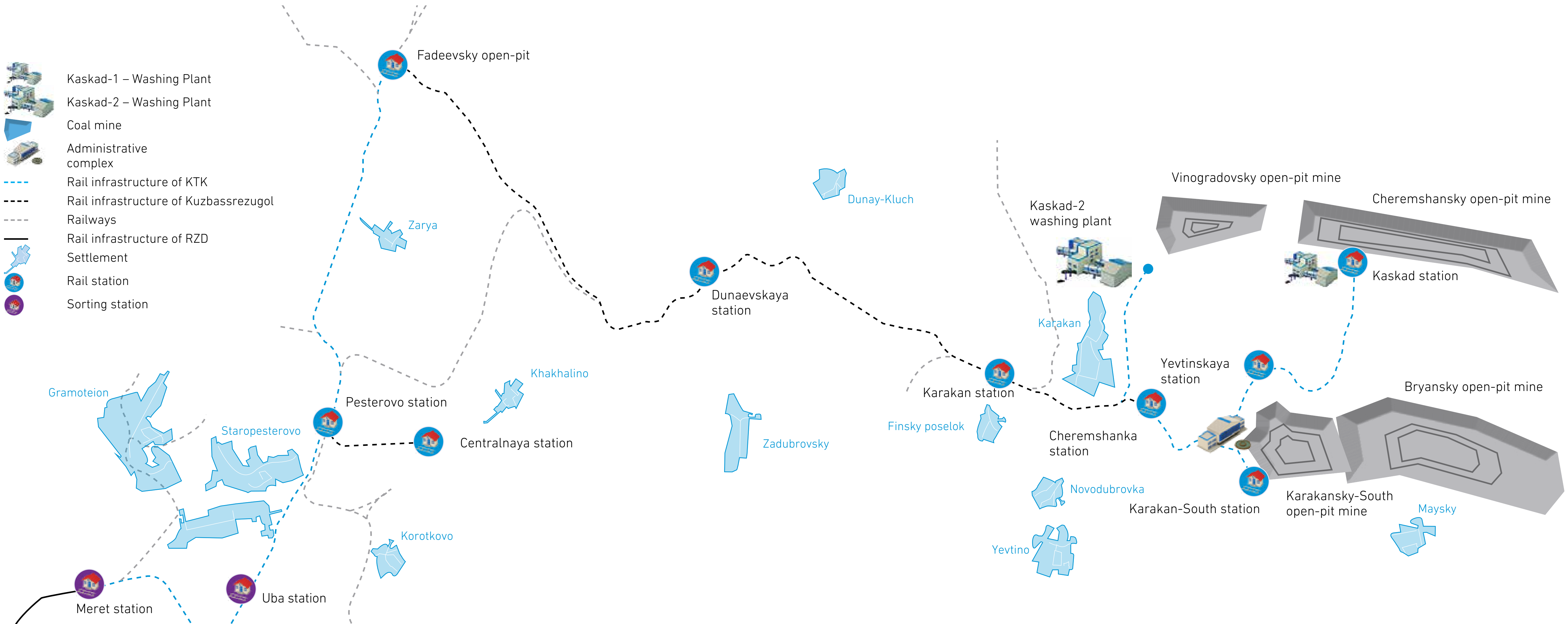
Sales Diversification

One of KTK competitive advantages is the geographic diversification of sales – allowing flexible changes in the sales structure. The Company operates in both domestic and export markets, and can select the most favourable coal flow destinations, depending on the current market situation.

ENERGY FOR GROWTH EXPERIENCE STABILITY

KTK mines coal at three open-pit mines, which are part of the Karakansky Coal Deposit located in the Yerunakovsky Geologic and Economic District of the Kuznetsk Coal Basin. Coal deposit development licences acquired by the Company are effective for 10-15 years (with the right for extension). This indicates the Company's stability and its interest in the region's development. In the future, the Company plans to increase its reserves by acquiring new licences in the Kuznetsk Basin.

Apart from the open-pit coal mines, KTK includes: washing plants, coal storage yards with mobile sorting facilities, an administration complex, unified mining equipment and a vehicle park, repair centres and spare parts depots. Meret Freight Forwarding Company, a corporate subsidiary, owns the railroad infrastructure.



12
mln tonnes of freight transported by Meret

3,128
rail cars

4,261
employees

For information on our operating activities see pages 20-23

For more information visit:
www.oaoktk.ru/en

Business Assets

KTK is developing three open-pit mines with a design capacity of 11 mln tonnes per annum: the Karakansky-South, the Vinogradovsky and the Cheremshansky mines. After putting the Bryansky open-pit mine into operation towards the end of 2015, design capacity is expected to increase to 14-16 mln tonnes per annum.

308
mln tonnes of proven and probable reserves in operating open-pit mines

Mining Transport Equipment

The Company's mining transport equipment fleet includes: 37 shovels (including one new P&H shovel purchased in 2012), 115 trucks, 32 dozers, 40 loaders, four drill rigs, seven graders and four draglines.

239
units of equipment

Washing Plants

The Kaskad-1 washing plant's annual input capacity is 2 mln tonnes of raw coal. After the Kaskad-2 washing plant reaches its 4 mln tonnes annual design input capacity, the Company will be able to produce export quality coal, meeting the most sophisticated requirements of consumers.

6
mln tonnes of raw coal per annum – incoming capacity of the washing plants

Transport Infrastructure

Meret Freight Forwarding Company, a corporate subsidiary, includes its own railroad network and locomotive fleet. After completing the third construction stage of the Uba station in 2012, the volume of coal freight increased to 700 rail cars per day, and the station's annual traffic capacity rose to 16.7 mln tonnes of coal.

90
km of approach lines

Administration Complex

The Company built an administration complex that services more than 1,200 people per day. This is the equipped building where miners have medical examinations, change, eat lunch, and get their work orders. Engineers and technical workers are located in the same complex. The spare parts warehouses and repair boxes are also located near the administration complex.

5,000
square metres – the total area of the administration complex

ENERGY FOR GROWTH STRATEGY DELIVERY

Despite pressure resulting from unfavourable conditions in the global energy coal market, the year was still a success for the Company.

Expanding the raw material base and production capacities, effectively upgrading the logistics and sales infrastructure, ensuring production growth in the high value-add segment of the sales structure, rigidly controlling the cost of sales, and creating an exit for new markets both outside the Russian Federation and within the country, are at the heart of KTK's strategy. The Company is focused on strengthening its leadership position in the industry and increasing its appeal for investors. These factors are keys to corporate success.

According to the Company's IFRS financial statements, 2012 revenue stood at RUB 23,104 mln – a minor 3% drop compared with 2011. During the reporting period, EBITDA fell 11% – amounting to RUB 3,479 mln. Corporate net profits also declined 10%, standing at RUB 1,810 mln. This decline can primarily be attributed to a decrease in export sales.

Despite difficult market conditions, the Company pays significant attention to observing the rights of shareholders and investors, which is expressed via a stable and consistent dividend policy. During the entire reporting period (2012), the Company strictly fulfilled assumed obligations to partners and contractors.

We asked Igor Prokudin and Vadim Danilov, the Company's CEO and the Chairman of the Board of Directors, respectively, to comment on the Company's 2012 performance and to give us an indication about what the future may hold.

What was the Company's response to global changes in the coal market?

Igor Prokudin:
In 2009, the Company's top managers heard me predict that the toughest time for the organisation would be 2013-2015. This prediction has proven to be correct, as today's global coal prices have fallen to 2009 levels. The period in between was a time of corporate growth and development. As a result of a collective bargaining agreement, employee salaries increased. At the same time, there was a four-fold increase in railroad tariffs and a 120% increase in fuel costs. This meant that the prime cost of coal increased, while at the same time, coal prices fell.

Having predicted these negative trends for both the Company and the industry as a whole, we focused our attention on forming financial reserves and optimising costs. To achieve these goals, we reduced the stripping ratio to the rated level and conducted a series of negotiations with suppliers to cut costs. We also sold the captive railroad transportation company to lower rail car rent rates.

One of the Company's current priorities is reducing costs and introducing the strictest possible economic regime. The next three years will be dedicated to making investments that are sufficient to maintain production facilities that are currently operating. The remainder of corporate funds will be invested in lessening the debt burden and optimising costs.

We cannot be held responsible for macro-economic changes in the global economy. And at the same time, there is nothing that we can do about today's low prices in the commodity market. But, the Company is adapting to the current price level – to ensure that the Company will stay in the market and earns a profit in 2013 in any circumstances.

See the "Development Strategy and Risk Management" and "Operations" sections for additional details.

Vadim Danilov:
Taking into account a sharp drop in the market price, the Company focused on optimising costs as far as possible and achieved strong performance indicators, taking into account the market conditions. Our reduction in net profits was a relatively minor 10% – compared with the 50-60% declines noted by the metallurgy industry. Coal production volume remained the same. Also, the external debt/EBITDA ratio stood at 1.35, which is not bad – particularly taking into account that the investment level reached its highest level relative to the Company's entire history and that a coal processing facility was built and the fact that the overall economic situation was difficult.

Due to changes in the global coal market, the 2013 investment programme was adjusted. However, the Company's management team decided not to ignore key strategic priorities, including: constructing the third washing plant (Vinogradovskaya) and commissioning the Bryansky open-pit coal mine (which became the Company's fourth extracting enterprise). In Q1 2013, the Company did not make any new investments; the bulk of the programme will be realised in Q2-4 2013.

The above-mentioned results were primarily due to the Company's flexible marketing strategy, as we were able to aggressively switch our sales priorities from export markets, which experienced a dramatic decline, to the domestic market. The ability to adjust sales volumes in both the export and domestic markets meant that the Company's revenue declined only 3%. KTK continues to boost its shares in the promising markets of Japan, Korea and Taiwan, while also strengthening `its positions in Eastern Europe by opening a representative office in Poland in 2012.

See the "Financial Performance Overview" and "Coal Market and Sales System" sections for additional details.

Vadim Danilov
Chairman of the Board of Directors

Igor Prokudin
CEO, Member of the Board of Directors

What can you say about the Kaskad-2 coal processing facility – the project of the year?

Igor Prokudin:
The construction of the Kaskad-2 coal washing facility was the Company's 2012 key investment project. This was a record-breaking project in terms of duration – it had a start date in 2011 and a commissioning date of Q1 2013. The facility utilises innovative technology in the form of simultaneous, steeply-inclined separation and processes heavy-medium coal. We sincerely hope that once the facility is fully on line that the Company will be able to increase its sale of processed coal – especially for the Asian markets, which generally have strict requirements for coal quality. As soon as export market prices begin to rise, we will be able to increase our production volume for enriched coal – in line with growing demand. This will help to ensure that the Company will earn a profit.

Vadim Danilov:
In February 2013, the Kaskad-2 coal washing factory was presented to foreign industry specialists, who gave the facility high marks. The Kaskad-2 commissioning has opened new prospects for the Company, including: the opportunity to optimise production costs, the ability to improve product quality, the opportunity to lessen coal's ash content and moisture levels, and the chance to enhance product quality guarantees. Optimising transportation and logistics has made the Company a more reliable supplier in general.

We plan to implement additional advanced coal processing technologies, increasing the share of value-added products in the Company's sales structure.

See the "Kaskad-2 Washing Plant, Project of the Year" section for additional details.

Could you describe the Company's relationships with both the Administration of the Kemerovo Region and minority shareholders?

Igor Prokudin:
As a major mining organisation, the Company exercises considerable influence over all aspects of regional development, including: providing employment opportunities, upgrading labour conditions, promptly paying taxes and fulfilling social programmes as agreed upon with Administration of the Kemerovo Region. Furthermore, we make every effort to ensure that environmental conditions in Kuzbass are upgraded. During 2012, we launched one more set of treatment plants, while our new coal processing facility is the most environmentally-friendly facility in Russia, as it has no coal storage and its water supply system is closed-cycle.

We do everything in our power to maintain an appropriate environmental balance.

See the "Corporate Social Responsibility" section for additional details.

Vadim Danilov:
It is a significant advantage for the Company that its major shareholders are members of the Company's governing bodies. Therefore, the management team is able to promptly respond to changing market conditions, making appropriate decisions and ensuring that these decisions are approved by the Board of Directors. The management team is flexible when addressing economic issues or external relationships.

Regardless of the size of the respective shareholdings of myself or Igor Prokudin, we always act in a co-ordinated manner – making joint decisions on every strategic issue. In our 13 years of working together, we have never had a disagreement on a major issue.

The Company is fully open to minority shareholders. Minority shareholders' interests are represented by Alexander Williams, who is a member of the Board of Directors. Numerous investment funds that own corporate shares proposed Mr. Williams for this position.

The Company organises annual meetings with investors. This year, the Company held shareholder meetings in Russia, Sweden, Finland, Great Britain and Switzerland. We presented our 2012 performance results and outlined 2013 development trends.

We have fulfilled all of our promises to shareholders concerning our dividend policy, strategy and information transparency – upgrading investors' trust in the Company's business, and thus, increasing investment appeal.

See the "Corporate Governance" and "Equity" sections for additional details.

Vadim Danilov

Chairman of the Board of Directors
Vadim Danilov was born in 1968 in Novosibirsk.

He graduated from the Novosibirsk Institute of Humanities, with a major in Economics.

As thanks for his services to the coal mining industry of the Kemerovo Region, he has received numerous medals and badges of honour from the regional Administration and industry associations.

Mr. Danilov's previous positions include the following:

1993 – 1999 – Deputy Director for Commerce, Vice President for Commerce, General Director of the RATM-Group.

2000 – 2001 – First Vice President, General Director of RATM-Energo.

2001 – 2004 – General Director of Coal Contract Corporation.

2006 – 2007 – Deputy General Director of the February Group.

Mr. Danilov was appointed the Deputy CEO of KTK in December 2002. In October 2008, he was elected Chairman of the Board of Directors of KTK.

Mr. Danilov is a minority shareholder of the Company, holding 15.6% of its shares.

Igor Prokudin

CEO, Member of the Board of Directors
Igor Prokudin was born in 1955 in the city of Mezhdurechensk (the Kemerovo Region).

He graduated from the Kuzbass Polytechnic Institute, majoring in Mining Engineering. In 2006, he received his Ph.D. in Economics, defending a thesis entitled "The Regional Industry's Strategy of Adaptation to Dynamic Economic Conditions in Coal Mining".

By a presidential decree issued by D.A Medvedev (March 2010), Mr. Prokudin was awarded the honorary title of Distinguished Miner of the Russian Federation. Mr. Prokudin's other awards include: numerous medals and badges of honour granted by the Administration of the Kemerovo Region and by industry associations for his services to the coal industry.

His previous positions include the following:

1973 – 1974 – assistant to the shovel operator at the Tomusinsky open-pit mine of the Kemerovougol Production Concern.

