

OJSC "KUZBASSKAYA TOPLIVNAYA COMPANY"

Offering of 25,126,844 Shares

Offering Price: U.S.$6.50 per Share

This offering circular (the "**Offering Circular**") relates to the offering of 25,126,844 ordinary shares in the share capital of OJSC "Kuzbasskaya Toplivnaya Company", an open joint stock company incorporated under the laws of the Russian Federation (the "**Company**"), each with a nominal value RUB 0.2 per share (each a "**Share**" and together, the "**Shares**") (the "**Offering**"). 14,258,686 Shares (the **"Subscribed Shares**") are being offered by the Company and 3,339,438, and 7,528,720 Shares, respectively, (together, the "**Sale Shares**") are being offered by Mr. Igor Prokudin ("**Mr. Prokudin**") and Laycraft Limited ("**Laycraft**", and together with Mr. Prokudin, the "**Selling Shareholders**" and each a "**Selling Shareholder**"), respectively. The Shares are being offered for placement and sale to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside of the United States in reliance on Regulation S ("**Regulation S**") under the United States Securities Act 1933, as amended (the "**Securities Act**").

The Company's ordinary shares (including the Shares) are admitted to trading and listed on quotation list "V" of the Moscow Interbank Currency Exchange ("**MICEX**") and on the Russian Trading System Stock Exchange ("**RTS**"). 14,900,000 new ordinary shares of the Company (the "**New Shares**"), including the Subscribed Shares, will become tradable only after submission of the notification on the results of the securities issue (the "**Placement Notification**") with respect to the New Shares to the Russian Federal Service for the Financial Markets (the "**FSFM**"). Trading in the Shares on the RTS and the MICEX is expected to start on or about 20 May 2010, when the Company authorizes the commencement of trades.

This Offering Circular is intended for use only in connection with offers and sales of the Shares outside of the United States pursuant to Regulation S under the Securities Act and is not to be sent or given to any person within the United States. The Shares have not been, and will not be, registered under the Securities Act, or with any securities regulatory authority in any state of the United States and may not be offered or sold within the United States. The Shares are being sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S under the Securities Act. Purchasers of the Shares may not offer, sell, pledge or otherwise transfer the Shares in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This Offering Circular is for information purposes only and is not an offering circular prepared or filed with any registration or other governmental authorities in connection with the registration of the issue, the offer or sale of the Shares described in this Offering Circular.

An investment in the Shares is speculative and carries a high degree of risk. See *"Risk Factors"* for a discussion of certain matters that prospective investors should consider prior to making an investment decision. Potential investors must be prepared to bear the risk of total loss of their investment.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Troika Dialog **UBS Investment Bank**

The date of this Offering Circular is 30 April 2010.

IMPORTANT INFORMATION

By accepting delivery of this Offering Circular, you agree to the following. This Offering Circular is being furnished by us solely for the purpose of enabling a prospective investor to consider the purchase of the Shares. Any reproduction or distribution of this Offering Circular, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares is prohibited, except to the extent that such information is otherwise publicly available.

Neither TD Investments Limited nor UBS Limited (together, the "**Joint Lead Managers**") makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by us or the Selling Shareholders or the Joint Lead Managers that any recipient of this Offering Circular should subscribe for or purchase the Shares. Each potential subscriber or purchaser of Shares should determine for itself the relevance of the information contained in this Offering Circular and its subscription or purchase of Shares should be based upon such investigation as it deems necessary.

We accept responsibility for the information contained in this Offering Circular, and having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of the our knowledge, in accordance with the facts and contains no omissions likely to affect its import.

In making an investment decision regarding the Shares, you must rely on your own examination of us and our Subsidiaries (together, the "**Group**") and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this Offering Circular. Neither we, the Selling Shareholders nor the Joint Lead Managers have authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Offering Circular is accurate only as of its date. The Group's business, financial condition, results of operations, prospects and the information set forth in this Offering Circular may have changed since the date of this Offering Circular.

We have included our own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While we believe that our own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by it approximately reflects the industry and the markets in which it operates, there is no assurance that our own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

You should not consider any information in this Offering Circular to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares. Neither we, the Selling Shareholders nor the Joint Lead Managers makes any representation to any offeree or purchaser of the Shares regarding the legality of an investment in the Shares by such offeree or purchaser under appropriate investment or similar laws.

The Joint Lead Managers are acting exclusively for us and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Joint Lead Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase, as the case may be, Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other of our securities or other related investments in connection with the Offering or otherwise. Accordingly, references in this Offering Circular to the Shares being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Joint Lead Managers or any of them and any of their affiliates acting as an investor for its or their own account(s). The Joint Lead Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

We may withdraw the Offering at any time, and we, the Selling Shareholders and the Joint Lead Managers reserve the right to reject any offer to purchase the Shares, in whole or in part, and to sell to any prospective investor less than the full amount of the Shares sought by such investor. The Joint Lead Managers and certain related entities may acquire a portion of the Shares for their own accounts.

The distribution of this Offering Circular and the offer and sale of the Shares may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See "*Plan of Distribution and Transfer Restrictions*" elsewhere in this Offering Circular. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Shares or possess or distribute

this Offering Circular and must obtain any consent, approval or permission required for your purchase, offer or sale of the Shares under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we, the Selling Shareholders nor the Joint Lead Managers is making an offer to sell the Shares or a solicitation of an offer to buy any of the Shares to any person in any jurisdiction except where such an offer or solicitation is permitted.

NOTICE TO CERTAIN INVESTORS

THE SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE SHARES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

Canada

The Shares have not been nor will be qualified by a prospectus for offer or sale to the public in Canada under applicable Canadian securities laws and, accordingly, any offer or sale of Shares in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Investors should refer to the section of this Offering Circular entitled *"Plan of Distribution and Transfer Restrictions — Selling Restrictions — Canada"*.

European Economic Area

To the extent that the offer of the Shares is made in any European Economic Area Member State (a "**Member State**") that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "**Prospectus Directive**") before the date of publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Member State in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that Member State in accordance with the Prospectus Directive), the offer (including any offer pursuant to this Offering Circular) is only addressed to qualified investors in that Member State within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require us to publish a prospectus pursuant to, and as defined in, the Prospectus Directive. We do not intend to publish a prospectus in relation to the Shares to be approved by a competent authority in any Member State as it is defined in and in accordance with the Prospectus Directive or, where appropriate, publish it in accordance with the Prospectus Directive and notify it to a competent authority in any Member State in accordance with the Prospectus Directive and no such publication, notification or approval has been made or obtained in any Member State.

This Offering Circular has been prepared on the basis that all offers of the Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the European Economic Area ("**EEA**"), from the requirement to produce a prospectus for offers of shares. Accordingly any person making or intending to make, within the EEA, any offer of the Shares, which are the subject of the placement contemplated in this Offering Circular should only do so in circumstances in which no obligation arises for us or the Joint Lead Managers to produce a prospectus for such offer. Neither we, the Selling Shareholders nor the Joint Lead Managers have authorized, nor do they authorize, the making of any offer of the Shares through any financial intermediary, other than offers made by the Joint Lead Managers, which constitute the final placement of the Shares contemplated in this Offering Circular.

United Kingdom

We have not authorized any offer or sale of the Shares to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Section 102B of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"). The Shares may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the FSMA.

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received in connection with the sale of the Shares has only been communicated or caused to be communicated and will only be communicated or cause to be communicated in circumstances in which section 21(1) of the FSMA does not apply.

This Offering Circular is being distributed only to, and must not be passed, either directly or indirectly, to any person other than persons who (i) are outside the United Kingdom; or (ii) have professional experience in matters relating to investments, which fall within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or (iii) high net worth entities, and other persons to whom it may otherwise be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). This Offering Circular must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons.

United States

The Shares have not been, and will not be, registered under the Securities Act, or with any securities regulatory authority in any state of the United States, and may not be offered or sold within the United States. The Shares are being sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S. Purchasers of the Shares may not offer, sell, pledge or otherwise transfer the Shares in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Japan

The Shares offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "**Financial Instruments and Exchange Act**"). Accordingly, no Shares may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Australia

This Offering Circular has not been lodged with the Australian Securities and Investments Commission and is only directed to certain categories of exempt persons. Accordingly, if you receive this Offering Circular in Australia:

(a) you confirm and warrant that you are either:

  (i) a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act 2001 (Cth) of Australia ("**Corporations Act**");

  (ii) a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate pursuant to the section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

  (iii) a person associated with the company under section 708(12) of the Corporations Act; or

  (iv) a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act,

  and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this Offering Circular is void and incapable of acceptance.

(b) you warrant and agree that you will not offer any of the Shares issued to you pursuant to this Offering Circular for resale in Australia within 12 months of those Shares being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

General

The distribution of this Offering Circular and the offering of the Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required to inform themselves about and to observe any such restrictions.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes statements that are, or may be deemed to be, "**forward-looking statements**". These forward-looking statements can be identified by the use of forward-looking terminology, including the words "**targets**", "**estimates**", "**believes**", "**expects**", "**plans**", "**aims**", "**intends**", "**will**", "**may**", "**anticipates**", "**would**", "**could**" or "**should**" or similar expressions or in each case their negative or other variations or by discussion of strategies, plans, objectives, goals, future events or intentions. These forward-looking statements all include matters that are not historical facts. They appear in a number of places throughout this Offering Circular, including, without limitation, under the heading "*Risk Factors*", "*Coal Mining Industry*", "*Business*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", the IMC Report, and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategy and dividend policy and those of the industry in which we operate. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Forward-looking statements are not guarantees of future performance. The important factors that could cause our actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include, among others:

- future prices and demand for our products and demand for our customers' products;
- coal mine reserves potential;
- production forecasts of coal;
- trends in the coal industry and domestic and international coal market conditions;
- risks in coal mining;
- future expansion plans and capital expenditures;
- our relationship with, and other conditions affecting, our customers;
- competition;
- railroad and other transportation performance and costs;
- availability of specialist and qualified workers; and
- weather conditions or other catastrophic weather-related damage.

While these statements are based on sources believed to be reliable and on our management's current knowledge and best belief, they are merely estimates or predictions and cannot be relied upon. We cannot assure you that future results will be achieved. The risks and uncertainties that may cause our actual results to differ materially from the results indicated, expressed or implied in the forward-looking statements used in this Offering Circular include:

- risks relating to changes in political, economic and social conditions in Russia;
- risks relating to Russian legislation, regulation and taxation, including laws, regulations, decrees and decisions governing the Russian coal mining industry, the environment and currency and exchange controls relating to Russian entities and their official interpretation by governmental and other regulatory bodies and by Russian courts; and
- other risks and uncertainties.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate.

These forward-looking statements speak only as at the date of this Offering Circular. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are an open joint stock company organised under the laws of the Russian Federation. The majority of our directors and executive officers reside in the Russian Federation. Moreover, most of our assets are located in Russia. As a result, you may not be able to effect service of process within your jurisdiction on any of such persons, or to enforce within your jurisdiction a judgment obtained against us or such persons in the courts of your jurisdiction and predicated upon the laws of your jurisdiction.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in Russia unless (i) there is an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of such judgment, or completely deprive the plaintiff of effective legal recourse.

The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in Russia an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural legislation).

Moreover, it may be difficult to enforce foreign judgments or arbitral awards in Russia due to the inexperience of the Russian courts in international commercial transactions, official and unofficial political resistance to the enforcement of awards against Russian companies in favor of foreign investors and the inability of Russian courts to enforce such awards. The arbitrazh procedural code of the Russian Federation (the "**Arbitrazh Procedural Code**") establishes the list of grounds for Russian courts to refuse recognition and enforcement of any foreign arbitral awards. The Arbitrazh Procedural Code and other Russian procedural legislation are subject to further changes; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may be met with resistance or a lack of understanding by Russian courts or other officials, thereby causing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Circular, the terms "**we**", "**us**" and "**our**" refer to OJSC "Kuzbasskaya Toplivnaya Company", ("**KTK**"), also referred to as "Kuzbass Fuel Company", the Company, and/or the Group, as the context requires, except that references and matters relating to the shares and share capital of KTK or matters of corporate governance of KTK shall refer only to the Shares, share capital and corporate governance of KTK. The term the "**Group**" refers to KTK and, as the context requires, the companies we control or which are otherwise included in our Consolidated Financial Statements (as defined below).

Presentation of Financial Information

Our audited consolidated financial statements as of and for the financial year ended 31 December 2009 (with comparative information as of and for the years ended 31 December 2007 and 2008) included in this Offering Circular (the "**Consolidated Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and audited by ZAO KPMG, our independent auditors, having their registered address at 10, Block C, Presnenskaya Nab., Complex "Tower on the Embankment", Moscow 123317, Russian Federation.

Some of the data from the Consolidated Financial Statements presented herein, when shown in tabular format, is identified as "restated". For an explanation of the restatement, see Note 4(a) of the Consolidated Financial Statements on page F-19 of this Offering Circular.

Our functional currency, which reflects the economic substance of our operations, is the Rouble. The presentation currency of the Consolidated Financial Statements is the Rouble. This Offering Circular contains translations of certain amounts into U.S. dollars at specified rates solely for the purposes of presentation. These translations should not be construed as representations that the amounts actually represent such equivalent U.S. dollar amount or could be, or could have been, converted into U.S. dollars at the rate indicated as of the dates mentioned herein or at all.

The table below shows the high, low, average and period end exchange rates between the Rouble and the U.S. dollar, as published by the CBR and expressed as the number of Roubles per U.S.$1.00. These rates may differ from the actual rates used in the preparation of our Consolidated Financial Statements and other financial information appearing in this Offering Circular.

	Roubles per U.S. dollar			
Years ended 31 December	*High*	*Low*	*Average*[1]	*Period end*
2005	29.00	27.46	28.29	28.78
2006	28.78	26.18	27.19	26.33
2007	26.58	24.26	25.58	24.55
2008	29.38	23.13	24.86	29.38
2009	36.43	28.67	31.72	30.24

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

The table below shows the high and low Rouble-U.S. dollar exchange rates, as published by the CBR and expressed as the number of Roubles per U.S.$1.00, for each month during the four months prior to the date of this Offering Circular.

	Roubles per U.S. dollar			
Month	*High*	*Low*	*Average*[1]	*Period end*
January 2010	30.43	29.38	29.95	30.43
February 2010	30.52	29.88	30.19	29.95
March 2010	29.98	29.19	29.57	29.36
April 2010	29.50	28.93	29.20	29.29

(1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

No representation is made that the Rouble or U.S. dollar amounts in this Offering Circular could have been, can or will be able to be, converted to U.S. dollars or Roubles, as the case may be, at any particular rate or at all.

The exchange rate between the Rouble and the U.S. dollar quoted by the CBR on 30 April 2010 was RUB 29.29 per U.S.$1.00.

Presentation of Non-IFRS Measures

Throughout this Offering Circular, we have presented certain non-IFRS measures in the Offering Circular, namely EBITDA and other EBITDA related measures (*e.g.*, EBITDA margin), net debt, net debt to EBITDA ratio, total cash cost of coal production and net tangible book value per ordinary share.

We define EBITDA for each period as results from operating activities, adjusted for amortization and depreciation, impairment loss and loss on disposal of property, plant and equipment. We use EBITDA and EBITDA margin in our business operations to, among other things, evaluate the performance of our operations, develop budgets and measure our performance against those budgets. We find these measures to be a useful tool to assist in evaluating performance because they eliminate items related to finance costs, taxes and depreciation and amortization. Furthermore, we believe that EBITDA is commonly reported by comparable businesses and used by investors in comparing the performance of businesses on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred). EBITDA and EBITDA margin may not be comparable to similarly titled measures disclosed by other companies, and investors should not use this non-IFRS measure as a substitute for the figures provided in our Consolidated Financial Statements. EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity.

Net debt is calculated as the sum of bank overdrafts, short-term and long-term loans less cash and cash equivalents. Net debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. Our calculation of net debt may be different from the calculation used by other companies and therefore comparability may be limited. Although net debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. We believe that net debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available cash. Net debt allows us to show investors the trend in our net financial condition over the periods presented. However, the use of net debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that we would, or could, use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements.