1982 – 1991 – mining work senior engineer, open pit mine chief process engineer, head of the mining allotment, deputy production director, Engineer-in-Chief at the Chernigovsky open-pit mine of the Kemerovougol Production Concern.

1991 – 1995 – First Deputy Head of the Administration of the Kemerovo Region.

1997 – 2000 – Deputy CEO, Vice President of the Kuzbassrazrezugol Holding Company.

In 2000, Mr. Prokudin became the Head of the Kuzbasskaya Toplivnaya Company State Unitary Enterprise. In 2001, he was named CEO of KTK and was elected as a member of the Board of Directors.

Mr. Produkin is the Company's majority shareholder, holding 50.001% of its shares.

ENERGY FOR GROWTH INVESTMENTS HIGH QUALITY

The Kaskad-2 washing plant is the main investment project implemented by the Company in recent years. In 2012, the Company successfully completed construction of the washing plant, and in Q1 2013, the plant was put into test operation. Together with the Kaskad-1 washing plant, which was launched in 2010, the new washing plant will produce high quality coal, allowing the Company to increase washed coal sales in Asian markets. It is expected that in 2013 the Kaskad-2 will produce approximately 3 mln tonnes of washed coal with a caloric value of 5,450-6,000 kcal per kg.

Coal Characteristics

Calorific value per kg	5,450-6,000 kcal
Ash	5.5-8%
Moisture	Up to 15%
Sulphur	0.3%

Our goal is to increase the production volume of high quality coal, with a high calorific value, to 68% of total production. As the coal calorific value directly impacts price and profit margin, an increase in the share of high quality coal, with a high calorific value, will positively influence the Company's profitability.

About the Plant

The Kaskad-2 washing plant is designed for producing high quality washed thermal D category coal. The incoming capacity of the washing plant amounts to 4 mln tonnes per annum of raw coal. Its hourly capacity stands at 600 tonnes. The washing plant includes two sections with completely independent working cycles. Each section's capacity is 300 tonnes per hour. The plant is remotely managed by an operator using integrated remote control in an automatic regime; the industrial TV system allows all processes to be controlled 24 hours per day. The cameras allow employees to watch the washing process.

Technologies and Equipment

An innovative technological solution that allows coal with a high ash content to be washed – mechanised sorting to the steeply-inclined separator – was implemented for the first time at the Kaskad-2 washing plant. After removal of the rock, the coal is distributed to washers according to the size of the coal. For the first time in Russia, new equipment is being used for the washing process – the Crossflow separator. To wash coal that is 2-6mm in size heavy medium cyclones or steeply-inclined separators (depending on ash content) are utilised. 6-150mm coal is traditionally held in the wheeled separator. Waste is filtered, dehydrated using filter presses, loaded in trucks and put in the waste dump.

Products

The volume of the finished products warehouse amounts to 5,000 tonnes or ten bunkers (eight bunkers for screenings and two bunkers for washed coal; these bunkers are equipped with a spiral loading system and allowed to retain the high quality of coal). Control over product quality is a key stage in the technological network. Automatic sample taking and the preparation of samples of coal meant for washing, as well as of all other products, is conducted prior to loading to rail cars.

The Kaskad-2 washing plant is designed and built as a high-tech enterprise that uses the newest achievements in the coal washing industry and automated process regulation. The Kaskad-2 plant has a flexible scheme for quality control, and the plant's products meet the most sophisticated customer requirements.

Technological Process

Stage	Description
1	Coal delivery from the Vinogradovsky open-pit mine to storage yards
2	Coal transportation from storage yards to the receiving bunker
3	The feed apron delivers coal to a crusher
4	1st washing stage: the steeply-inclined separator washes coal from rock and clay
5	2nd washing stage: the dense medium gravity separator turns primary coal into coal concentrate
6	Coal concentrate dehydration
7	Sorting and/or crushing
8	Coal is delivered to bunker type warehouses
9	Control over product quality
10	Coal loading to rail cars

ENERGY FOR GROWTH DEVELOPMENT INNOVATIONS

The Company's principal advantage is its ability to promptly adapt its strategy to current market conditions. Flexibility in a highly competitive environment guarantees success, as it ensures effective cost management.

Strategy Adjustments in Line with Falling Export Prices

The falling prices for thermal coal in the global market made 2012 a challenging year for thermal coal producers. Nonetheless, the Company succeeded in preventing a greater degree of negative impacts, by promptly undertaking proper measures. The market situation had a limited effect on the Company's strategic goals to improve the quality of its products, to develop the raw material base and to upgrade production facilities.

As the Company has no ability to influence export prices, the main profitable market is the domestic market with gross margins of 34% – a record set in Q4, 2012. Taking this into account, the Company decided to invest in the development of a retail network to ensure considerable domestic coal sales. In line with its market diversification policy, the Company sold 4.29 mln tonnes of coal in the domestic market, and exported 5.91 mln tonnes in 2012. In 2013, KTK plans to increase its domestic sales by 8%. This is in line with the Company's strategy to diversify domestic and export sales to ensure greater flexibility and stability.

2012 Cost Reduction Programme

Despite the growing cost of inputs, coal mining costs stayed at the 2011 level (USD 22 per tonne). The Company plans to maintain costs in 2013, even though a new coal processing facility will be commissioned. The Company has negotiated with all suppliers of coal mining services and materials, with the cost of all inputs and services falling 10-15% as a result.

The Company's long-term goals include:

1	Providing for thermal coal mining growth
2	Ensuring the extension of the Company's resource base
3	Upgrading the quality of the coal produced
4	Using innovative technologies
5	Developing innovative products
6	Developing coal transportation infrastructure
7	Maintaining and developing marketing competencies
8	Optimising costs and improving operating efficiency
9	Managing the credit portfolio efficiently
10	Improving corporate governance

In 2013, the Company's management team will proceed with implementing a large-scale cost reduction programme. At the beginning of 2013, the Company terminated its participation in KTK and replaced this with a long-term (2013-2018) service agreement for coal transportation with ZapSib-Transservis, a new owner of rolling stock. The undertakings granted to the new partner pursuant to the agreement include the monthly shipping of 5,000 rail cars minimum, covering 65% of the Company's total shipment volume. This resulted in a two-fold decrease in the renting cost of rolling stock, from RUB 1,300 to RUB 650 per rail car per day. As for costs related to the direction of shipments, these were reduced as follows: by 20% for deliveries to the Brest Station and by 5% for deliveries to the Nakhodka-Vostochnaya Station, which services the Vostochny Port. This will keep 2013 shipment costs around the 2012 level, despite the fact that the infrastructure component rose 7%.

"The Company has no influence over global coal prices. Therefore, we do what we can, meaning that we reduce the cost of coal mining and transportation.
Eduard Alexeenko
First Deputy CEO"

It is worth noting that the cost reduction programme had no effect on personnel costs. The Company is a socially responsible entity. This does not mean that personnel costs cannot be reduced, but this will be a last resort for the Company to cut costs. The Company has maintained its head count at the pre-crisis level, without any salary reductions. The collective bargaining agreement and the Company's obligations to personnel are strictly adhered to.

New Technical Policy

Despite the fact that prices fell as early as in the end of Q1 2012, the Company proceeded with its technical renovation programme, involving replacing outdated equipment with new advanced, heavy duty machinery. Furthermore, despite a pronounced 30% decrease in export prices in 2012, the Company finished the construction of the Kaskad-2 coal processing facility. The new facility will help cut mining costs and improve the efficiency of mining and transportation equipment, as the coal will not be mined selectively from seams, but instead whole seams will be mined, thus reducing mining costs.

2012-2013 Investments

In 2012, the Company invested RUB 3,847 mln in purchasing fixed assets, the highest level in the company's history. Key 2012 investment projects included: the construction of the Kaskad-2 coal processing facility, the construction of the POL storage facility, investments in railway infrastructure and the development of the retail network. All 2012 strategic plans have been fulfilled, allowing the Company to cut production costs and to enter new markets operating efficiently (even in the low price environment). The Company's main strategy lies in increasing mining volumes, while upgrading product quality. The construction of the Kaskad-2 coal processing facility in 2012 will enable the Company to ensure an explosive growth in high quality coal production at the same time that coal prices are expected to go up, and to satisfy growing demand for coal, while generating higher profits.

The commissioning of the coal processing facility represents the main part of the investment program, meaning that today the Company has no need to invest heavily to maintain the current coal mining level. Starting from 2013, the Company will invest only in maintaining currently operated equipment. The amount of investments will not exceed RUB 1 bn per annum, which is below depreciation costs. Nonetheless, the Company will proceed with extending its resource base and financing geological prospecting in the Bryansky area, where mining is planned for 2015 or 2016. The Company's long-term plans include investments in purchasing new licences.

Having adjusted the 2013 Investment Programme in line with global coal market price dynamics, the management of KTK decided not to abandon any of its key strategic priorities, namely the following:

- Financing work related to the Kaskad-2 washing plant;
- Purchasing production and auxiliary equipment, including the P&H shovel and 6 BelAZ mining trucks;
- Finishing geological prospecting work and accomplishing design work at the Bryansky open-pit mine;
- Developing the retail network and marketing infrastructure in the Altai Region;
- Modernising production infrastructure, including: the construction of a crushed stone production facility, which will contribute to cutting costs related to the purchase of tires for production equipment;
- Other investment projects include: deepening one of the existing open-pit mines and purchasing a promising licence for an area in the direct vicinity of existing mining facilities.

"We purchased and put into operation one more P&H shovel this year, together with a set of stripping equipment, to increase the efficiency of stripping operations and to lower the prime cost of coal.
Anatoly Poklonov
Technical Director"

The operations of KTK are prone to numerous risks. Below major risks are listed, as well as related risk management measures to provide for a comfortable level of confidence in achieving strategic and operational goals and protecting stakeholders from possible damages.

Financial Risks

The measures taken by the Company to control its financial risks include: continuous monitoring and analysing the financial market situation, and making prompt managerial decisions based on analysis, such as: reviewing the funding structure, cost optimisation, investment review and the optimisation of accounts receivable.

Changes in the interest rates

An increase in the interest rates expressed in the growing cost of debt financing may negatively affect the Company's solvency and liquidity, and will diminish the amount of credit available to the Company in future. The overall increase in interest rates in the economy leads to an increase in costs related to servicing the Company's current loans.

In case the risk of increased interest rates is realised, the Company may seek more favourable sources of credit abroad. As for the majority of current credits, the Company has insured itself against the risk of interest rate increases by concluding agreements with fixed interest rates. In addition, the Company exercises strict control over its net debt/EBITDA ratio.

Ruble exchange rate fluctuations

Ruble exchange rate fluctuations may affect the Company's financial performance considerably due to the fact that the major share of the Company's revenue is generated by the export markets, meaning foreign currency.

The negative effect of the sharp drop in the exchange rate is partly compensated for by the lower cost of loans, 56% of which are denominated in foreign currency.

Inflation risks

Inflation risks may influence the growth of the Company's prime costs. They also may diminish the purchasing power of the national currency. Said risks may present obstacles in the way of successfully implementing the Company's investment and production programmes.

In the case of a pronounced increase in inflation, the Company may decrease the value and the term of its accounts receivable.

Operational Risks

Risks associated with man-made accidents, catastrophes and injuries

Coal mining involves the operation of hazardous production methods used for open-pit mining. Despite the fact that the Company adheres to all norms and regulations for industrial and labour safety, man-made accidents and injuries cannot be excluded, although their probability is much lower when compared with facilities engaged in underground mining.

The Company's operations are carried out in strict compliance with designs developed by specialised design organisations. The Company's organisational structure includes: departments responsible for compliance with safety rules and the accomplishment of fixed-route checks. The Company provides personnel training and medical examinations in accordance with terms set by law.

The Company insures its production personnel against accidents. The Company also insures its own responsibility as the operator of a hazardous production process against any harm done to third parties as a result of an accident on site.

Risks associated with current legal actions with the participation of the Company

Presently, the Company is not involved in any legal action that may result in considerable costs or affect the Company's operations, but such possibility cannot be excluded.

Due to changes on the market, the Company had to negotiate the termination of numerous agreements. The Company's legal department did its best to settle these problems in an amicable manner.

Legal Risks

As the Company operates on the territory of the Russian Federation, it is prone to risks associated with changes in currency exchange regulations, taxation, anti-trust law and customs control and licensing rules.

Changes in currency exchange regulations

The Company's operations may be influenced by any changes in Russian currency exchange regulations.

To prevent possible risks, the Company's legal department monitors the situation for possible changes in currency exchange regulations.

Changes in taxation

Possible changes in taxation may result in increasing the Company's tax burden, thus decreasing net profit and cash flow.

To prevent the risks in question, the Company carries out tax planning and monitors tax laws.

Changes in customs control and duties

As the coal produced by the Company is exported, the Company's activities are subject to customs regulations. Therefore, there is a risk of changes in custom control and duty rates.

To prevent the risks in question, the Company monitors customs laws.

Changes in licensing requirements

In the opinion of the Company, the risks of changes in the requirements concerning the natural resources licensing are minimal.

The Company has all the licenses required for the operations. In case of changes in the requirements concerning the licensing of the Company's operations, or the right to use natural resources, the Company will do its best to comply with the new requirements.

Industry Risks

The Company's main industry risks are associated with a possible general decline in the coal industry.

Falling coal prices in the global and domestic markets

The prices and demand for coal in both the domestic and export markets depend on numerous factors and directly influence the Company's financial condition.

Due to its geographic diversification strategy, KTK is capable of changing its sales structure on an ongoing basis. The Company's response to a decrease in export coal prices in 2012 involved a growth in sales on the domestic markets and a decrease in re-sales of coal purchased from third-party producers. The Company also modified its product line in favour of more expensive high grade coal. Furthermore, the Company adjusts its investment and production programmes, the adjustments, including a complete "freezing" of certain programme aspects, continues until the onset of more favourable market conditions.

State-regulated prices for utilities using coal (electricity and heat)

The State control of prices for coal end-consumer products (housing and utility and energy production companies) results in curtailing the growth of prices for coal produced by the Company.

The Company diversifies the industry structure of coal sales. The commissioning of new coal processing facilities will contribute to a growth in the share of coal sold to consumers not related to the power industry. The Company also attaches great importance to developing its retail sales network.

Falling prices for alternative fuel

The falling prices for gas as an alternative fuel for energy production may considerably undermine the price competitiveness of coal, lowering the demand and/or prices for end consumers for coal.

The Company is unable to exert any direct influence on gas prices, but the prime cost of coal produced by the Company is one of the lowest in the world and the Company is proceeding with a set of measures to decrease the per tonne prime cost to maintain the price competitiveness of its products.

Sharp increase in coal transportation costs

Railway tariffs and rail car rental rates are the major components of the prime cost of coal. The payment for the use of railway infrastructure makes up 60-70% of coal transportation cost, with railway tariffs being beyond the Company's influence, as they are set by the Russian Government. The payment for the use of railway cars makes up 30-40% and this component can be controlled by the Company.

Despite the low prices for coal in 2012, the Russian Railways Corporation increased the infrastructure component of the railway tariff by 7%, thus taking away one of Russian coal's major advantages in the export market. In response to the situation, KTK decided to sell its own rolling stock to cut rail car renting costs by half, while keeping coal transportation costs at the 2012 level, despite the increased infrastructure component of the railway tariff.

Increasing resource prices

Increasing input prices, including for fuel, results in higher mining costs.

The optimisation programmes intended to reduce the consumption of diesel fuel allow the Company to better control fuel consumption. The purchase of fuel is accomplished via a tender for the lowest fuel prices.

Deficit of transportation infrastructure facilities

A deficit of transportation infrastructure facilities involved in the transportation of coal to consumers may limit planned coal mining growth.

The Company invests in the modernisation of its own railway infrastructure. 2012 was marked by the completion of stage 3 of the Uba Station, thus increasing the Station's throughput capacity to 16.7 mln tonnes.

Growing competition within the industry

The coal industry is competitive. Due to the high cost of coal production, no significant growth in the number of industry players is expected. Today, the Company's major competitors include: SUEK, Kuzbassrazrezugol and SDS, among others.

The Company's competitive advantages include the following:

- The Company's standing for many years as a reliable coal supplier;
- Geographical and product diversification of the Company's business;
- Low prime cost of production;
- Highly efficient production based on the use of advanced equipment and the implementation of up-to-date technologies;
- The Company's own railway infrastructure;
- The Company's high information transparency, compared with its competitors.

Country and Region Risks

The Company's production activities are concentrated in the territory of the Kemerovo Region, the Russian Federation. Therefore, they are prone to risks associated with situations in the Region and in Russia, as a whole.

Russia is a part of the global economy, and negative changes in foreign economies and in the world's commodity markets (including oil, gas and metals) may affect the Russian economy, undermining its economic performance. This in turn can affect the Company's performance indicators, as any negative impacts may limit potential customers' demand for the Company's products and/or reduce coal prices. This in turn will limit the Company's ability for borrowings at attractive interest rates and in the required amounts.

The Company's management of country and region-specific risks is tasked with diversifying the marketing geography. The geographic diversity of consumers for the Company's products minimises the possible negative consequences of economic risks in any single market.

The Company's sales are evenly distributed among markets of the Russian Federation, Asia and Eastern Europe. Inter-regional diversification on the domestic market is also growing, although West Siberia is still the leading consumer. The Company's ability to flexibly change the geography of coal shipments allows for an adequate response to global market dynamics, protecting the Company against possible regional crises.

ENERGY FOR GROWTH EXPANSION PRODUCTION

Holding Structure

Production

The Karakansky-South open-pit mine	The Vinogradovsky open-pit mine	The Cheremshansky open-pit mine	The Bryansky open-pit mine

Retail and export sales

CJSC Kaskad Management Company (export sales)	100%
OJSC Kuzbasstoplivosbyt (wholesale & retail coal sales in the Kemerovo Region)	100%
LLC Transugol (wholesale & retail coal sales in the Omsk Region)[1]	52.04%
OJSC Altai Fuel Company (wholesale & retail coal sales in the Altai Region)[1]	51%
LLC Novosibirsk Fuel Corporation (wholesale & retail coal sales in the Novosibirsk Region)[1]	51%
LLC KTK Poland (wholesale and retail sales in European markets)	100%

Transportation, energy and real estate

LLC Meret Freight Forwarding Company (railway freight company)	100%
OJSC Kaskad-Energo (heat and power producer)	100%
LLC Kuzbass Transport Company (united railway freight company)[2]	49.98%
LLC Kaskad Geo (land management)	100%

1 These companies are not-for-profit centres and are co-owned by our regional partners.

2 The company was sold after the reporting date in Q1 2013.

For more about Kascad-2 see pages 12-13

For more information visit: **www.oaoktk.ru/en**

Operating Results Review

For 2012, the level of coal production remained at the 2011 level and totalled 8.71 mln tonnes. The volume of high-quality coal produced by the Kaskad-1 washing plant (from production waste) amounted to 0.81 mln tonnes, which is 9% higher than in 2011. Due to Russian and foreign clients' increased demand for sorted coal, the volume of coal sorting increased 3% compared with 2011 and amounted to 5.75 mln tonnes. The growth in production for coal products with high added value is very important. Sorted coal is in very high demand amongst the population; it is sold through the Company's retail network in Eastern Siberia, as well as through partner retail networks in Poland. In 2012, the total share of processed coal products in the Company's production increased from 72% in 2011 to 75% in 2012. The volume of stripping, the blasted rock mass and the stripping ratio dropped 3% due to the optimisation of expenses and the cancellation of services provided by outside contractors. In 2012, the share of production expenses within the net cost amounted to 31%.

The average monthly labour efficiency for employees involved in coal production amounted to 398.2 tonnes per employee per month; this compares favourably with the average indicator for the Kuznetsk Basin's coal industry which was 205.9 tonnes.

The Company plans to continue increasing labour efficiency and to reach around 10.2 mln tonnes of coal production volume in 2013 or 2014; this will be 1.5 tonnes more than in 2012. Moreover, the share of washed high calorific coal will grow.

Mineral Resources Base

The Company is focused on further production growth, an increase in operating efficiency and an improved quality of coal for sale.

Open-pit Coal Mines

Since it was founded in 2000, the Company has put into operation three open-pit mines that function as an integrated technological complex, with an annual design capacity of 11 mln tonnes of coal:

- The Karakansky-South open-pit mine that includes three licensed properties (The Karakansky-South, The Karakansky-South 1 and The Karakansky-South 2);
- The Vinogradovsky open-pit mine, which consists of two licensed properties (The Vinogradovsky and The Vinogradovsky 2);
- The Cheremshansky open-pit mine, which consists of one licensed property (The Cheremshansky).

The Company plans to develop the Bryansky open-pit mine with a design capacity of 3-5 mln tonnes towards the end of 2015; currently, geological operations are being conducted in the mine.

Production Infrastructure

Apart from open-pit coal mines, KTK's technological complex includes:

- Coal storage yards with mobile sorting facilities;
- The Kaskad-1 washing plant with a 2 mln tonnes per annum coal input capacity;
- The Kaskad-2 washing plant with a 4 mln tonnes per annum coal input capacity;
- The administration complex;
- A unified mining equipment park and a vehicle park;
- A mechanised repair centre and maintenance facilities;
- Railroad infrastructure owned by Meret Freight Forwarding Company, a corporate subsidiary;
- Energy infrastructure owned by Kaskad-Energo, a corporate subsidiary.

Coal production dynamics

Mln tonnes	2012	2011	Change
Coal production	**8.71**	8.73	–
Coal sorting	**5.75**	5.56	3%
Coal washing	**0.81**	0.74	9%
Stripping, mln cubic metres	**66.27**	68.12	-3%
Blasted rock mass[3], mln cubic metres	**31.85**	32.79	-3%
Stripping ratio[4]	**7.60**	7.80	-3%
Average distance of stripping transportation, km	**3.00**	2.88	4%

3 As part of stripping.

4 Produced coal's mass/stripping volume ratio.

Reserves in-place

	The Karakansky-South open-pit mine	The Vinogradovsky open-pit mine	The Cheremshansky open-pit mine	The Bryansky open-pit mine
Design capacity, mln tonnes	3	3	5	3-5
Reserves of A+B+C1 category, mln tonnes	31.5	122.0	136.4	
Reserves of C2 category, mln tonnes			18.3	250.2

Characteristics of extracted coal

	Coal features				
Open-pit mine	Kcal/kg	Ash	Moisture	Sulphur	Nitrogen
The Karakansky-South open-pit mine	4,900-5,300	13-15%	14-17%	0.27-0.30%	1.8-2.2%
The Vinogradovsky open-pit mine	4,900-5,500	14.5-18%	14-17%	0.27-0.30%	1.8-2.2%
The Cheremshansky open-pit mine	5,100-6,000	17%	12.5-15%	0.50-0.80%	1.8-2.2%

Characteristics of operating open-pit mines

	The Karakansky-South open-pit mine	The Vinogradovsky open-pit mine	The Cheremshansky open-pit mine
Design capacity, mln tonnes per year	3	3	5
Stripping technologies	Mixed (transport and non-transport technologies)	Transport technology	Transport technology
Distance of transportation for stripping, km	1.9	3.3	2.7
Distance of transportation for coal to storage, km	4.7	2.6	2.9

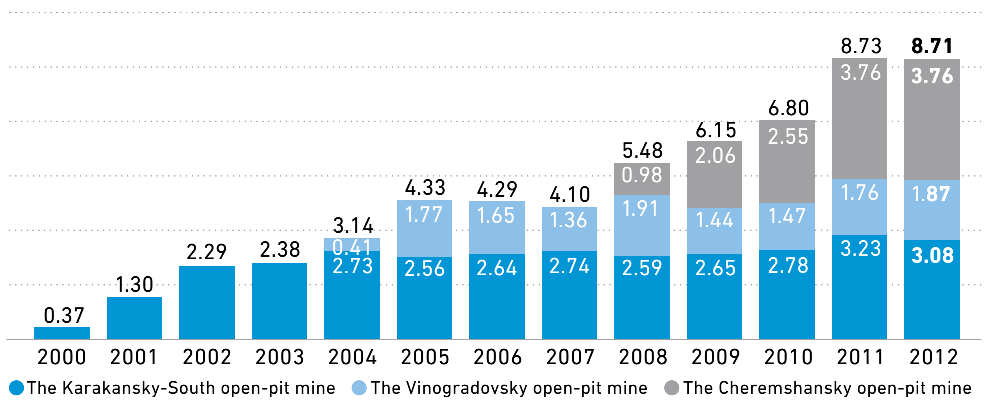
Production structure according to the open-pit mines

Mln tonnes	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
The Karakansky-South open-pit mine	0.37	1.30	2.29	2.38	2.73	2.56	2.64	2.74	2.59	2.65	2.78	3.23	**3.08**
The Vinogradovsky open-pit mine	0.00	0.00	0.00	0.00	0.41	1.77	1.64	1.36	1.90	1.44	1.47	1.76	**1.87**
The Cheremshansky open-pit mine	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.98	2.06	2.55	3.76	**3.76**
Total	0.37	1.30	2.29	2.38	3.14	4.33	4.28	4.10	5.47	6.15	6.80	8.73	**8.71**

“Owing to the launch of the new Kaskad-2 washing plant, with a 4 mln tonnes per annum input capacity, which will allow for the production of coal with not more than 8-10% ash and a 5,500-6,000 kca/kgl calorific value, we will be able to provide new high quality products to our consumers. Our main production task is to focus on our consumers.

Anatoly Poklonov,
Technical Director”

Production structure by open-pit mine (mln tonnes)



Mining Equipment Fleet

In 2012, the Company purchased 15 shovels, 27 trucks, 12 dozers, 6 loaders and three graders. Expanding the mining equipment fleet will allow the Company to independently carry out stripping mining, without contractors.

Currently, the Company's transport equipment fleet includes: four draglines, 37 shovels, 115 trucks, 32 dozers, 40 loaders, four drill rigs, and seven graders that are used by the Company at all of its open-pit mines.

In 2013, the Company plans to invest in the overhaul of fixed assets and to acquire new mining and transport equipment, in particular, one P&H shovel and six BelAZ trucks.

	2011	**2012**	2013 (planned)
Shovels	22	37	1
Trucks	88	115	3[1]
Dozers	20	32	
Loaders	34	40	
Drill rigs	4	4	
Graders	4	7	
Draglines	4	4	

1 Three out of six trucks planned to be purchased in 2013 were actually bought in 2012 and are included in the table as having been acquired in 2012.

Meret Freight Forwarding Company

For a coal producing company, it is important not only to extract coal, but also to deliver it to consumers. Thus, the development of transport infrastructure is one of the Company's strategic directions.

Meret Freight Forwarding Company is a corporate subsidiary of KTK, which has a developed transportation infrastructure, including its own railroad network with 90 km of approach lines, and a locomotive fleet with 13 locomotives, which can transport 12 mln tonnes of coal per annum.

In 2012, in compliance with Russian Railways' technical specifications, the Company completed the third stage of construction of the Uba station; the contact network and illumination over six of receiving-and-departure tracks of the stations. This allowed for an increased volume of loaded coal from 500 to 700 rail cars per day, representing an increase in the station's traffic capacity from 12 to 17 mln tonnes. It is possible to increase traffic capacity up to 20 mln tonnes per annum, and the Company plans to achieve this target when appropriate.

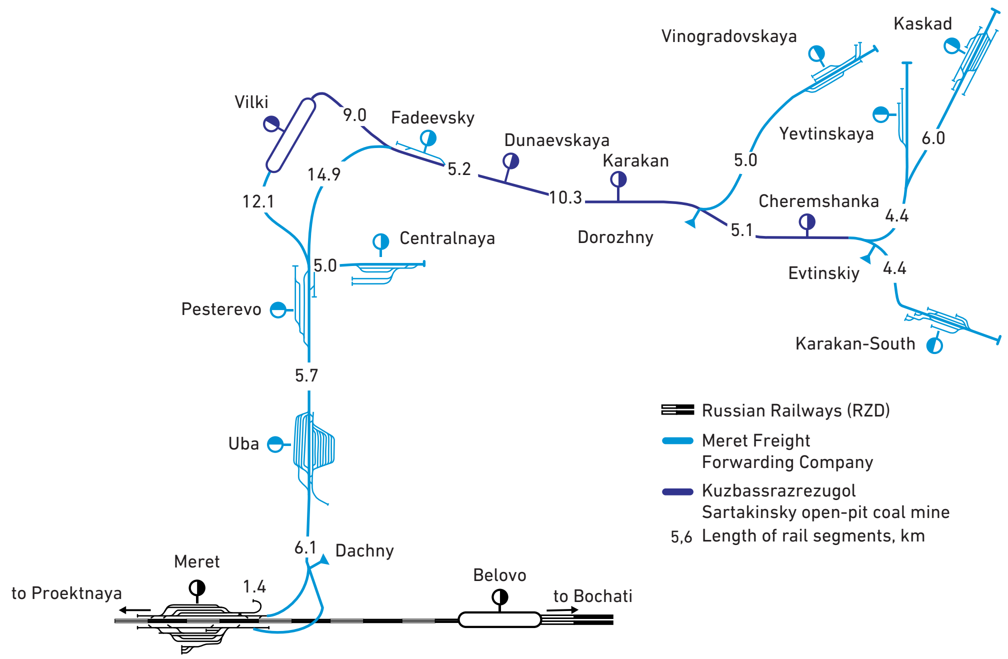
In February 2013, KTK sold its stake in Kuzbass Transport Company and signed a long-term contract for coal transportation (for the 2013-2018 period) with ZapSib-Transservice, the new owner of a rail car fleet; this halved expenses for the rail car fleet.