Net debt to EBITDA is a ratio calculated by dividing net debt by EBITDA (each as defined above). We use this measure as the principal statistic for evaluating the impact of the total size of our net borrowings on our operations.

Total cash cost of coal production is calculated as cost of sales plus distribution expenses, net of (a) the costs of our subsidiaries, related to retail distribution, power generation, transportation and other business activities not directly related to coal production, except for costs incurred by our subsidiaries directly in connection with the operations of our mining facilities, (b) depreciation and amortization, (c) cost of coal for resale, (d) change in inventories, and (e) railway tariff and transportation services. We present total cash cost of coal production and other measures calculated using total cash cost of coal production because we consider them important supplemental measures of our operating performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in coal industry. Total cash cost of coal production and other measures calculated using total cash cost of coal production have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our operating results as reported under IFRS. We compensate for these limitations by relying primarily on our IFRS operating results and using total cash cost measures only as supplemental. Total cash cost of coal production and other measures calculated using total cash cost of coal production are measures of our operating performance that is not required by, or presented in accordance with, IFRS. Total cash cost of coal production and other measures calculated using total cash cost of coal production are not measurement of our operating performance under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS.

Total cash costs of coal production per tonne is calculated as total cash cost of coal production divided by the production volume of ROM coal for the respective year.

Average domestic price is calculated by dividing (i) the total revenue from domestic sales of coal (including sales of purchased coal) during a particular year, net of VAT and railroad tariffs by (ii) the sales volume of coal on the domestic market for the respective year.

Average export price is calculated by dividing (i) the total revenue from export sales of coal (including sales of purchased coal) during a particular year, net of VAT and railroad tariffs, translated, in the case of average export price measured in U.S. dollars, from Roubles into U.S. dollars at the average exchange rate (RUB 25.58 per U.S.$1.00 in the year ended 31 December 2007, RUB 24.86 per U.S.$1.00 in the year ended 31 December 2008; and RUB 31.72 per U.S.$1.00 in the year ended 31 December 2009, each such average exchange rate being the "**Average Exchange Rate**"), by (ii) the sales volume of coal on the export market for the respective year.

Net tangible book value per ordinary share is calculated as total assets net of total liabilities, goodwill and intangible assets, divided by the number of our Shares issued and outstanding at the relevant date.

Presentation of Industry and Market Information

Market data used in this Offering Circular, including without limitation under the captions "*Overview*", "*Risk Factors*", "*Coal Mining Industry*", "*Business*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" have been extracted from official and industry sources and other sources we believe to be reliable but have not been independently verified. In particular, this data has been sourced from reports published by the BP Statistical Review of World Energy 2009 (the "**BP Statistical Review**"), available at *http://www.bp.com/statisticalreview*; Russian Energy Balance Forecast Association, presentation on the electric energy balance for the period of 2009-2015 and for 2020, G.Y Terentiev, 6 August 2009, available at *http://www.e-apbe.ru ("***Russian Energy Balance Forecast Association**"); International Energy Agency, World Energy Outlook, 2009 ("**IEA**"); Information Agency CJSC Rosinformugol, 2009 and 2010 ("**Rosinformugol**"); United States Geological Survey ("**USGS**"); Federal Agency for Subsoil Use ("**Rosnedra**"), formerly known as the State Committee on Geology and the Use of Subsoil Resources of the Russian Federation; and Metall Expert, February 2010 ("**Metall Expert**"). Throughout this Offering Circular, we have also set forth certain statistics, including statistics in respect of product sales volumes and market shares, from industry sources and other sources we believe to be reliable but that have not been independently verified. We accept responsibility for accurately reproducing such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In the preparation of the Offering Circular, third-party information has not been independently verified, nor has there been any investigation of the validity of the methodology of or the basis used by the third parties in producing such information or making estimates and forecasts. Accordingly, neither we nor any Selling Shareholder can give any assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate. Unless otherwise stated, no data included in the Offering Circular has been restated to reflect the effects of inflation.

In addition, the official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on bases different from those used in Western countries. Any discussion of matters relating to Russia in this Offering Circular must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by the Russian government may be questionable.

Presentation of Resources and Reserves

This Offering Circular contains information concerning our mineral resources and coal reserves, derived from the mineral resources and reserves evaluation of IMC Group Consulting Ltd ("**IMC**"), dated 16 April 2010. This report (the "**IMC Report**") is attached as Appendix MER to this Offering Circular. IMC has re-classified our resource estimates, which were prepared under Russian standards using the terminology and guidelines proposed in the JORC Code (as defined herein). For discussion on this matter, see the IMC Report.

Structural Capacity

References to structural capacity mean the maximum production capacity that we believe could be achieved (taking into account projected stoppages for planned repair and maintenance) in an annual period if we were able to process all the coal that could be mined using our existing mine facilities after acquisition of certain mining equipment and construction of three coal processing and enrichment facilities in accordance with our current capital expenditure program.

Legal Entities

In this Offering Circular, all references to:

- "**Altay Fuel Company**" are to OJSC Altay Fuel Company;
- "**Anzheromash**" are to OJSC Anzheromash;
- "**Anzherskaya Beneficiation Plant**" are to LLC Anzherskaya Beneficiation Plant;
- "**ARESBANK**" are to LLC Commercial Bank ARESBANK;
- "**Bank Levoberezhny**" are to Novosibirsk Social Commercial Bank Levoberezhny;
- "**Bank of Moscow**" are to OJSC Bank of Moscow;

- "**Bank VTB North-West**" are to OJSC Bank VTB North-West;
- "**Belon**" are to OJSC Belon;
- "**Gazprombank**" are to Gazprombank (Open Joint-stock Company);
- "**GLOBEX**" are to CJSC GLOBEXBANK;
- "**Karakan Farm**" are to LLC Fermerskoye Khoziaystvo Karakan;
- "**Kaskad Geo**" are to LLC Kaskad Geo;
- "**Kaskad-Energo**" are to OJSC Kaskad-Energo;
- "**KeNoTEK**" are to OJSC KeNoTEK;
- "**KRU**" are to OJSC Coal Company Kuzbassrazrezugol;
- "**Kuzbassenergosbyt**" are to OJSC Kuzbassenergosbyt;
- "**Kuzbasstoplivosbyt**" are to OJSC Kuzbasstoplivosbyt;
- "**Management Company Kaskad**" are to CJSC Management Company Kaskad;
- "**Novosibirsk Fuel Corporation**" are to LLC Novosibirsk Fuel Corporation;
- "**Novosibirsktoplivosbyt**" are to LLC Novosibirsktoplivosbyt;
- "**Raiffeisenbank**" are to CJSC Raiffeisenbank;
- "**Russian Coal**" are to OJSC Russian Coal;
- "**Russian Railways**" are to OJSC Russian Railways;
- "**Sberbank**" are to OJSC Sberbank;
- "**SDS-Ugol**" are to OJSC Holding company SDS-Ugol;
- "**Shakhta Kolmogorovskaya**" are to OJSC Shakhta Kolmogorovskaya;
- "**Sibirenergouglesnab**" are to OJSC Production Enterprise Sibirenergouglesnab;
- "**SUEK**" are to OJSC Siberian Coal Energy Company (SUEK);
- "**TEKM**" are to LLC TEK Meret;
- "**TransUgol**" are to LLC TransUgol;
- "**UniCredit Bank**" are to CJSC UniCredit Bank; and
- "**Yuzhnyi Kuzbass**" are to OJSC Yuzhnyi Kuzbass.

Certain Jurisdictions

In this Offering Circular references to, unless otherwise specified:

- "**CIS**" are to the Commonwealth of Independent States and its member states as of the date of this Offering Circular: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In this Offering Circular, references to "sales to the CIS" (and derivations thereof) mean sales to customers in CIS member states other than Russia;
- "**Russia**" are to the Russian Federation;
- "**U.K.**" and "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland;
- "**U.S.**" and "**United States**" are to the United States of America;
- "**Western Siberia**" is to the geographical region of Russia, part of Siberia, covering 2.8 mln sq km and stretching from the Ural Mountains to the channel of the Yenisei River that include part of Sverdlovsk region, part of Chelyabinsk region, Kurgan region, Tumen region, Khanty-Mansi (Yugra) autonomous area, Yamalo-Nenetsky autonomous area, Omsk region, Tomsk region, Novosibirsk region, Kemerovo region, Altai territory, republic of Altai, republic of Khakassia and Krasnoyarsk territory (western parts);
- "**Central Federal District**" are to the federal district of the Russian Federation that includes the city of Moscow and the Belgorod, Bryansk, Ivanovo, Kaluga, Kostroma, Kursk, Lipetsk, Moscow, Orel, Ryazan, Smolensk, Tambov, Tver, Tula, Vladimir, Voronezh and Yaroslavl regions (*oblasti*);

- "**Southern Federal District**" are to the federal district of the Russian Federation that includes the republics of Adygeya and Kalmykia, the Krasnodar territory (*kray*) and the Astrakhan, Rostov and Volgograd regions (*oblasti*);
- "**North-Caucasus Federal District**" are to the federal district of the Russian Federation that includes the republics of Dagestan, Ingushetia, North Ossetia — Alania, the Chechen republic, the Kabardino-Balkarian republic, the Karachayevo-Cireassian republic and the Stavropol territory (*kray*);
- "**Volga Federal District**" are to the federal district of the Russian Federation that includes the republics of Bashkortostan, Marii El, Mordovia and Tatarstan, the Udmurtian republic, the Chuvash republic, the Perm territory (*kray*) and the Kirov, Nizhniy Novgorod, Orenburg, Penza, Samara, Saratov and Ulyanovsk regions (*oblasti*);
- "**North-Western Federal District**" are to the federal district of the Russian Federation that includes the city of St. Petersburg, the republic of Karelia, the Komi republic, the Arkhangelsk, Kaliningrad, Leningrad, Murmansk, Novgorod, Pskov and Vologda regions (*oblasti*) and the Nenetsky autonomous area (*okrug*);
- "**Urals Federal District**" are to the federal district of the Russian Federation that includes the Chelyabinsk, Kurgan, Sverdlovsk and Tyumen regions (*oblasti*) and the Yamalo-Nenetsky and Khanty-Mansi (Yugra) autonomous areas (*okruga*);
- "**Siberian Federal District**" are to the federal district of the Russian Federation that includes the republics of Altai, Buryatia, Khakassia and Tyva, the Altai, Krasnoyarsk and Zabaykalsky territories (*kraya*) and the Irkutsk, Kemerovo, Novosibirsk, Omsk and Tomsk regions (*oblasti*); and
- "**Far East Federal District**" are to the federal district of the Russian Federation that includes the republic of Sakha (Yakutia), the Kamchatka, Khabarovsk and Primorie territories (*kraya*), the Jewish autonomous region (*oblast*), the Amur, Magadan and Sakhalin regions (*oblasti*) and the Chukotka autonomous area (*okrug*).

Certain Currencies

In this Offering Circular all references to:

- "**RUB**" and "**Rouble**" are to the currency of Russia;
- "**€**" and "**Euro**" are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; and
- "**U.S.$**" and "**U.S. dollar**" are to the currency of the United States of America.

Rounding

Certain amounts that appear in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them, and the figures expressed as percentages may not total 100% when aggregated.

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SUMMARY

This summary presents certain information contained elsewhere in this Offering Circular and is qualified in its entirety by and should be read in conjunction with the more detailed information about us, including the sections entitled "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and our Consolidated Financial Statements and the accompanying notes thereto, appearing elsewhere in this Offering Circular. No civil liability will attach to us or the Selling Shareholders solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular.

Overview

We are one of the fastest-growing thermal coal producers in Russia. Based on 2009 production volumes, we ranked seventh among the largest thermal coal producers in the country, according to Metall Expert. In the ten years since our establishment in 2000, we have commissioned and launched three open-pit mines, reaching production volume of 6.15 million tonnes of coal for the year ended 31 December 2009. We expect to continue to grow our production volume, in particular as a result of the launch of the Cheremshansky mine in 2008 and ongoing investments into our high performance modern mining equipment, aimed at achieving production levels up to the aggregate structural capacity of our existing mines of 11 million tonnes of thermal coal per annum.

We conduct our mining operations at three open-pit mines, located in the Kuzbass area of Russia. The Kuzbass area is located within the Kemerovo region, Russia's largest coal producing region accounting for 60% of Russia's total production in 2009, and home to six of the 10 largest Russian coal-producing companies in terms of production volume. Open-pit mining, our high-performance and large-capacity equipment, which has undergone substantial modernization since 2006, as well as the compact location of our production and administrative facilities, enable us to maintain low production costs and overhead expenses. Our mining operations are supported by well-developed production and transportation infrastructure, able to support the structural capacity of our existing mines and helping to further ensure low operating and administrative costs, as well as efficient production and distribution. One of the principal components of our support infrastructure is our own railway network, which stretches over 70 kilometers and enables us to transport 100% of our coal from our open-pit mines to the main railway hub at the long-distance railway network, operated by Russian Railways. We believe further expansion of our production levels up to the aggregate structural capacity of our existing mines will not require significant capital expenditure, other than into additional mining equipment and coal processing and enrichment facilities. See *"Business — Capital Investment Program"*. Our domestic sales are supported by one of the largest retail coal distribution networks in Western Siberia comprising 60 points of sale as of 31 December 2009, which, together with our strong regional presence, positions us as one of the principal suppliers of thermal coal to retail consumers in the region.

We enjoy a relatively large base of mineral resources, which, according to the IMC Report, totaled approximately 409.3 million tonnes of ROM coal resources as of 1 January 2010, of which 191.6 million tonnes were proven and probable reserves of ROM coal, recoverable during the period between 2010 and 2029. We produce exclusively sub-bituminous thermal coal, classified as grade "D" under the Russian classification system, with a naturally low sulphur and phosphorus content as well as a relatively high calorific value, which is in demand both in Russia and abroad.

For the year ended 31 December 2009, our total sales, in both domestic and export markets, amounted to 7.41 million tonnes of coal, of which 6.03 million tonnes were extracted by us and 1.38 million tonnes were resold after purchasing from other coal producers. We maintain diversified sales capabilities, including a wide retail domestic distribution network and growing export operations, which help us achieve stable and efficient distribution of our coal. For the year ended 31 December 2009, approximately 4.71 million tonnes, or 63.6%, of our thermal coal sales were to domestic consumers in Russia, of which 58.8% was sold through our retail distribution network in Western Siberia. Approximately 36.4% of our thermal coal sales in volume terms for the year ended 31 December 2009 were export sales, primarily to Poland, South Korea and China.

For the year ended 31 December 2009, we had total revenue of RUB 10,658 million, EBITDA of RUB 2,177 million and profit for the year of RUB 663 million. Our gross margin and EBITDA margin were 23.3% and 20.4%, respectively. As of 31 December 2009, our net debt was RUB 3,773 million, with net debt to EBITDA ratio of 1.7.

Competitive Strengths

We believe that the following strengths have contributed to our success and will continue to be competitive advantages for us, supporting our strategy and contributing to improvements in our financial performance:

- strong organic growth potential on the back of a demonstrated track record;
- strong base of coal reserves;
- high product quality;

- efficient low-cost production;
- established support infrastructure;
- extensive retail network;
- diversified sales and distribution capabilities; and
- experienced management team with a proven track record in the industry.

For a more detailed description of our strengths, please see the section entitled *"Business — Competitive Strengths"* included elsewhere in this Offering Circular.

Business Strategy

We will continue to seek opportunities to leverage our competitive strengths and pursue opportunities to increase shareholder value through the following strategies:

- further production growth and efficiency improvement;
- enhancement of product quality and entering new markets;
- further strengthening of distribution and sales capabilities in Russia and internationally;
- cost optimization and profitability improvements; and
- further enhancement of corporate governance standards.

For a more detailed description of our strategies, please see the section entitled *"Business — Business Strategy"* included elsewhere in this Offering Circular.