Washing Plants

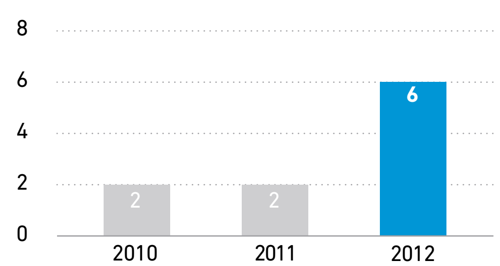
The Kaskad-1 washing plant, with a 2 mln tonnes per annum coal capacity, operates using a steeply-inclined separation technology and processes raw coal and stripping and high ash coal, such coal was previously dumped, and the plant produces high quality washed coal. In 2012, the Plant produced 0.81 mln tonnes of export quality coal. In 2011, the Company began building a second washing plant, the Kaskad-2, with a 4 mln tonnes per annum input raw coal capacity.

In Q1 2012, the Kaskad-2 plant was put into operation; it is planned that the plant will reach its design capacity in the beginning of Q2 2013. The washing plant is an innovative facility designed and built in compliance with global environmental standards. Coal washing is based on a technology of simultaneous steeply-inclined and dense medium gravity separation; this is an innovation not only in Russia, but internationally as well. The construction of the washing plants of KTK has been completed in a very short time when compared to projects of a similar scale, in this case of Kaskad-1 and 2 completion took only 1-1.5 years.

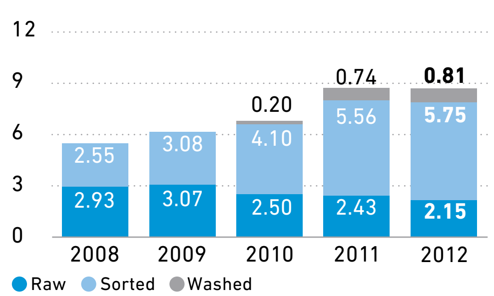
Railway schemes for coal companies located near the Meret and Belovo, Russian Railways' stations



Total capacity of washing plants (mln tonnes)



Coal production by type (mln tonnes)



Specifications of the Company washing plants

	The Kaskad-1	The Kaskad-2
Launch	2010	2012
Input capacity	2 mln tonnes	4 mln tonnes
Calorific value of coal produced	5,300-5,750 kcal/kg	5,450-6,000 kcal/kg
Technology	Steeply-inclined separation	Steeply-inclined + dense medium gravity separation

ENERGY FOR GROWTH RELIABILITY HIGH QUALITY

"The main aim of our sales strategy is to diversify by both markets and regions."
Ivan Gepting
Deputy CEO for Sales

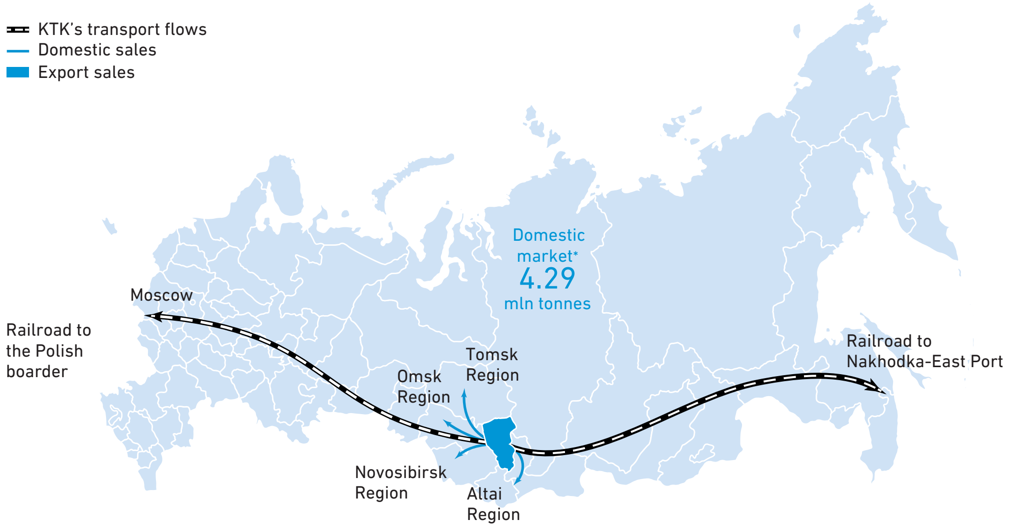
Sales strategy

Initially, KTK developed as an enterprise focused primarily on retail sales with a small share of wholesale deliveries, mainly in the Siberian Federal District. As coal mining volumes increased, the Company began export sales to diversify its markets. This strategy also allowed the Company to receive a price premium on high-quality coal, which is in demand abroad. Thus, the Company was able to continue strengthening its position in the more stable domestic market. This strategy helped the Company mitigate the negative effects of a considerable drop in energy coal prices on global markets in 2012.

Commercial results overview

In 2012, the total volume of coal sold by the Company amounted to 10.2 mln tonnes, out of which 8.51 mln tonnes were produced by the Company, and 1.70 mln tonnes were re-sold after being purchased from other coal producers. The Company supports a diversified sales structure, which is balanced between domestic and export markets: in 2012, about 42% of the total sales volume was sold on the domestic market, and approximately 58% was exported, primarily to Eastern Europe and the Asia Pacific Region region.

Distribution of sales in 2012



* Sales in 2012

Coal Sales

	2012	Share	2011	Change
Coal sales[1], (mln tonnes), including.	**10.20**		10.66	-4%
Export	**5.91**	58%	6.45	-8%
Domestic market	**4.29**	42%	4.21	2%
Own coal	**8.51**	83%	8.59	-1%
Coal re-sale	**1.70**	17%	2.08	-18%
Average sales price, RUB/tonne[2]	**1,294**		1,228	5%
Average export sales price, RUB/tonne	**1,307**		1,237	6%
Average domestic sales price, RUB/tonne	**1,276**		1,213	5%

1 For the Group of companies, incl. coal re-sale
2 Excl. railway tariffs and VAT

The coal sales volume in 2012 decreased by 4% to 10.20 mln tonnes (2011: 10.66 mln tonnes). The decrease in sales volume was caused by weakening demand in the export markets which reduced export deliveries 8% to 5.91 mln tonnes of coal in 2012 (2011: 6.45 mln tonnes). Coal sales in the domestic market grew 2% to 4.29 mln tonnes (2011: 4.21 mln tonnes). The share of export sales in total sales decreased from 61% in 2011 to 58% in 2012.

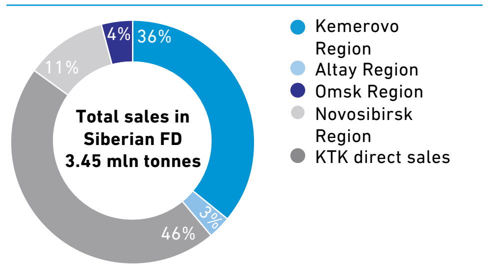
The average sales price of coal in 2012 was RUB 1,294 per tonne, which is 5% higher than in 2011 (RUB 1,228). The average domestic sales price (excl. VAT and railway tariffs) increased 5% and reached RUB 1,276 per tonne (2011: RUB 1,213). The average export sales price in 2012 stood at RUB 1,307 per tonne, which is up 6% from 2011 (RUB 1,237).

The domestic market and the retail network

The Company's strong position in the Russian regional market is due to well-developed retail networks in the Kemerovo, Novosibirsk, Omsk and Altai Regions. As of January 1, 2012, the Company's sales network totalled 70 points of sale, accounting for 3.45 mln tonnes of coal sales in 2012. This made the Company one of the key coal suppliers to retail buyers in Western Siberia.

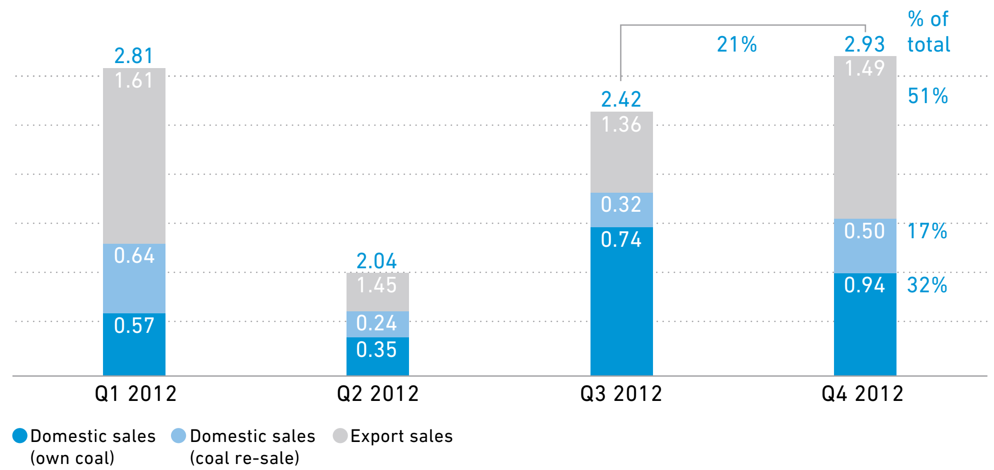
For all retail subsidiaries, the profit centre is KTK, which owns controlling stakes in its subsidiaries. The retail sales network is a unique asset that offers coal sales to the population, and municipal and regional organisations, as well as to housing and utility enterprises. The driver of rapid growth in the sales network was the need for regions of Western Siberia to have a stable supplier of quality coal, rendering a full range of sales services and delivery to consumers, and also having the necessary resources to satisfy additional demand that arises during very cold winters. The Company has offered the retail market a new product. Since 2008, the Company has started selling sorted coal that is more appealing for consumers than raw coal, which is widespread in the market.

2012 Sales Structure in the Domestic Market[3]
(mln tonnes)

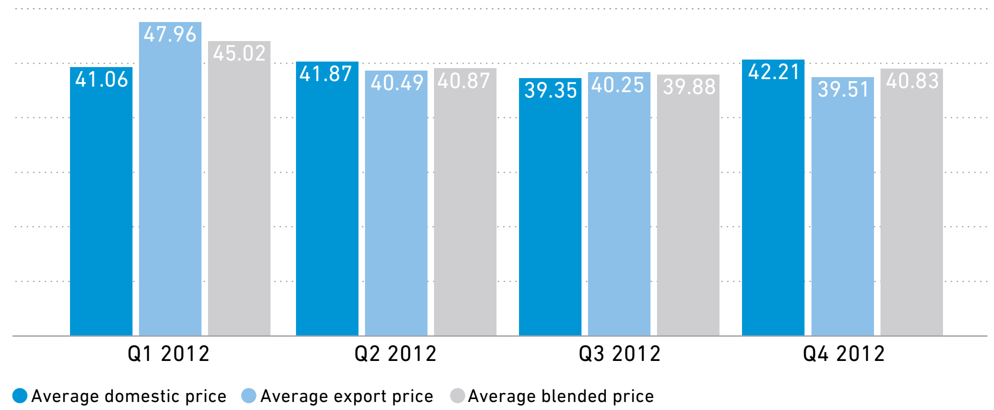


3 including coal re-sale

Sales Volumes in the Internal and External Markets by Quarters
(mln tonnes)



The Average Sales Price for Company Coal by Quarter[4]
(USD/tonne)



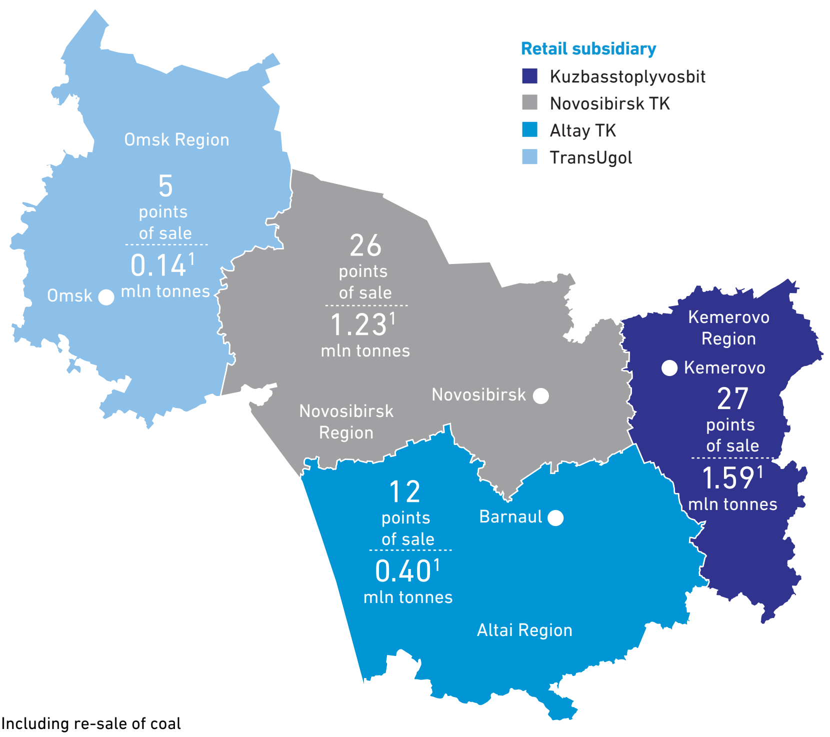
4 The average sales price per tonne excl. VAT and railway tariffs; prices are indicated in USD and are calculated using the Russian Federation's Central Bank average exchange rate for each period, Q4 2012: 31.08 RUB/USD, Q3 2012: 32.00 RUB/USD, Q2 2012: 29.39 RUB/USD, Q1 2012: 30.03 RUB/USD

Now, each point of sale in the retail network offers both raw and sorted coal, which has started enjoying widespread popularity among the Russian population, despite its higher price. The Company's retail network is the largest in Western Siberia. In this District, the Company's clients number more than 400,000 households and more than 1,000 legal entities and municipalities. The Company plans to expand its retail network in the regions where it is already present and also plans to develop sales in adjacent regions based on cooperation with third-party companies (that are already engaged in the coal trade).

Retail Network

Besides selling its own coal, the Company buys coal from: SUEK, Kuzbassrazrezugol and other large coal companies of Kuzbass and sells this coal on through its retail network. The sales of purchased coal gives the possibility to build a more flexible system of sales and smooths fluctuations in production and own coal sales during the year. Besides, purchased coal gives the Company additional sales volume to maintain its leading position in Western Siberia, at the same time allowing it to sell its entire volume of own high-energy coal on the export markets.

The Company's Retail Network in Western Siberia



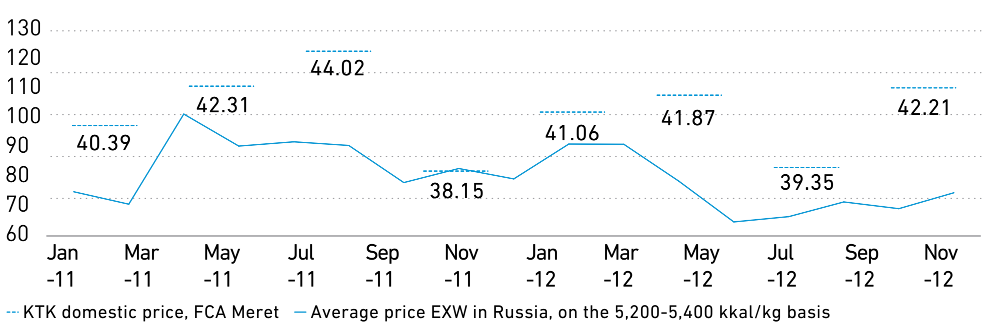
1 Including re-sale of coal

Sales subsidiaries

Sales subsidiaries	The Company's share	Region of sales
Kuzbasstoplivosbyt	100%	Kemerovo Region
TransUgol	52.04%	Omsk Region
Novosibirsk Fuel Corporation	51%	Novosibirsk Region
Altai Fuel Company	51%	Altai Region

The Company Domestic Prices versus the Price Index[2] for Russian Coal

(USD/tonne)



2 Source: Metal Expert

Coal exports

The Company exports to countries in the Asian Pacific Region and Eastern Europe. From 2007 to 2012, the share of exports in the Company's total sales increased from 28% to 58%.

The key export markets are: Poland, China and South Korea. In 2012, the company opened a subsidiary in Poland. This subsidiary is not only carrying out a role as the Company's representative, but is also an agent that directly works with the Polish energy market. During its first year of operations, the subsidiary has passed its formation stage and now participates in tenders to supply coal to Polish energy companies. Over the last 5 years, sales to China and South Korea have been carried out through the leading international trader Glencore International AG.

Consumers of coal exported to Asian Pacific Region countries are generally energy companies and cement producers, while in Poland – the majority of customers are retail consumers of sized coal.

Due to increased production volume and quality improvement in washed coal, the Company plans to enter new export markets – Singapore, Hong Kong and countries of Western Europe, which have traditionally had the greatest demand for consumed coal.

"After launching the Kaskad-2 washing plant, we have changed our product portfolio. This gave us a chance to enter markets where we had not previously been present – in the Far East and in countries of the Asian Pacific Region – Japan and Taiwan.

Ivan Gepting
Deputy CEO for Sales"

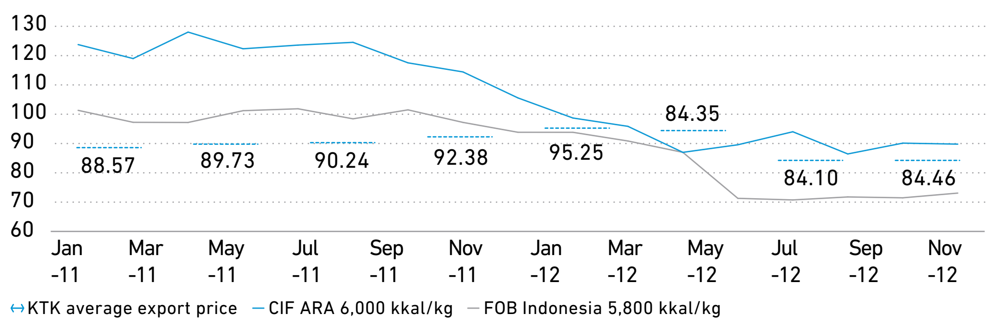
Calorific value requirements of coal in key export markets

Market	Calorific value, kcal/kg
Poland	5,300
China	5,500
South Korea	5,500
Taiwan	5,300 – 5,500
South Korea (premium segment)	5,500 – 5,700
Taiwan (premium segment)	5,500 – 5,700
The Czech Republic	5,500 – 5,700
Germany	5,700 – 6,000
Japan	6,000

The Company believes that more flexible organization of deliveries, the readiness to deliver coal according to each client's needs and its reputation as a stable and reliable seller will help it occupy a market niche and will also lead to steadily higher demand for all volumes of export coal. The new product which has appeared in the Company's product line after commissioning the new washing plant, washed coal with 5% ash and a combustion heat of 6,000 kcal/kg, can be sold as thermal coal and also as raw material for non-power industries.

The Company[3] Export Prices versus International Indices[4]

(USD/tonne)



3 The average sales price per tonne, incl. railway tariffs

4 Source: Argus

›ENERGY FOR GROWTH ›ASSESSMENT ›RESPONSIBILITY›

Corporate social responsibility is one of the priorities of KTK. In its activities, the Company strictly follows key social responsibility principles to provide for industrial safety and environmental protection, to promote social and economic development in the region where it operates, and to professionally develop and support its employees.

Environmental Protection and Ecological Safety

Environmental protection is always the most painful issue for mining companies, which affect terrain relief and the neighbourhood landscape. This is an unfortunate consequence of open-pit mining. However, open-pit mining has numerous advantages compared with underground mining. In particular, open-pit mining is safer, it is less labor-intensive, and consequently, it allows for higher productivity. And if we evaluate the combined environmental impact of surface mining, according to research conducted in Kuzbass, environmental damage from underground mining is much more significant than from open-pit mining.

To reduce damage to the regional environment, the Company is taking measures to minimise the negative impact of production processes. In accordance with the project, specific environmental practices have been identified for each of the three open-pit mines. It is commonly known that in the Russian Federation a company has to pay for utilisation of natural resources. The Company is using explosions, discharges insufficiently treated water (because there is no treatment technology for some components), and reimburses the government for environmental damage. There are standards for air emissions and discharges to water body that have been agreed upon with the appropriate regulatory agencies, in particular fishing control, and according to these documents, inflicted damage is minimum-permissible. Air emissions and discharges to water bodies have been decreased, the scope of blasting work has been reduced, and storm runoff treatment has been launched in the area of the Karakansky-South open-pit mine and the quality of coal used in boilers has improved since 2011. As a result of these measures, respectively, environmental charges have been reduced and stood at approximately RUB 34 mln for 2012.

KTK is an advanced environmentally-responsible company which uses an integrated approach to environmental activities. In designing and constructing facilities, the Company has created an infrastructure which is based on environmental protection measures and water protection legislation. Unique treatment facilities with nine degrees of purification, closed-cycle and an increased level of environmental performance (one of them has already been put into operation in the area of the Vinogradovsky open-pit mine in 2011) will be launched into operation at each of our open-pit mines within the next five years. Discharged water is purified to almost potable quality, is further returned to the environment and is used to feed processing plants. These stations do not yet have analogues in Russia. Currently, commissioning and start-up work is underway at the Kaskad-2 processing plant. It will operate in conjunction with the existing Kaskad-1 plant on the basis of the latest technology, with a water-slurry closed-cycle, which completely excludes the possibility of technical and wastewater discharge into rivers, lakes and groundwater.

In 2012, the Company transferred part of the enterprise's territory to scientists to create the Karakansky bio-sphere reserve. In 2013, the Company will allocate funds in the amount of RUB 20 mln to implement environmental protection measures and create the nature reserve. Thus, a unique natural zone of the Kuzbass, with all its flora and rare wildlife (including: mining bees, Parnassians, pale harriers, falcons and marmots living in the Karakansky Ridge) will be preserved for future generations.

“One of the most important tasks of our Company is to prevent nature from being damaged during the production process. We are willing to invest in this noble cause.”

Igor Prokudin
CEO

Occupational and Industrial Safety

The Company's management team has identified occupational and industrial safety as its most important priorities. To resolve this problem, the 2013 Program aimed at upgrading working conditions and enhancing industrial safety has been developed. The Program has to be adjusted and finalised in 2013, but it is already obvious that technical re-equipment is one of the key factors in improving employee working conditions and workplace safety.

More information on our CSR activities is available at: www.oaoktk.ru/en/company/responsibility/

“I have been directly instructed by the CEO to organise work in such a way as to prevent injury and accident cases in all Company-operated enterprises – not only at the open-pit mines, which are part of KTK, but in all Company subsidiaries.”

Anatoly Poklonov
Technical Director

Last year, the total accident rate fell 30% compared with 2011. The Company achieved this success due to increased productivity and improved production performance which resulted in an improved job climate, which, in turn, reduced the risk of industrial injuries.

In addition, last year, production was reconstructed by replacing mining and transport equipment. The acquisition of a batch of mine dump trucks with heavy-duty capacity increased labour productivity, which respectively reduced the number of employees engaged in dangerous processes and work in extreme conditions. All that, as well as staff and management work, minimises injury cases. 2011 statistics included an event which is not associated with production: a bus carrying corporate employees had an accident on a public road in heavy traffic conditions. Despite the fact that this was due to no direct fault on the part of the Company, we believe that it is still our mistake. To avoid such incidents, numerous measures, including replacing the contractor who had provided these services to the Company, were undertaken. These measures resulted in a reduction in the injury rate in 2012.

The Company's special services that are engaged in occupational safety are responsible for ensuring compliance with safety rules, conducting staff training, carrying out regular medical check-ups and pre-trip check-ups and monitoring workers' health. Personnel are insured against accidents. The Company's third-party liability as the owner of a hazardous facility against injuries resulting from an accident at a hazardous facility is insured against. The Occupational Safety and Health Service monitors compliance with job safety standards. The Company's Technical Director Anatoly Poklonov is responsible for this.

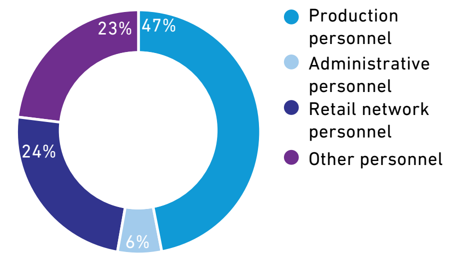
This year, the Company faces the task of further reducing the number of accidents. From our point of view, every case is an egregious one, and our goal is to prevent even a single case of an injury and/or occupational accident.

The Human Resources Management System

Headcount and Wages

At the end of 2012, the Company employed 4,261 people, a 4% increase compared with 2011. The number of production personnel stood at 1,988, also a 4% increase. Production personnel account for 47% of the Company's total employees.

The share of personnel in the Company

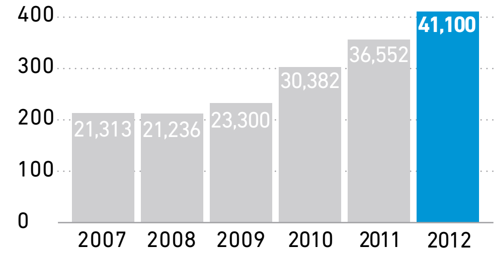


	2011	2012	Change
Production personnel, including:	1,914	**1,988**	4%
Mining	1,743	**1,766**	1%
Processing	171	**222**	30%
Retail network personnel[1]	1,025	**1,035**	1%
Administrative personnel	259	**278**	7%
Other personnel[2]	917	**960**	5%

1 Including personnel of Kuzbasstoplivosbyt, Altai Fuel Company, Transugol, and Novosibirsk Fuel Corporation

2 Including personnel of TEK Meret, Kaskad-Energo, New Network Company, Management Company Anzherskaya, MC Kaskad, Kaskad Geo, and KTK Consulting

Average Wage in KTK (RUB)



To attract new employees and retain existing ones, the Company maintains a high wage level for the region and carries out a policy to motivate its employees via both social guarantees and financial pay-outs.

In 2012, on average for the Group, personnel costs increased 13% compared with 2011 and reached RUB 41,100 per employee.

The Remuneration System and the Social Package

The Company has adopted a tariff remuneration system, which helps to differentiate the wages of different categories of employees, depending on conditions, labour intensity, the nature of work performed and its complexity. The tariff remuneration system is based on:

- tariff rates and tariff-qualifying characteristics for work and trade workers;
- salary schemes and job descriptions for managers, professionals and other employees;
- bonuses and allowances to the tariff rates and salaries.

Since 2010, the collective agreement concluded between the Company and the trade union which the Company recognises as the authorised representative for all its employees, has been in effect. According to this agreement, the Company provides its employees with the following guarantees and compensation:

- a cash compensation equivalent to 0.5 litres of milk per work shift;
- the provision of free-of-charge coal for domestic needs or compensation for employees' heating costs in the cost of housing and utilities services;
- lump-sum compensation based on the length of service in the coal mining industry;
- monthly longevity pay;
- once every three years, compensation is given to an employee and two family members for the cost of travel across Russia to an annual vacation spot and back by any type of transport, including personal cars, except for taxis;
- payment for the cost of health care for employees' children;
- payment for health resorts and spa treatment (recovery) on medical grounds for both employees and their children under the allocated budget;
- lump-sum compensation for employees who have retired on pension.

In the event of an injury or employee death due to a workplace accident, the Company pays:

- lump-sum compensation for an occupational disability due to an occupational injury or disease;
- financial assistance for funeral services;
- compensation for moral damage to the surviving family;
- lump sum payment to each dependant member of the deceased's family;
- monthly allowance to the children of the deceased before they reach the age of 18.

Education and Advanced Vocational Training
The Company supports the efforts of its employees to receive training and develop their skills, and provides all opportunities for professional growth.

In 2012, a number of employees classified as production personnel upgraded their skills (paid for by the Company) at the Belovsky Polytechnic College and Training Center of Management Company Kuzbassrazrezugol in various trades and completed advanced vocational training courses in regional education institutions within the following fields and themes:

- occupational safety;
- industrial safety;
- mineral resource conservation;
- hydro-power structure operation;
- procedure for the design and safe operation of hoisting machines;
- safety regulations for blasting work, industrial safety requirements for carrying hazardous substances, and advanced vocational training courses for non-production personnel.

In 2013, the Company provided funds for developing and enhancing the material and technical base of the Kuzbass State Technical University in the amount of RUB 130 thousand, including the cost for specialists and specialist training.

Social Cooperation

KTK allocated significant funds for implementing social programmes in the Kemerovo Region. In addition, the Company contributes to the development of the Kemerovo Region and other regions in which it is present by paying taxes and creating jobs. We consider this to be an investment in upgrading the quality of our employees' lives.

KTK fully met its commitments towards the region in 2012, despite difficult market conditions for thermal coal throughout the year. The Company and the Administration of the Kemerovo Region signed an agreement on social and economic cooperation for 2013. The objectives of the agreement, as in preceding years of cooperation, are:

- cooperation in implementing government programmes in the field of education, health and housing construction in the Kemerovo Region;
- creation of favourable conditions for the socio-economic development of the Kemerovo Region and the Company;
- coordination in fulfilling industrial safety requirements;
- economic and social development of the Company via developing and implementing joint projects between the Administration and the Company;
- coordination of the Administration and the Company's actions in implementing various regional social programmes;
- coordination of the Administration and the Company's actions in addressing major issues related to providing regional consumers with coal;
- ensuring the completeness and timeliness of consumers' payments for coal and thermal energy carriers that are supplied by the Company.