Risk Factors

An investment in the Shares involves risks, including those relating to or arising from the Group's business and industry, political, social, economic, legislative and legal risks associated with Russia and risks arising from the nature of the Shares and the markets upon which they are or are expected to be traded, as described in the section entitled *"Risk Factors"* included elsewhere in this Offering Circular.

THE OFFERING

The Company	KTK, an open joint stock company organized under the laws of the Russian Federation.
The Selling Shareholders	(i) Mr. Prokudin, a citizen of the Russian Federation and our General Director and (ii) Laycraft, a company incorporated under the laws of Cyprus and 100% indirectly owned by Mr. Vadim Danilov, the Chairman of our Board of Directors. As of the date hereof, the Selling Shareholders own, directly or indirectly, in aggregate approximately 75,032,350 shares, or 88.9% of our share capital. After the Offering and the Open Subscription (as described below), the Selling Shareholders are expected to own, directly or indirectly, approximately 64,210,346 shares, or 64.66% of our increased share capital, which include a purchase of 46,154 New Shares by Laycraft through the Open Subscription.
The Offering	The Offering consists of (i) an offering by us of 14,258,686 Subscribed Shares, and (ii) an offering of 10,868,158 Sale Shares by the Selling Shareholders (3,339,438 and 7,528,720 by Mr. Prokudin and Laycraft, respectively). The Shares are being offered to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside of the United States in reliance on Regulation S under the Securities Act. See *"Plan of Distribution and Transfer Restrictions"*.
Share Capital	Prior to the Offering, our share capital consisted of 84,399,400 ordinary shares, each with a nominal value of 0.2 Roubles, which are fully paid and issued. In addition, we are authorized by our charter to issue up to 14,900,000 additional ordinary shares and, of this amount, the issuance of up to 14,900,000 ordinary shares has been approved by our general shareholders' meeting and registered with the FSFM. Following the Offering and Open Subscription, our share capital will consist of 99,299,400 issued and outstanding Shares, assuming that all New Shares are subscribed and paid for. The Shares are subject to applicable provisions of Russian corporate law and our charter and have the rights described under *"Description of Share Capital and Certain Requirements of Russian Legislation"*.
Open Subscription	Placement of 14,900,000 New Shares by us through an open subscription ("**Open Subscription**") pursuant to the decision of our General Shareholders' Meeting, dated 17 February 2010. The issue of the New Shares was registered by the Regional Office of FSFM in the Siberian Federal District on 1 April 2010 under the state registration number 1-02-11330-F-001D.
Pre-emptive Rights	Our shareholders of record as of 15 January 2010 have a statutory pre-emptive rights under Russian law to subscribe for the New Shares pro rata to their existing shareholdings as of that date. We published a notice to such shareholders advising them of their statutory pre-emptive rights on 2 April 2010. Our existing shareholders were entitled to exercise their statutory pre-emptive rights over a period of 20 calendar days which commenced on 3 April 2010 and ended on 22 April 2010 (inclusive). Any New Shares not subscribed for by our shareholders by such date in the exercise of their statutory pre-emptive rights will be offered to investors. As of 23 April 2010, we have received applications from our existing shareholders with respect to 595,160 New Shares. See also *"Description of Share Capital and Certain Requirements of Russian Legislation."* Any New Shares subscribed for by our existing shareholders shall be paid for at the same price as the offer price per share in the Offering. See *"— Offer Price."* Shareholders which have exercised their statutory pre-emptive

	rights must pay for the New Shares in same-funds not later than five business Moscow days from and including the date of the disclosure of the Offer Price. Any New Shares subscribed but not paid for in full by our existing shareholders during this period will not be allocated to them, will not be sold in the Offering and will be cancelled.
Offer Price	U.S.$6.50 per Share.
Subscribed Shares Issuance Date	Expected to be on or about 12 May 2010.
Closing Date	Expected to be on or about 24 May 2010.
Lock-Ups	We, Mizar Management Limited, a company incorporated under the laws of the British Virgin Islands and 100% indirectly owned by Mr. Prokudin ("**Mizar**"), the Selling Shareholders and our subsidiaries and controlled affiliates have undertaken not to offer, issue or sell the Shares or any of our securities that are substantially similar to the Shares for 180 days after the Closing Date, subject to certain exceptions.
Submission of Placement Notification	The Open Subscription will be subject to cancellation until the Placement Notification for the New Shares is submitted to the FSFM. We have undertaken to submit the Placement Notification with the FSFM not later than on the business day immediately following the Subscribed Shares Issuance Date.
Transfer Restrictions	The Shares will be subject to certain restrictions on transfer, as described under *"Plan of Distribution and Transfer Restrictions"* and *"Settlement, Clearing and Trading."*
Listing and Market for the Shares	On 20 and 22 April 2010, the Shares were admitted to trading and listed on quotation list "V" on MICEX and RTS, respectively.
Payment and Settlement Procedures	The Shares are being offered severally by the Joint Lead Managers, subject to receipt and acceptance by them of and subject to their rights to reject, any order in whole or in part. In order to take delivery of the Shares, a purchaser must have either a direct account with our share registrar, OJSC "Moscow Central Depository" (the "**Share Registrar**"), or a deposit account with CJSC "Depository Clearing Company" ("**DCC**") or CJSC "The National Depository Center" ("**NDC**"), or any other depository that has an account with DCC or NDC. A purchaser may, at its own expense, choose to hold the Shares through a direct account with the Share Registrar. However, directly held Shares are ineligible for trading on RTS or MICEX. Shares can be traded on RTS only if they are deposited with DCC (or another depositary that has an account with DCC). Shares can be traded on MICEX only if they are deposited with NDC (or another depositary that has an account with NDC). See *"Settlement, Clearing and Trading."* Each purchaser of Shares must pay for the Shares delivered to such purchaser in U.S. dollars or Roubles on or before the date agreed between such purchaser and the Joint Lead Managers, but in any case not later than three business days before the Closing Date. All amounts payable in Roubles shall be paid at the official exchange rate set by the CBR for the date immediately preceding the date on which the relevant payment is made.
Voting	Each Share is entitled to one vote at a general shareholders' meeting subject to certain exceptions described in *"Description of Share Capital and Certain Requirements of Russian Legislation."*
Use of Proceeds	Proceeds from the sale of the New Shares will be used for the procurement and modernization of our coal-mining equipment as well as to construct new coal processing and enrichment facilities.

Russian Tax	You may be subject to Russian tax that might be withheld on trades of the Shares. For further information, see the sections entitled *"Risk Factors"* and *"Russian Taxation Consideration."*
Risk Factors	See *"Risk Factors"* below for a discussion of certain risks involved in investing in the Shares.

General Information

• MICEX trading symbol:	The Sale Shares are expected to be traded on MICEX under the symbol "KBTK". The Subscribed Shares are expected to be traded on MICEX under a temporary symbol of "KBTK-001D". Following admission to trade after the filing of the Placement Notification with the FSFM, and following receipt of a notification from the FSFM cancelling the separate registration number of the Subscribed Shares, which is expected to occur no later than three months and 14 days after the date of the filing of the Placement Notification (which is expected to be on or about 12 May 2010), the Subscribed Shares are expected to be traded on MICEX under the symbol "KBTK".
• RTS trading symbol:	The Sale Shares and the Subscribed Shares are expected to be traded on RTS under the symbol "KBTK".
• The ISIN (International Security Identification Number) of the Shares	Sale Shares ISIN: RU000A0JPYD7 Subscribed Shares ISIN: RU000A0JQUJ0

SUMMARY CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

The following summary consolidated historical financial information for the Group has been extracted without material adjustment from the Consolidated Financial Statements and must be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Consolidated Financial Statements (including the notes thereto) included in this Offering Circular.

	For the year ended 31 December					
	2007[2]		2008 (Restated)[1]		2009	
	mln RUB	*%*	*mln RUB*	*%*	*mln RUB*	*%*
Consolidated statement of comprehensive income						
Revenue	**3,864**	**100.0**	**8,557**	**100.0**	**10,658**	**100.0**
Cost of sales	(3,168)	(82.0)	(6,090)	(71.2)	(8,171)	(76.7)
Gross profit	**696**	**18.0**	**2,467**	**28.8**	**2,487**	**23.3**
Distribution expenses	(174)	(4.5)	(242)	(2.8)	(312)	(2.9)
Administrative expenses	(422)	(10.9)	(565)	(6.6)	(687)	(6.4)
Other operating expenses	(16)	(0.4)	(22)	(0.3)	(19)	(0.2)
Results from operating activities	**84**	**2.2**	**1,638**	**19.1**	**1,469**	**13.8**
Finance income	27	0.7	66	0.8	65	0.6
Finance costs	(209)	(5.4)	(402)	(4.7)	(656)	(6.2)
(Loss) / profit before income tax	**(98)**	**(2.5)**	**1,302**	**15.2**	**878**	**8.2**
Income tax expense	(8)	(0.2)	(200)	(2.3)	(215)	(2.0)
(Loss) / profit and total comprehensive income for the year	**(106)**	**(2.7)**	**1,102**	**12.9**	**663**	**6.2**
Consolidated balance sheet data						
Non-current assets		5,284		6,864		7,430
Current assets		989		2,192		1,985
Total assets		**6,273**		**9,056**		**9,415**
Total equity		1,820		2,818		3,467
Non-current liabilities		1,822		3,084		2,869
Current liabilities		2,631		3,154		3,079
Total equity and liabilities		**6,273**		**9,056**		**9,415**
Consolidated statement of cash flows data						
Cash flows from operating activities		**70**		**1,732**		**626**
Cash flows used in investing activities		**(1,168)**		**(1,946)**		**(1,030)**
Cash flows from financing activities		**1,003**		**436**		**221**
Net increase/(decrease) in cash and cash equivalents		**(95)**		**222**		**(183)**

(1) Some of the data from Consolidated Financial Statements presented herein, when shown in tabular format, is identified as "restated". For an explanation of the restatement, see Note 4(a) of the Consolidated Financial Statements on page F-19 of this Offering Circular.

(2) The independent auditors' report on the 2009 Consolidated Financial Statements was modified in respect of certain corresponding figures for 2007. For an explanation of the modification, see the independent auditors' report on page F-2 of this Offering Circular.

	For the year ended 31 December		
	2007	2008	2009
Other financial data			
EBITDA (*mln RUB*)[1]	475	2,172	2,177
EBITDA margin (%)[2]	12.3	25.4	20.4
Net debt[3] *(mln RUB)*	3,087	3,370	3,773
Net debt to EBITDA ratio[4]	6.5	1.6	1.7
Total cash cost of coal production[5] *(mln RUB)*	1,370	2,062	2,698
Total cash cost of coal production per tonne[6] *(RUB)*	334	337	439
Total cash cost of coal production per tonne *(U.S.$)*	13.1	15.2	13.8

(1) EBITDA for each period is defined as results from operating activities, adjusted for amortization and depreciation, impairment loss and loss on disposal of property, plant and equipment. We use EBITDA and EBITDA margin in our business operations to, among other things, evaluate the performance of our operations, develop budgets and measure our performance against those budgets. We find these measures to be a useful tool to assist in evaluating performance because they eliminate items related to finance costs, taxes and depreciation and amortization. Furthermore, we believe that EBITDA is commonly reported by comparable businesses and used by investors in comparing the performance of businesses on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred). EBITDA and EBITDA margin may not be comparable to similarly

titled measures disclosed by other companies, and investors should not use this non-IFRS measure as a substitute for the figures provided in our Consolidated Financial Statements. EBITDA is not a measurement of our operating performance under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity.

The following table presents a reconciliation of EBITDA to results of operating activities for the periods indicated:

	For the year ended 31 December		
	2007	**2008**	**2009**
		mln RUB	
Results from operating activities	84	1,638	1,469
Depreciation and amortization	375	512	689
Impairment loss	-	17	15
Loss on disposal of property, plant and equipment	16	5	4
EBITDA	**475**	**2,172**	**2,177**

(2) EBITDA margin represents EBITDA as a percentage of revenue.

(3) Net debt is calculated as the sum of bank overdrafts, short-term and long-term loans minus cash and cash equivalents. Net debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. Our calculation of net debt may be different from the calculation used by other companies and therefore comparability may be limited. Although net debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. We believe that net debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from our available cash. Net debt allows us to show investors the trend in our net financial condition over the periods presented. However, the use of net debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that we would use all of our cash to reduce our gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements.

The following table presents a reconciliation of net debt for the periods indicated:

	For the year ended 31 December		
	2007	**2008**	**2009**
		mln RUB	
Bank overdrafts	-	60	-
Short-term loans	1,846	1,172	1,655
Long-term loans	1,272	2,453	2,204
Cash and cash equivalents	(31)	(315)	(86)
Net debt	**3,087**	**3,370**	**3,773**

(4) Net debt to EBITDA ratio is net debt as of the end of the relevant period divided by EBITDA

(5) Total cash cost of coal production is calculated as cost of sales plus distribution expenses, net of (a) the costs of our subsidiaries, related to retail distribution, power generation, transportation and other business activities not directly related to coal production, except for costs incurred by our subsidiaries directly in connection with the operations of our mining facilities, (b) depreciation and amortization, (c) cost of coal for resale, (d) change in inventories, and (e) railway tariff and transportation services. We present total cash cost of coal production and other measures calculated using total cash cost of coal production because we consider them important supplemental measures of our operating performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in coal industry. Total cash cost of coal production and other measures calculated using total cash cost of coal production have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our operating results as reported under IFRS. We compensate for these limitations by relying primarily on our IFRS operating results and using total cash cost measures only as supplemental. Total cash cost of coal production and other measures calculated using total cash cost of coal production are measures of our operating performance that is not required by, or presented in accordance with, IFRS. Total cash cost of coal production and other measures calculated using total cash cost of coal production are not measurement of our operating performance under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS.

The following table presents a reconciliation of total cash cost of coal production for the periods indicated:

	For the year ended 31 December					
	2007		2008		2009	
Total cash costs of coal production	**Cash cost** *mln RUB*	**Share** *%*	**Cash cost** *mln RUB*	**Share** *%*	**Cash cost** *mln RUB*	**Share** *%*
			unless otherwise indicated			
Consolidated cost of sales	**3,166.76**	**100**	**6,090.17**	**100**	**8,170.86**	**100**
Less:						
Cost of sales of subsidiaries and intercompany eliminations	(719.65)	23	(2,196.19)	36	(3,745.91)	46
Cost of sales of KTK	**2,447.11**	77	**3,893.98**	64	**4,424.95**	54
Less:						
Depreciation allocated to cost of sales	(264.09)		(391.77)		(547.63)	
Cost of coal for resale	(417.78)		(528.99)		(337.84)	
Change in inventories	2.33		33.83		36.96	
Railway tariff and transportation services	(416.58)		(972.75)		(886.88)	
Total cash cost of production allocated to cost of sales, including:	**1,350.99**		**2,034.30**		**2,689.57**	
Cash costs allocated to cost of sales						
Extraction, processing and sorting of coal	72.23	5	259.30	13	659.06	25
Repair and maintenance	51.82	4	49.76	2	114.31	4
Salary and UST	408.63	30	551.95	27	607.72	22
Mining and environment taxes	96.45	7	203.00	10	203.87	8
Fuel	271.26	20	539.11	27	484.95	18
Spare parts	148.72	11	202.39	10	312.13	12
Other expenses	301.87	23	228.80	11	307.53	11
Total cash costs of production allocated to cost of sales	**1,350.99**	**100**	**2,034.30**	**100**	**2,689.57**	**100**
Consolidated distribution expenses	**174.02**		**242.60**		**311.53**	
Less:						
Distribution expenses of subsidiaries	(144.95)		(235.04)		(302.92)	
Distribution expenses of KTK	**29.07**		**7.56**		**8.61**	
Less depreciation allocated to distribution expenses	(28.30)		(5.41)		—	
Add services provided by TEKM	18.18		25.42		—	
Cash costs allocated to distribution expenses	**18.95**		**27.57**		**8.61**	
Total cash costs of coal production	**1,370**		**2,062**		**2,698**	
Production of ROM coal (*mln tonnes*)	4.10		5.48		6.15	
Total cash cost of coal production per tonne *(RUB)*	**334**		**377**		**439**	
Average Exchange Rate	25.58		24.86		31.72	
Total cash cost of coal production per tonne *(U.S.$)*	13.1		15.2		13.8	

(6) Total cash costs of coal production per tonne is calculated as total cash cost of coal production divided by the production volume of ROM coal for the respective period.