Under the agreement, the Company shall inform the Administration about programmes related to the Company's development and its social sphere and decisions made which impact the social situation in work collectives and areas of the region; develop a programme for 2013 to create new jobs; prioritise Kemerovo Region enterprises

when placing orders for equipment repair and manufacturing and to ensure the Company's timely transfer of taxes and other mandatory payments, as stipulated by current Russian legislation to the regional and local budgets. The Company has made a decision to invest in production development in the amount of at least RUB 0.5 bn and in 2013, provide funds in the amount of RUB 25 mln to ensure industrial and occupational safety, which is particularly significant for the region.

The Company has pledged to fund the following measures:

- development of normative and technical documentation applicable to the modern conditions for safe coal production with due regard to investigation results from accidents in regional mines;
- advanced training of the organisation's managers and professionals on mining and processing fossil coal;
- training, and re-training blue-collar specialists in the necessary way to further develop production;
- arranging a workshop for the factory's section doctors and conducting general medical examinations to prevent the development of occupational diseases among workers.

As for the social protection of workers and pensioners, the Company will finance social spending in the amount of RUB 45 mln
The funds will be channeled to rehabilitate workers and their children, pay for travel to vacation spots and back, financial support for children enrolled in higher education from families of deceased miners, compensation for workers' heating costs, extra payments to employees for limit-exceeding delivery time to work, compensation for interest rates paid on mortgage loans, providing rationed coal and financial support to participants in World War II, home front workers, concentration camp prisoners and Residents of the Leningrad Blockade from among former employees of the Company's enterprises.

In 2013, the Company shall allocate RUB 26.6 mln for the implementation of regional social programmes, and will maintain the average monthly wage rate of workers at the 2012 level (RUB 41,100, which is 12% more than in 2011) despite the difficult situation in the coal market.

KTK carries out charitable activities, and contributes to the implementation of social programmes, and the development of education, culture and sports. Each year, the children of employees receive vouchers to health complexes. We pay great attention to sports competitions and the health of our employees. Our employees participate in both urban and regional competitions in various sports.

The Company is a stable source of tax revenues to the regional budget. In 2012, tax payments transferred to the regional consolidated budget stood at RUB 822.3 mln (including land lease payments).

The Company continues to supply coal at fixed prices for public utility needs in the Kemerovo Region. In 2012, the volume of deliveries was 1.1 mln tonnes. In 2013, as in the previous period, the Company plans to organise the charitable delivery of coal in the amount of 3.5 mln tonnes to disadvantaged groups within the Kemerovo Region.

Dynamics of Technical, Economic and Social Indicators of KTK

	Unit	2011	**2012**	Change
Average monthly wage	RUB	36,522	**41,100**	12.5%
Tax payments to the budget and extra-budgetary funds including:	RUB mln	1,036	**1,054**	2%
The federal budget	RUB mln	182	**238**	31%
The regional budget	RUB mln	804	**768**	-4%
The local budget	RUB mln	50	**49**	-2%
Payments for land including:	RUB mln	3.2	**55.9**[1]	1,647%
Lease payments to local budgets	RUB mln	3.2	**5.9**	84%

1 Including the acquisition of land plots

ENERGY FOR GROWTH OPTIMISATION RESULT

KTK, as a public company, pays great attention to upgrading corporate governance as one of the key components of effective governance and to enhancing economic growth in the long run.

The Company's corporate governance system is based on Russian legislation and international best practice. The high corporate governance standards adopted by KTK guarantee the observance of the legitimate rights and interests of its shareholders and investors. The Company guarantees shareholders' rights to receive regular and timely information that can improve the management decision-making process on preserving assets, maximising profits and increasing corporate capitalisation.

KTK's corporate governance system is based on the following principles:

– equal treatment of the Company's shareholders, and the observance and protection of their rights in accordance with applicable (Russian) legislation;

– ensuring an effective internal control and audit system;

– providing information about the Company and its financial transparency;

– compliance with ethical standards of business conduct;

– effective communication with the Company's employees in addressing social issues and ensuring the necessary working conditions.

Electronic versions of these documents are available at www.oaoktk.ru/en/investors/disclosure

The Corporate Governance System of KTK is based on the following internal regulations:

– The Company's Articles of Association;

– Regulations on the General Meeting of Shareholders;

– Regulations on the Company's Board of Directors;

– Regulations on the CEO;

– Regulations on the Audit Committee;

– Regulations on Internal Control;

– Regulations on the Revision Committee;

– Regulations on the Personnel and Remuneration Committee;

– Regulations on Insider Information;

– The Code of Business Conduct;

– Regulations on the Dividend Policy.

The General Meeting of Shareholders

In accordance with the Federal Law "On Joint Stock Companies" and the Articles of Association of KTK, the Company's corporate governance system consists of three levels:

– The General Meeting of Shareholders;

– The Board of Directors;

– The Chief Executive Officer (the CEO).

The General Meeting of Shareholders is the Company's supreme governing body. The General Meeting addresses issues related to the election of the Company's management and control bodies and the introduction of amendments and additions to the Company's internal documents, the approval of annual reports, and profit distribution, as well as other issues that fall within the competence of the General Meeting of Shareholders at the Annual General Meetings of Shareholders.

The Annual General Meeting of Shareholders of KTK for the FY2012 was held April 15th, 2013. The General Meeting of Shareholders adopted the following resolutions:

– on the approval of the Company's 2012 annual report and financial statements;

– on the election of new members of the Company's Board of Directors;

– on the payment of dividends for 2012;

– on approval of KPMG as the auditor of the Company's 2013 financial statements under both RAS and IFRS.

In addition to the Annual General Meeting of Shareholders, the Company held an Extraordinary General Meeting (EGM) of Shareholders. During the reporting period, one Extraordinary General Meeting of Shareholders was held October 16th, 2012. According to voting results, positive resolutions on three of the four agenda issues were made.

1. By the decision of shareholders, Igor Prokudin was elected Chief Executive Officer (CEO) of KTK for a five-year term.

2. Amendments associated with the introduction of voting in absentia at meetings of the Company's Board of Directors in the Articles of Association and the Regulations on the Board of Directors of KTK were approved.

3. Due to new requirements of the Federal Law (as of 26.12.1995) No 208-FZ "On Joint Stock Companies," the procedure to prepare and hold the General Meeting of Shareholders of KTK was duly amended.

"From the point of view of corporate governance, continuity is always important for the Company. I believe that the most important event of the last year is that Igor Prokudin was elected to head up the Company for five years as the CEO. This gives the Company a certain degree of stability and all options and marketing programmes are based on this. His decision to be CEO for an additional five-year term is very important for the Company's shareholders."

Yuri Fridman
Independent Director

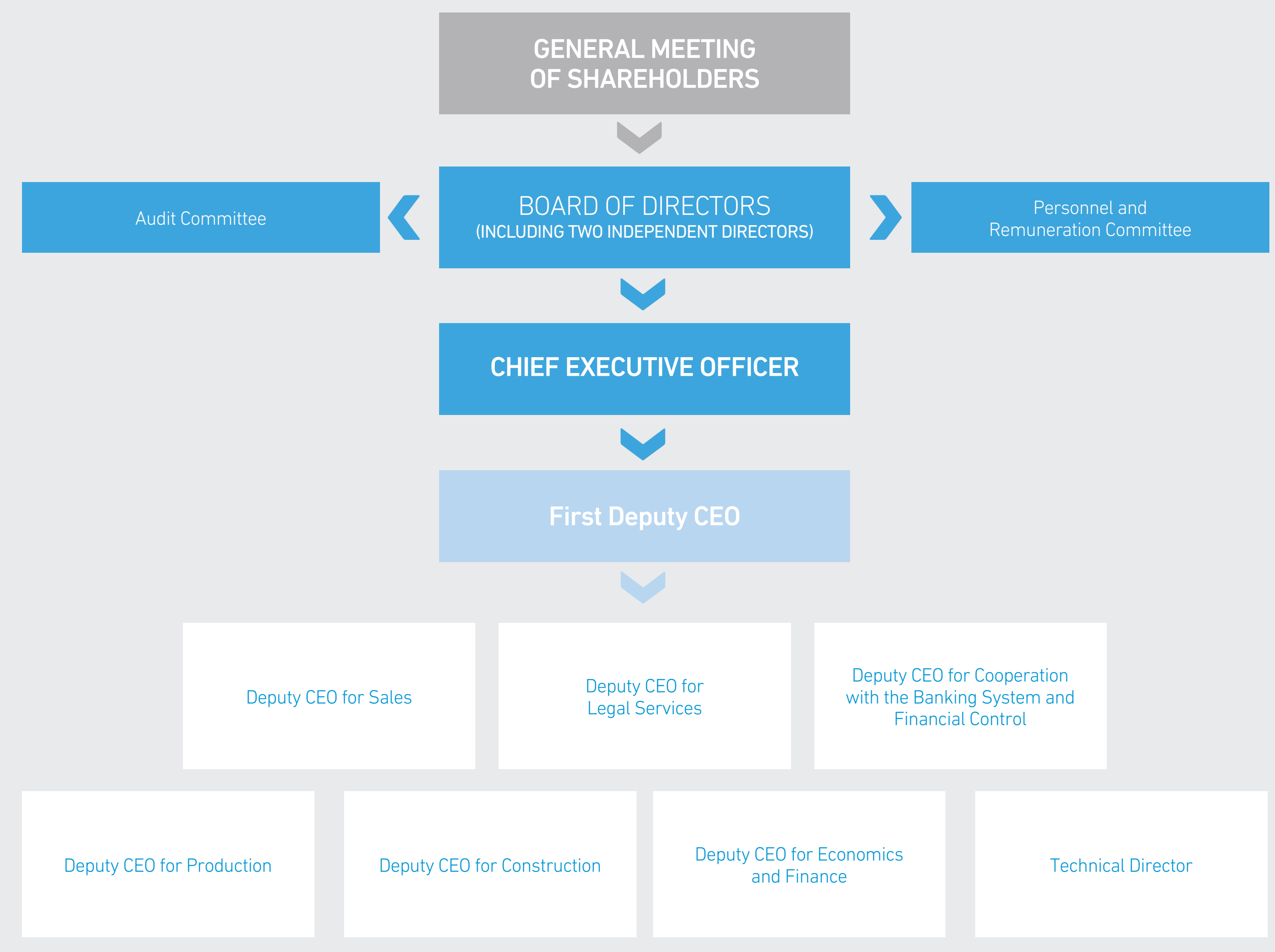
The Board of Directors and the Committees' Activities

The Board of Directors has overall responsibility for the Company, other than those issues reserved for shareholders, the Board determines the Company's long-term development strategy, provides for effective control of financial and economic activities and plays a critical role in the Company's corporate governance system (in general).

The primary objective of the Board of Directors is the fair and competent performance of duties related to running the Company to increase the value of the Company's shares and shareholder well-being, and to protect and enable the implementation of shareholders' rights.

In accordance with the Code of Corporate Conduct recommended for use by Russia's Federal Financial Markets Service, since 2010, Independent Directors have been elected to the Company's Board of Directors.

The Corporate Governance Structure



"In relation to the Board of Directors and its Committees, the Company is committed to high corporate governance standards. Board of Directors meetings are convened with sufficient advance notice and members of the Board of Directors are provided with board packages in advance. The Meetings are held in an open manner, which implies a constructive dialogue on all agenda items. Management readily answers questions on both operating and financial policies. Two members of the Board of Directors are also majority shareholders who exercise operational control. This approach ensures more control and supervision over the management team. The Company is committed to high standards of information disclosure in posting useful data on its website, in addition to disclosing quarterly accounts under IFRS. The Investor Relations Division actively works with investors and carries on an open dialogue with shareholders, the Board of Directors and the management team. Key opportunities to improve corporate governance lie in the transition to postal voting for shareholders.
Alexander Williams
Independent Director"

Biographies of members of the Board of Directors are available at:
www.oaoktk.ru/en/company/directors

The current members of the Board of Directors of KTK were elected by the Annual General Meeting of Shareholders on April 15th, 2013 and include:

Vadim Danilov
Chairman of the Board of Directors

Igor Prokudin
CEO

Ivan Gepting
Deputy CEO for commercial activities

Alexander Arthur John Williams
Independent Director

Yuri Fridman
Independent Director

Former members of the Board of Directors of KTK were elected by the Annual General Meeting of Shareholders on April 16th, 2012. Members included:

– Vadim Danilov – Chairman of the Board of Directors;
– Igor Prokudin – CEO;
– Eduard Alexeenko – First Deputy CEO;
– Yuri Freedman – Independent Director, Chairman of the Personnel and Remuneration Committee;
– Alexander Arthur John Williams – Independent Director, Chairman of the Audit Committee.

Remuneration of members of the Board of Directors
Remuneration of members of the Board of Directors for 2012 totalled USD 600,000, or USD 120,000 per member of the Board of Directors. The Secretary of the Board of Directors received remuneration in the amount of USD 60,000 for the 2012 performance.

The Company compensates Board of Directors members for the following expenses (related to performing Board functions):

– travel expenses across Russia, based on the cost of a business class air ticket;
– expenses for the use of the airport VIP-lounge;
– expenses for accommodations in "luxury" hotel rooms.

Committees of the Board of Directors
To improve operational efficiency, the Board of Directors established the following committees, which carry out active work:

The Audit Committee

Alexander Arthur John Williams
Chairman of the Committee

Committee members
– Yuri Fridman
– Eduard Alexeenko

Goals
To assist the Board of Directors in performing its duties and decision-making on matters related to financial statements, auditing and internal control.

The Personnel and Remuneration Committee

Yuri Fridman
Chairman of the Committee

Committee members
– Alexander Arthur John Williams
– Eduard Alexeenko

Goals
To develop and make recommendations to the Board of Directors in the field of personnel matters and remuneration for senior managers of the Company, as well as on matters of policy and standards for selecting candidates to the respective governing bodies.