An investment in the Shares involves a high degree of risk. Prospective investors should carefully consider all of the information set forth in this Offering Circular, particularly the risks described below, before making a decision to invest in the Shares. Any of the following risks, individually or together, could adversely affect our business, financial condition, results of operations or prospects, which could result in a decline in the value of the Shares and the loss of all or part of an investment in the Shares. While we have described the risks and uncertainties that our management believes are material, these risks and uncertainties may not be the only risks and uncertainties we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also have any or all of the effects set forth above.

Risks Relating to Our Business and Industry

Our business and results of operations are dependent on coal markets, which may be subject to cyclical trends, general economic conditions and a decline or volatility in prices of coal

As the majority of our revenue is derived from sales of coal, our business and operating results are dependent on the strength of domestic and international demand for coal. The domestic and international coal markets are cyclical and exhibit fluctuations in supply and demand, which can lead to substantial volatility in coal prices. The domestic and international coal markets are subject to numerous factors beyond our control, including, but not limited to:

- domestic and global economic conditions;
- supply and demand for domestic and foreign coal;
- fluctuations in industries with high demand for coal;
- cost and accessibility of transportation facilities;
- developments in gas and other energy commodity markets; and
- domestic and foreign governmental regulations and taxes.

Coal, as a commodity, is traded in markets throughout the world and is influenced by various factors, such as global economic cycles and economic growth rates. Since 63.6% of our total coal sales volume for the year ended 31 December 2009 were pursuant to contracts entered with our domestic customers, our business, financial condition and results of operations are highly dependent on the Russian market as well as the international market. The domestic and international markets for coal have, at times, experienced alternating periods of increased demand, which has lead to insufficient production capacity, and, in turn, put upward pressure on prices and margins, and periods of excess supply, which has lead to excess production capacity, and, in turn, put downward pressure on prices and margins. Furthermore, demand/supply and pricing dynamics in Russia's domestic coal market have often demonstrated low correlation with that observed in international markets.

The global financial and economic crisis that began in the second half of 2008 (the "**Global Economic Crisis**") led to a sharp reduction of industrial production and trade, which, in turn, resulted in reduced energy consumption and demand for thermal coal both domestically and abroad. The demand for thermal coal was further constrained by a rapid decline in prices of other traditional fuel sources, such as gas and fuel oil. See "— *The coal industry is highly competitive, and we may not be able to compete successfully.*" The direct consequences of the decrease in demand were a decrease in sales, production volumes and prices of thermal coal in Russia and abroad. For more detailed discussion on the developments in the industry, see *"Coal Mining Industry — Global coal market"*.

Since the third quarter of 2009, the global demand for thermal coal has gradually been recovering. The Russian economy, aided by higher oil prices and stronger global demand, began to recover as well. Although thermal coal prices have increased slightly since the beginning of 2009, the timing and extent of the global and domestic demand cannot be predicted. There is no assurance that the domestic or international demand for coal will grow, or that the domestic or international coal markets will not experience excess supply. Any significant decline in demand for coal on the domestic or international markets and/or excess supply of coal by other coal producers may have material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

The coal industry is highly competitive, and we may not be able to compete successfully

The coal industry is intensely competitive both within the industry and with respect to other traditional fuel sources, in particular, gas and fuel oil. Competition in the coal industry is based on many factors, such as price, production volume, coal quality and characteristics, transportation capability and cost. In previous years, increased demand for coal has attracted new investors to the coal producing industry, which has led to an increasingly competitive environment. Certain of our domestic and international competitors have greater financial, marketing, distribution and other resources than us, and they may also have more recognizable brand names. The Global Economic Crisis

reduced demand for coal. Global thermal coal production levels may not adjust fully to falling demand and thermal coal production increases may outstrip demand increases in the early stages of economic recovery, resulting in an extended period of depressed prices. There can be no assurance that we will maintain our competitive position in such an environment. For example, our competitors may develop techniques to improve coal quality, new competitors may emerge, or our own reserve mining conditions may deteriorate. Our failure to maintain a competitive position could have a material adverse effect on our business.

We may also face competition from providers of other traditional fuel sources such as gas and fuel oil or renewable energy sources, such as wind and solar energy, and other alternative fuel sources. Should such other traditional or renewable energy sources become more competitively priced or sought as an energy substitute for thermal coal, the demand for such other traditional fuel or renewable energy sources may adversely impact the demand for coal.

Our competitiveness and long-term profitability substantially depend upon our ability to maintain a low-cost base. See *"— Our operating costs could increase significantly"*. There can be no assurance that our cost inputs will be maintained at current levels. Our most significant cost inputs include replacement parts, explosives, fuel (diesel fuel and gasoline), lubricants, transport, contractor services and labor. Labor costs, in particular, have increased significantly in the past partly due to increased competition for skilled labor. Any increase in our costs could materially and adversely affect our business, financial condition, result of operations and prospects. Our unit production costs are also significantly affected by production volumes, given the relatively fixed nature of our cost base in the short term. Any inability by us to maximize capacity utilization could impair our overall cost competitiveness.

Increased competition from domestic and international producers of fuel sources could result in more downwards pressure on competitive pricing, which could materially and adversely affect our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

The price of coal on the domestic market is affected by the regulation of domestic gas

The alternative fuel consumed by the Russian power generation companies is gas. Therefore, domestic thermal coal prices show a strong correlation to the price of gas in Russia. Domestic gas prices, which are regulated by the Russian government, are substantially below European gas prices. However, in November 2006, the Russian government adopted plans to liberalize the Russian gas market through gradual increases of domestic gas prices by over 25% in the years 2009-2011 in order to achieve a declared level of equal profitability of gas sales on both domestic and export markets by 2011, after adjusting for export taxes, transportation costs, and transit tariffs (the process commonly referred to as "netback pricing"). These plans have been amended in the current economic climate and, while the ultimate objective of price convergence remains intact, there is no certainty in respect of a specific schedule of such convergence. Such increases in gas prices could lead to an increase in demand for thermal coal, particularly on the part of large power generation companies if they seek to shift to coal-based power generation in response to growing gas prices. There can be no assurance, however, the gas price liberalization policy will be maintained or that it will result in a positive effect on the domestic demand of coal. This could have a material adverse effect on our business, prospects, financial condition results of operations and/or the trading price of the Shares.

The price of coal could be affected by the Russian power industry

The Russian power industry has undergone substantial reform and restructuring since 2001. This reform and restructuring aims to achieve, among other things, changes in the regulatory framework of the power industry, the development of competitive electricity and electricity capacity markets, and the gradual expansion of those competitive markets, with the goal of reducing the percentage of output subject to regulated prices, or tariffs. The current regulatory regime contemplates that there will be a gradual expansion of the competitive segment of the electric power sector and consequently a reduction in the portion of the market that is subject to tariff regulation. The sector reform provides for the development of a fully-liberalized market for electricity generation, retail and related services by 2011, in which electricity prices will be established on the basis of supply and demand. The current process of liberalization does not extend to residential consumption and the Far East Federal District, which remain subject to regulated tariffs, nor does it currently contemplate the creation of a free market for transmission, distribution and dispatch services.

The competition between power generation companies is expected to become more intense as the wholesale electricity market is further liberalized. New generation facilities may also enter the market. With deregulation of gas prices, the demand for coal may increase as a cheaper source for electricity generation. In addition, Russia's current energy strategy promotes the construction of advanced coalfired generation facilities in the coal-rich Siberian region, as well as the Urals region, which is close to coal-producing regions of Siberia and Kazakhstan, which could lead to an increase in demand for thermal coal.