Biographies of the top managers and information on executives of the subsidiaries are available at:
www.oaoktk.ru/en/company/management

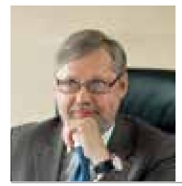
Top Management

Igor Prokudin
CEO, Member of the Board of Directors

Eduard Alexeenko
First Deputy CEO

Ivan Gepting
Deputy CEO for Sales, Member of the Board of Directors, Member of the Audit Committee, Member of the Personnel and Remuneration Committee

Igor Mikheev
Deputy CEO for Production, Director of the Vinogradovsky open-pit mine



Andrey Magaev
Deputy CEO for Cooperation with Banking system and Financial Control

Maxim Skorohodov
Deputy CEO for Legal Services, Secretary of the Board of Directors

Anatoly Poklonov
Technical Director

Sergey Sukhanov
Deputy CEO for Capital Construction

Ivan Artemenko
Deputy CEO for Economics and Finance

Vasily Rumyantsev
Director of the Moscow Office, IRO

“The high level of corporate governance in KTK is confirmed by the results of activity for the period when the Company was exposed to pressure from external market factors – when product prices fell, we proved that we could work well in all conditions. The Company embodies the idea that Igor Prokudin put forward a few years ago: "We need to create the type of corporate management which would consider the key issues of the current management on an ongoing basis." And now is the time to finalise this problem.
Yuri Fridman
Independent Director”

Employee Stock Option Plan (ESOP)

In 2012, KTK gave significant attention to the work of the Board of Directors in the field of motivating top managers' activities, especially taking into account long-term indicators such as the Company's profit and capitalisation. Attention had been paid to this previously, but in 2012, an employee stock option plan was prepared, which included numerous projects that had not previously been used in motivating the efficiency of top managers' work. On the instruction of the Board of Directors' Personnel and Remuneration Committee an analysis was conducted of employee stock option plans used in Russia and abroad, including in the coal industry (in general) and in Kuzbass companies in particular. As a result of this work, an optimal variant was found, which allows the Company to motivate top managers to improve their performance in the long-run. On this basis, the Company's Board of Directors adopted an employee stock option plan. Via the Personnel and Remuneration Committee, the Board of Directors monitors the development of managers to be able to compare and contrast, which ultimately builds the Company's positive reputation in the market.

Control and Audit

Internal control is carried out jointly by the Company's Board of Directors, the Audit Committee, the CEO, the Internal Control Committee and other authorised personnel to monitor compliance with procedures which are aimed at achieving objectives in the following areas:

– effectiveness and performance of business activity;

– reliability and accuracy of reporting;

– compliance with the requirements of regulatory acts and the Company's internal documents.

To meet the listing requirements of the Russian Stock Exchange "RTS-MICEX," which are based on requirements of the Regulations on Activities to Organize Trading in the Securities Market (approved by Russia's Federal Financial Markets Service), the Company has a division to ensure compliance with internal control procedures – the Internal Control Committee, which acts on the basis of Internal Control Regulations.

The Internal Control Committee's functions include: the direct assessment of the adequacy, sufficiency and effectiveness of the internal control system, as well as monitoring compliance with procedures established by Internal Control Regulations. For these purposes, the Internal Control Committee conducts audits and internal investigations in key areas of financial and economic activities; analyses the results of said inspections and investigations; keeps records of violations and provides the Audit Committee of the Board of Directors and the Company's CEO with information on violations; monitors the elimination of violations; analyzes the Company's audit results; and prepares proposals to upgrade internal control procedures.

An external audit is conducted by the Company's independent auditors. During 2012, the Annual General Meeting of Shareholders approved KPMG as the auditor of KTK to audit the 2013 financial statements, both prepared under Russian Accounting Standards (RAS), as well as financial statements prepared under International Financial Reporting Standards (IFRS).

The audit of the Company's 2012 RAS financial statements was conducted by Consulting Group "Balance". To audit 2012 IFRS financial statements the Company involved KPMG, which has been the auditor of the Company's IFRS financial statements starting with the 2007 financial statements. Based on results of the tender conducted in 2013, KPMG was approved as the auditor of the Company's 2013 financial statements under both IFRS and RAS.

“Dialogue between the Company and the auditor is constructive. Constant interaction between the auditor and the Audit Committee to discuss any current issues has been established. The auditor confirms that it has no substantive comments to the transactions that were made in 2012, and most of the work of the Audit Committee dealt with issues addressed to the Management in a 2011 letter regarding the potential impact of IFRS 10 and IFRIC 20.
Alexander Williams
Independent Director”

ENERGY FOR GROWTH

“The Company's 2012 net profit amounted to RUB 1.8bn, which is down 10% compared with the preceding year. The decrease was mainly due to falling export revenues as the sales prices on export markets fell more than 30%. The open-pit mining facilities' costs are fairly low and we have the lowest prime cost of coal production in Kuzbass. Therefore, last year's financial performance setback was caused by falling prices in the export markets. But, rising prices in domestic markets and the adjustment of sales on exports and domestic markets increased the average sales price 5% (excluding Russian Railways tariff), thus revenues fell only 3%.
Ivan Artemenko
CFO”

Key Financial and Operation Performance Highlights

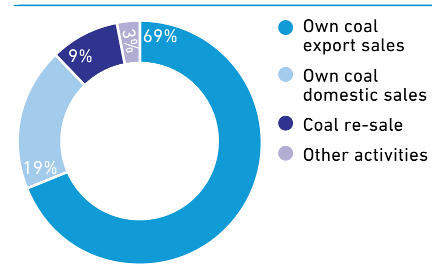
RUB mln	2008	2009	2010	2011	2012
Coal production, mln tonnes	**5.48**	**6.15**	**6.8**	**8.73**	**8.71**
Change, %		12%	11%	28%	**0%**
Coal sale, mln tonnes	**7.54**	**7.41**	**8.54**	**10.66**	**10.2**
Change, %		-2%	15%	25%	**-4%**
Including coal re-sale, mln tonnes	**2.30**	**1.38**	**2.16**	**2.08**	**1.70**
Change, %		-40%	57%	-4%	**-18%**
Revenue	**8,557**	**10,658**	**14,160**	**23,939**	**23,104**
Change, %		25%	33%	69%	**-3%**
EBITDA	**2,172**	**2,178**	**2,134**	**3,911**	**3,479**
EBITDA margin	25%	20%	15%	16%	**15%**
Net profit (loss)	**1,102**	**663**	**823**	**2,018**	**1,810**
Net profit margin		6%	6%	8%	**8%**
Production cash costs per tonne (RUB)	**377**	**432**	**509**	**653**	**690**
Change, %		15%	18%	28%	**6%**
Net debt	**3,370**	**3,773**	**1,754**	**2,663**	**4,681**
Net debt/EBITDA	1.60	1.70	0.82	0.68	**1.35**

Revenue

RUB mln	2012	2011	Change	2012 Structure
Revenue	**23,104**	**23,939**	**-3%**	
Including segmented:				
Own coal export sales	**15,858**	17,127	-7%	69%
Own coal domestic sales	**4,346**	4,026	8%	19%
Coal re-sale	**2,159**	2,227	-3%	9%
Other activities	**741**	559	33%	3%

The Company's 2012 consolidated revenues fell 3% to RUB 23,104 mln compared with the preceding year (RUB 23,939 mln). This occurred due to a decrease in the segment of own coal export sales by 7% (to RUB 15,858 mln), due to a downturn in the global energy coal markets. The share of revenues from export sales fell 5 percentage points to 69%. The 2012 revenues from own coal domestic sales amounted to RUB 4,346 mln, an 8% increase compared with 2011 (RUB 4,026 mln). The total revenues from domestic sales amounted to RUB 6,505 mln, a 4% increase year-on-year (RUB 6,253 mln).

Revenue by Segments

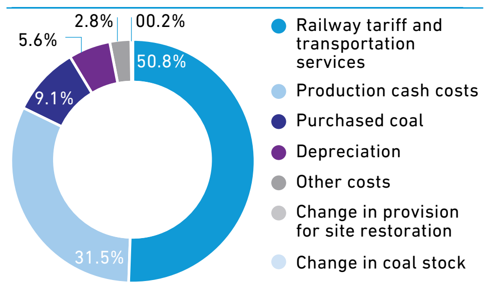


Cost of sales

RUB mln	2012	2011	Change	2012 Structure
Cost of sales	**18,982**	**19, 404**	**-2%**	
including:				
Railway tariff and transportation services	9,641	10,623	-9%	51%
Production cash costs, including:	5, 978	5,702	5%	31%
Fuel	1,500	1,262	19%	8%
Extraction, processing and sorting of coal services	1,371	1,790	-14%	8%
Personnel costs	1,189	1,053	13%	6%
Spare parts	651	544	20%	3%
Repair and maintenance	408	405	1%	2%
Taxes and environmental fees	263	279	-6%	1%
Other production costs	429	369	16%	2%
Purchased coal	1,722	2,189	-21%	9%
Depreciation	1,066	965	10%	6%
Other costs	528	405	30%	3%
Change in provision for site restoration	46	-20		
Change in coal stock	1	-460		

Compared to the previous year, the 2012 cost of sales fell 2% to amount to RUB 18,982 mln (compared with RUB 19,404 in 2011). The decrease is the result of a cost reduction programme implemented in H2 2012. A considerable share of cost reduction is associated with transportation costs which were cut 9% (RUB 982 mln) and a decrease in purchased coal for re-sale costs, which fell 21% (RUB 467 mln). This impacted the resulting cost of sales reduction, despite growing fuel costs (19% or RUB 238 mln) and personnel costs (13% or RUB 136 mln), which grew due to salary indexation. In addition, a substantial addition to the mining equipment fleet (20%) resulted in a growth in spare parts costs. The total growth of 2012 production costs stood at 5%, amounting to RUB 5,978 mln.

Cost of Sales Structure



Key Performance Indicators Influencing Cash Cost Dynamics

	2012	2011	2010	Change
Coal production, mln tonnes	8.71	8.73	6.8	0%
Stripping, mln cubic metres	66.27	68.12	49.5	-3%
Blasted rock mass, mln cubic metres	31.85	32.79	25.4	-3%
Stripping ratio, cubic meters/tonne	7.60	7.80	7.3	-3%
Average stripping transportation distance, km	3.00	2.88	2.7	4%

“No costs are reduced as such, as the Company improves cost efficiency instead, trying to achieve greater returns. The Company holds tenders for the suppliers of all key inputs, including services and materials, to select the best price. This contributes to the Company's relatively low production costs. We also did a great job of optimising railroad transportation costs, resulting in a reduction of railroad rail car rental costs, one of the components of the overall railway tariff cost, by half.
Ivan Artemenko
CFO”

Operating Profit, EBITDA and Net Profit

RUB mln	2012	2011	Change
Operating profit	2,341	2,895	-19%
Operating profit margin	10%	12%	-2 ppts
EBITDA	3,479	3,911	-11%
EBITDA margin	15%	16%	-1 ppts
Per tonne EBITDA, RUB	399	448	-11%
Net profit	1,810	2,018	-10%
Net profit margin	8%	8%	

In 2012, operating profit fell 19% to RUB 2,341 mln. This occurred due to a downturn in global energy coal markets and was partly compensated for by a lower cost of sales. 2012 EBITDA fell 11% to RUB 3,479 mln.

2012 net profit amounted to RUB 1,810 mln, falling 10% due to a reduction in revenues from export coal sales.

Debt

RUB mln	2012	2011	Change
Non-current loans	3,541	2,794	27%
Current loans	3,502	1,753	100%
Total debt, including:	7,043	4,547	55%
Ruble-denominated	3,068	647	374%
Foreign currency-denominated	3,975	3,900	2%
Cash and cash equivalents	2,362	1,884	25%
Net debt	4,681	2,663	76%
Interest paid	367	207	77%

During 2012, the Company's credit portfolio continued to grow to provide for the Company's operating growth. Non-current credits increased 27% to RUB 3,541 mln (compared with RUB 2,794 mln in 2011). Current credits doubled to reach RUB 3,502 mln (compared with RUB 1,753 mln in 2011). On December 31, 2012, the Company's total debt amounted to RUB 7,043 mln with 44% of the credits denominated in RUB, and 56% denominated in foreign currency.

Despite a considerable growth in the Company's credit portfolio, its leverage does not exceed what is comfortable for the management team. On December 31, 2012, net debt amounts to RUB 4,681 mln, with a net debt/EBITDA ratio of 1.35. According to covenants of the current credit agreements with banks this ratio should not exceed 3.5 – 4.0.

As of December 31, 2012, the Company has numerous credit lines open with major Russian banks. On the reporting date the Company had RUB 1,414 mln of unused credit lines (compared with RUB 1,196 mln in 2011). 2012 interest paid grew 77% to RUB 367 mln (compared with RUB 207 mln in 2011).

The Company has implemented efficient financial and investment policies with an average interest rate on RUB-denominated loans and credits of 8.45%, whereas the average interest rate on loans and credits denominated in USD is 4.80% (as of the end of 2012).

“The growth of the Company's debt in 2012 was caused by considerable investments which were made during the period in question. The major share of investments (some RUB 3,600 mln) was made in the construction of a second coal washing facility. Some of the investments were made using the Company's own funds, whereas part was financed using borrowings. This explains the growth in the Company's credit portfolio to RUB 7,043 in 2012. As the Company accumulated considerable amounts on its deposit accounts starting from 2009, the net debt amounted to RUB 4,681 mln.

As for the interest rates, they are significantly lower than average rates available on the market and there are numerous reasons for this. The first is the Company's good credit rating, which is due to its transparency, with the second being the Company's stable financial and economic position, as it is now under-leveraged. This means that the Company's opportunities to raise funds are much greater than the actual borrowings. The Company has a rather conservative approach, which implies that credits are only taken when they are really necessary and credit repayment sources are known and controlled. Therefore, banks are willing to give loans to the Company, while the Company can choose the best offers.
Andrey Magaev
Deputy CEO on Banking and Financial Control”

Cash Flow and Investments

RUB mln	2012	2011	Change
Operating cash flow	2,332	2,096	11%
Investment cash flow	-3,944	-2,562	54%
Including investments in PPE	-3,847	-2,409	60%
Financial cash flow	2,125	1,906	11%
Net increase/decrease in cash and cash equivalents	**513**	**1,440**	**-64%**

In 2012, the operating cash flow grew 11% to RUB 2,332 mln. The investment cash flow grew 54% to RUB 3,944 mln, of which RUB 3,847 mln was invested in fixed assets. 2012 key investment projects include: the construction of the Kaskad-2 coal washing plant, the construction of the fuel storage facility, the development of railroad infrastructure and the extension of the retail sales network. The net cash flow from financial activities during the reporting period grew 11% to RUB 2,125 mln.

Statement of Financial Position

RUB mln	2012	2011	Change	2012 structure
Non-current assets	13,649	10,455	31%	68%
Including PPE	13,235	10,186	30%	66%
Current assets	6,297	5,673	11%	32%
Total assets	**19,946**	**16,128**	**24%**	
Equity, including:	**9,685**	**8,525**	**14%**	**49%**
Retained earnings	6,835	5,672	21%	34%
Additional paid-in capital	2,829	2,829	0%	14%
Non-current liabilities	4,767	3,840	24%	24%
Current liabilities	5,494	3,763	46%	28%
Total liabilities	**10,261**	**7,603**	**35%**	**51%**
Total equity and liabilities	**19,946**	**16,128**	**24%**	

As of the end of 2012, the Company's assets totalled RUB 19,946 mln, a 24% increase compared with 2011 (RUB 16,128 mln).

The Company's non-current assets grew 31% during the year to RUB 13,649 mln (compared with RUB 10,455 mln in 2011). The growth occurred mainly due to a 30% increase in the cost of fixed assets, from RUB 10,186 mln in 2011 to RUB 13,235 mln in 2012. The share of non-current assets in the Company's total assets grew from 65% in 2011 to 68% as of the end of 2012.

The Company's 2012 current assets amounted to RUB 6,297 mln, an 11% increase compared with 2011 (RUB 5,673 mln).

During the reporting period, the Company's equity grew 14% from RUB 8,525 mln to RUB 9,685 mln. The increase occurred due to 21% growth in the Company's retained earnings to RUB 6,835 mln (compared with RUB 5,672 mln in 2011). The share of the Company's equity in its 2012 total equity and liabilities is 49%, which proves that the Company is comfortably well off. This is the result of the placement of an additional issue of the Company's shares during the 2010 IPO. Proceeds from the placement in the amount of RUB 2,829 mln served to form the Company's additional capital. The amount of additional capital has not undergone any changes in the two years following the IPO.

The Company's 2012 total liabilities (excluding equity) grew 35% to RUB 10,261 mln (compared with RUB 7,603 mln in 2011). The growth in non-current and current liabilities stood at 24 and 46%, respectively, to RUB 4,767 and RUB 5,494 mln This increase occurred mainly due to a growth in the Company's credit portfolio (which is described in detail in the "Debt" section).

Key financial ratios

Current ratio

RUB million	2012	2011	Change
Current assets	6,297	5,673	11%
Current liabilities	5,494	3,766	46%
Current ratio[1]	**1.2x**	**1.5x**	**-0.3x**

1 Current assets to current liabilities

Quick ratio

RUB million	2012	2011	Change
Quick assets (current assets net of inventories)	5,104	4,398	16%
Current liabilities	5,494	3,766	46%
Quick ratio[2]	**0.9x**	**1.2x**	**-0.3x**

2 Quick assets to current liabilities

Turnover ratios

Asset turnover

RUB million	2012	2011	Change
Revenue	23,104	23,939	-3%
Total assets at start of period	16,128	11,639	39%
Total assets at end of period	19,946	16,128	24%
Asset turnover[3]	**1.3x**	**1.7x**	**-0.4x**

3 Revenue/((Total assets at start of period + total assets at end of period)/2)

Inventory turnover

RUB million	2012	2011	Change
Cost of sales	18,982	19,404	-2%
Inventory at start of period	1,275	759	68%
Inventory at end of period	1,193	1,275	-6%
Inventory turnover[4]	15.4x	19.1x	-3.7x
Inventory turnover period, days[5]	**23.7**	**19.1**	**4.6**

4 Cost of sales/((inventory at start of period + inventory at end of period)/2)

5 365 days/inventory turnover

Profitability ratios

Return on equity (ROE)

RUB million	2012	2011	Change
Net profit	1,810	2,018	-10%
Equity at start of period	8,525	6,835	25%
Equity at end of period	9,685	8,525	14%
Return on equity[6], %	**20%**	26%	-24%

6 Net profit/((equity at start of period + equity at end of period)/2)

Return on investment (ROI)

RUB million	2012	2011	Change
Net profit	1,810	2,018	-10%
Equity at start of period	8,525	6,835	25%
Equity at end of period	9,685	8,525	14%
Total debt at start of period	4,547	2,211	106%
Total debt at end of period	7,043	4,547	55%
Return on investment[7], %	**12%**	**18%**	**-33%**

7 Net profit/((equity at start of period + equity at end of period + total debt at start of period + total debt at end of period)/2)

Leverage ratios

Total debt to equity

RUB million	2012	2011	Change
Total debt	7,043	4,547	55%
Equity	9,685	8,525	14%
Total debt to equity	**0.7x**	**0.5x**	**0.2x**

Interest coverage ratio

RUB million	2012	2011	Change
Profit before interest and taxes	2,745	2,763	-1%
Interest expense	367	207	77%
Interest coverage ratio[8]	**7.5x**	**13.3x**	**-5.8x**

8 Profit before interest and taxes/Interest expense

The Company's financial reporting can be accessed at the corporate website at: www.oaoktk.ru/en/investors/financial_statements

ENERGY FOR GROWTH

Shareholding Structure

The share capital of KTK amounted to RUB 19,851,671 as of December 31, 2012 and included 99,258,355 common shares with a nominal value of RUB 0.2 per share. The Company has not placed preferred shares.

KTK's shares are included on the B quotation list of the merged MICEX-RTS Exchange under the KBTK ticker symbol, with a registration number 10211330F. The International Securities Identification Number (ISIN) is RU000A0JPYD7. The shares are also included in the MICEX StartCap (MICEXSC) index of small cap stocks and the RTS-2 index of second-tier stocks. MICEXSC includes companies with strong financial performance, holding leading positions in their industries with a high discount to their fair value. These companies are able to demonstrate significant business growth in the long-term.

The Company held an initial public offering in April 2010. Currently, the free float is approximately 35%, and most of these shares are controlled by major institutional investors.

The Company's Shareholding Structure as of December 31, 2012

Shareholder name	Number of shares	Participation in share capital
HAVER HOLDING LIMITED (beneficiary control by Igor Prokudin)	49,639,103	50.001%
LAYCRAFT LIMITED (direct control by Vadim Danilov)	15,494,229	15.6%
MINORITY SHAREHOLDERS (free float)	34,125,022	34.4%
TOTAL	99,258,355	100%

Share Price and Trading Volume

In general, analysts believe that the current market price of KTK shares does not correspond with the Company's fundamentals and that there is considerable upside potential in the share price. It is clear that the Company's securities are also undervalued vis-a-vis international peers. But, the Company's shares on the Russian Exchange have quite low liquidity, which complicates capitalizing on this potential. Share liquidity is limited, as the shareholders include major institutional investors who purchased the Company's shares during the IPO.

Common Shares on MICEX

	2010	2011	2012
Maximum price for the year, RUB	310.00	239.00	**209.30**
Minimum price for the year, RUB	150.50	151.13	**104.02**
Closing price of the year, RUB	210.01	151.13	**112.29**
Capitalisation as of the end of the year, RUB mln	20,845	15,001	**11,146**

Common Shares on RTS

	2010	2011	2012
Maximum price for the year, USD	7.08	8.17	**5.75**
Minimum price for the year, USD	5.35	4.80	**3.25**
Closing price of the year, USD	7.00	4.85	**3.25**
Capitalisation as of the end of the year, USD mln	695	481	**323**

Trading Volume

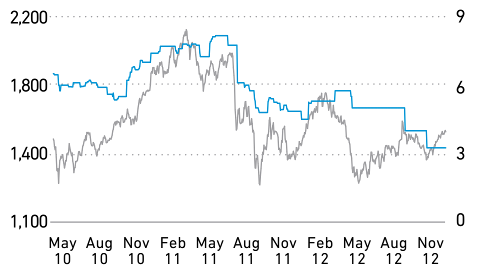
	2010	2011	2012
Trading volume, MICEX, RUB mln	190	109	**49**
Trading volume, RTS, USD thousand	517	427	**25**
Total trading volume, RUB mln*	211	121	**108**
Total trading volume, USD thousand*	6,934	4,127	**3,488**

* This conversion was based on the Bank of Russia's average annual exchange rate for the following periods: 2010: 30.38; 2011: 29.39; 2012: 31.08

Share Price Performance, MICEX, RUB

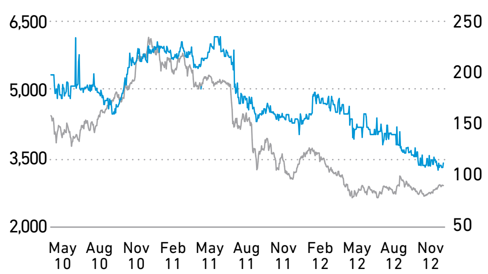
– MICEX Index
– KTK shares, MICEX

Share Price Performance, RTS, USD

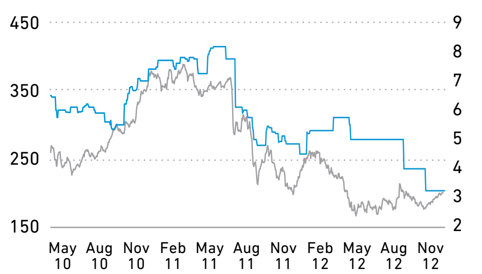


– RTS Index
– KTK shares, RTS

The Company Share Price Performance versus Industry Index



– MICEX Metals and Mining Index
– KTK shares, MICEX



– RTS Metals and Mining Index
– KTK shares, RTS

> "In 2012, global prices for thermal coal decreased approximately 20%, and by mid-2013, coal was 12% cheaper due to European economic stagnation, slowing industrial growth in China and additional volumes of export coal from the USA – as a result of increases in the internal consumption of gas-based electric energy generation. Thus, now, KTK's export business is under pressure from low prices, which negatively impact the Company's financial performance. At the same time, we see KTK management activities aimed at both cost optimization and the optimisation of the Company's business structure – the short-term investment programme has been reduced, given the poor market situation. KTK has sold its share in a transportation company, which will reduce logistic costs in 2013. Moreover, the launch of the second washing plant during the beginning of this year) allowed the Company to be ready to face the upcoming difficult period, as it had an improved structure of ready products. All these steps should allow the Company to survive the weak period in the coal market with the lowest level of losses and to retain growth potential in case the market situation improves.
> **Anton Rumyantsev**
> Analyst, Metals and Mining Sector, Sberbank CIB"

The Company's financial policy is aimed at increasing operational efficiency and maximising profits, which allows the Company to provide high dividend income on shares. Since 2010, the Company has applied a dividend policy approved by the Board of Directors providing for an annual dividend payment not less than 25% of the net profit for the reporting year (as determined based on RAS statements).

The Company's dividend policy is based on Russian law and the Regulations on KTK's Dividend Policy, which was approved by the Board of Directors November 3, 2009.

The dividend policy is based on the following principles:

– When profits exist, the Company will annually allocate a part of the profit for dividends, using the remaining profit for re-investment to increase the Company's capitalisation;

– Optimally balance the Company's and its shareholders' interests;

– Upgrade the Company's investment appeal and its capitalisation;

– Respect and strictly observe shareholder rights, as stipulated by applicable Russian law;

– Ensure the transparency of procedures used to calculate and pay dividends.

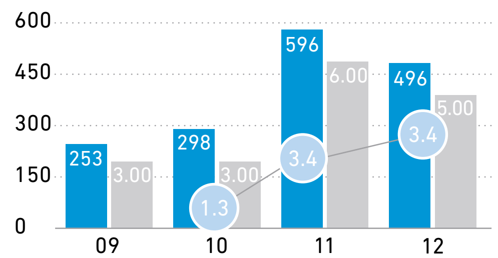
According to existing IR-practice, the Company publishes press releases about meetings of the Board of Directors when the Board issues recommendations on dividends to be paid and on the approval of the dividend payment by the Company's General Meeting of Shareholders. Information about these events is available on the Investor Calendar at www.oaoktk.ru/en/investors/.

In April 2012, the General Meeting of Shareholders made a resolution to approve the Board of Directors' recommendations on the 2011 dividend payment in the amount of RUB 6 per one common share and to allocate RUB 595.5 mln for this purpose – equivalent to 29% of net profit for the reporting period.

On April 16, 2013, the General Meeting of Shareholders of KTK made a resolution on the 2012 dividend payment in the amount of RUB 496.3 mln (27.7% of net profit for 2012, based on RAS results). The Company will pay dividends on placed shares in the sum of RUB 5 per one common share with a RUB 0.20 nominal value. Thus, the Company will completely fulfill its obligation to allocate not less than 25% of net profit for dividends, rigorously observing the rights and legal interests of its shareholders.

The dividend payment will be conducted within 60 days of the date that a decision to pay dividends has been made, in compliance with the list of persons entitled to receive said dividend.

In compliance with Russian law, the tax rate for dividend payments to individuals and legal entities owning shares and who are Russian residents is 9% (15% for non-residents). For Russian organisations owning not less than 50% of a company's share capital for not less than 365 days (as of the date that a decision to pay dividends was made), the tax rate is 0%. If the double taxation treaty is applicable, non-residents shall pay taxes in accordance with the rate determined by the relevant agreement.



● Total dividends, RUB mln.
● Dividend per share, RUB
● Dividend yield*, %

Additional information about the dividend, the payment table and the corporate dividend policy is available at: www.oaoktk.ru/en/investors/dividends

Shareholder and Investor Relations

“Since the Company’s IPO, the management team has set the highest standards for transparency; this is not typical for the Russian coal industry. Our priorities include regularly providing reliable information and carrying on open conversations with analysts and institutional investors.”

Vasily Rumyantsev
Head of Moscow office, IRO

KTK’s managers are interested in long-term growth in investment appeal and capitalisation. For this purpose, the Company follows its policy of information openness and conducts meetings with both existing and potential investors. The Company strives to satisfy the requirements of shareholders, investors and analysts, providing them with regular and consistent information about the Company, its corporate strategy, its competitive advantages, and risks and operating results.

For transparency, the investor calendar (www.oaoktk.ru/en/investors/) is updated regularly. It includes not only information about the dates of information disclosure, but also the timetable for meetings with investors and where these meetings will be held. The Company is happy to include interested funds in our programmes upon request. Investors may subscribe to updates of the investor calendar using the special form (which can be found on the corporate website).

Roadshow
In April, the Company’s management team holds its annual roadshow to present annual IFRS financial results. The meetings are organised by investment banks; to attend these meetings, investors should send a request to the organisation putting on these events.

Meetings with Investors
Meeting with the Company’s management team may be arranged within the framework of investment forums and conferences. In addition to participating in official events, we are eager to meet interested funds in our Moscow office at mutually convenient times.

Analysts’ and Investors’ Visits
In July, the Company conducts an annual two-day trip for analysts and investors to the Company’s production sites located in the Kemerovo Region. The trip includes visits to the mines and washing plants, as well as informal communication with the Company’s on-site managers and specialists.

Types of regular information disclosure

	Periodicity	Press release	Presentation	Website	Conference call
Disclosure of key operating indicators	Quarterly	✓	✓	✓	
Disclosure of IFRS financial indicators	Quarterly	✓	✓	✓	✓
Annual review	Annually			✓	

Investor Calendar
www.oaoktk.ru/en/investors

Contact information

The Company’s Full Name:
Open Joint Stock Company
“Kuzbasskaya Toplivnaya Company”

The Company’s Abbreviated Name:
ОАО «Кузбасская Топливная Компания»
OJSC “KTK”

The Company’s Headquarters in Kemerovo:
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* On April 15, 2013, KPMG CJSC was approved as the Company’s RAS and IFRS reporting auditor for 2013.

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All information about the Company is available at: **www.oaoktk.ru/en**
Analysts and investors are welcome to visit us at: **www.oaoktk.ru/en/investors**
Media representatives are welcome to visit us at: **www.oaoktk.ru/press-centre**

News and releases are available at:
www.facebook.com/oaoktk

Presentations can be viewed at:
www.slideshare.net/oaoktk

Video materials are available at:
www.youtube.com/oaoktk

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