The timing and the scope of these stages of the reform of the Russian power industry have changed several times since the formal launch of the reform program in July 2001, and it is possible that the current plan of the Russian government to fully liberalize the non-residential electricity and capacity markets by 2011 may not be implemented within this timeframe or achieve all of its objectives. As a result of the reform process and the uncertainty associated with its completion and ultimate scope, the Russian power generation market has changed significantly and continues to operate in conditions of relative uncertainty. There can be no assurance, however, that the electricity price liberalization will actually continue. Moreover, no assurances can be made that the existing regulations will remain in place or that price liberalization will not be suspended or reversed in the future or that it will result in a positive effect on the domestic demand of coal. This could have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

A significant reduction in purchases by our largest customers could adversely affect our revenues from sales of coal

For the year ended 31 December 2009, sales to Glencore International AG and Kort Enterprises Limited were 24.20% and 18.10% of our total revenue, respectively. There can be no assurance that we will be able to extend existing coal supply contracts or enter into new contracts with these customers, or with other customers. The Global Economic Crisis has resulted in decreased demand for thermal coal worldwide and domestically, which may cause our largest customers to delay negotiations for new contracts and/or request lower pricing terms. Moreover, the inability of our customers to access credit to adequately fund their operations as a result of the Global Economic Crisis may affect our business by reducing our sales and increasing our uncollectible customer accounts, thereby, reducing our profitability. If one or more of our largest customers were to significantly reduce their coal purchases from us, or if we were unable to sell coal to them on terms as favorable to us, as are currently set out in our outstanding coal supply contracts, such events would have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

We depend on our cooperation with the administration of the Kemerovo region

A substantial portion of our coal is sold to retail customers of the Kemerovo region, which is sold through a retail subsidiary, Kuzbasstoplyvosbyt, co-owned with the administration of the Kemerovo region. The price of coal sold to retail customers of the Kemerovo region is fixed by the administration of the Kemerovo region. We, in turn, receive reimbursement from the regional budget for the difference between the regulated price and an average market price determined annually through a bidding process. If we are unable to maintain a good relationship with the administration of the Kemerovo, or receive such reimbursements or have limited flexibility to conduct our operations as a result of our dependence on cooperation, our business, results of operations, financial condition, prospects and/or the trading price of the Shares could be materially adversely affected.

We rely on Russia's railway transportation system to deliver our coal

Although we own and operate railway infrastructure, consisting of over 70 kilometers of railway lines, six railway stations and a number of locomotives, which connects our mines to Meret, the main railway hub at the long-distance federal railway system, owned and operated by Russian Railways (the "**Russian Railways System**"), we are still heavily dependent on the Russian Railways System. A substantial majority of our total sales of coal are derived from sales of coal transported by the Russian Railways System. Moreover, our production facilities are located at a considerable distance from a substantial portion of our customers who are frequently located in remote areas with limited access to transport networks.

The Russian Railways System cannot fully satisfy Russia's coal transportation requirements, and discrepancies between capacity and demand for transportation exist in certain areas of Russia, particularly at certain times of the year when preferential access to railway cars may be granted to other industries. While in 2010, we started to lease railway cars, such railway cars are sufficient for only a portion of our total transportation requirements. The remainder of our transportation requirements are satisfied by railway cars that we source from Russian Railways. We have, in the past, generally been allocated sufficient railway capacity and sourced sufficient railway cars and locomotives to transport our coal. In accordance with technical provisions approved by Russian Railways on 3 March 2009, the total annual railway capacity that Russian Railways is capable of accepting through Meret station amounts to 19.7 million tonnes of coal, out of which 13 million tonnes is reserved for our coal, starting from 2013 (8 million tonnes in 2010; 10 million tonnes in 2011-2012 and 13 million tonnes in 2013). No assurance can be given, however, that we will continue to be allocated an adequate number of railway cars and railway capacity, or that we will not experience any material delay in transporting our coal as a result of insufficient railway transport capacity or railway cars. Furthermore, the stresses on rail capacity may worsen as the economy emerges from the Global Economic Crisis.

The Russian Railways System also suffers from the declining physical condition of its facilities. In particular, the railway cars of Russian Railways are generally in a poor state of repair. If Russian Railways fails to upgrade its

railway cars within the next few years, this could result in a further shortage of available working railway cars, a disruption in transportation of our coal and increased costs of rail transport.

Additionally, delays or disturbance to rail traffic — for instance, caused by damage to railway lines or equipment, the poor state of railway infrastructure train collisions or terrorism — could prevent us from fulfilling supply obligations to our customers. Any such occurrence could adversely affect our business and result of operations. Historic disruptions to the Russian Railways System have included the following: in August 2007, a bomb explosion derailed an intercity train heading from Moscow to St. Petersburg, Russia, blocking railway traffic in both directions for several days. Two years later, in November 2009, a terrorist attack caused another train derailment when a bomb exploded under a high-speed train traveling between the same cities, killing 27 people and suspending train services on the affected railways for several days.

For the year ended 31 December 2009, our transportation costs accounted for approximately 43.4% of our cost of sales, which primarily consisted of tariff paid to Russian Railways for use of its railway network and railway cars. Increases in transportation costs, including rail costs, may adversely affect our ability to compete successfully both in the Russian domestic market and international export market. Currently, the Russian government sets railway tariffs based upon requests from Russian Railways. In recent years, annual tariff increases have been in line with inflation, and in 2006 and 2007 the increases were in fact less than inflation. In 2008, however, tariffs were indexed three times, which resulted in a 23% average tariff increases, exceeding inflation. In 2009, tariffs have been increased by an additional 9%. Although according to current government policy, tariffs are planned to increase in line with inflation from 2010 through 2012, there can be no assurance that this policy will be maintained.

The capacity constraints referred to above can also have an indirectly effect on our transportation costs. During negotiations with customers, transportation costs are determined by reference to the distance from a specific loading terminal to a specific delivery terminal. In the event that we are unable to access capacity at a chosen rail terminal, we may be required, in order to meet our delivery schedules, to transport from a more distant, and, therefore, more expensive terminal. Our cost of sales would be affected by any such change to more expensive transit routes because such additional costs are generally not redeemable from the end customer.

Changes to Russian legislation regulating the rail transportation sector could result in further increases in our transportation costs, which, in turn, could have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

To manage our exposure to the risks associated with long-distance railway transportation and reduce our reliance on Russian Railways, our Board of Directors approved our acquisition of a significant non-controlling stake in a company owning and operating a railway car fleet followed by a conclusion of long-term leasing contract for railway cars at fixed prices. We have filed a petition with the Federal Antimonopoly Service (the "**FAS**") to obtain the prior approval of the acquisition and are presently awaiting a decision. There is no guarantee, however, that we will obtain such prior approval of the FAS, and that we will be successful in implementing this strategy and, even if this strategy is implemented, that the railway cars leased from such company will be sufficient to meet our transport requirements. Failure to implement this strategy could have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

Transit capacity and adverse weather conditions at ports used by us may impede shipments through such terminals

In addition to utilizing the Russian Railways System, we also transport our coal through a number of Russian ports, depending on the location of a particular customer. In 2009, our principal shipment routes include routes from the Murmansk, Vysotsk and Ust-Luga ports to European markets and from the Vostochny port in the city of Nakhodka to Asian markets. Handling export cargoes requires port operators to unload our coal from railway cars, transport it to storage (if necessary), transport it to dockside stevedoring facilities and load it onto vessels. Most stevedoring facilities at the Far East Federal District ports, including the Nakhodka port, are operating at or near their capacity for such operations. In recent years, deliveries of goods to and from these ports have been subject to delays and interruptions due to the limited capacity of the regional railway system to transport the increasing volume of goods and limited terminal capacities to process and ship incoming goods in a timely manner. For example, in November 2009, Russian Railways suspended deliveries of goods to the port in the city of Nakhodka due to unloading delays in the port.

Additionally, adverse weather conditions can disrupt operations at marine terminals. From time to time, port operators cease vessel loading and unloading operations at ports due to adverse weather conditions. Such adverse weather conditions can delay loading and unloading operations of vessels berthed at ports. A protracted period of adverse weather conditions may result in backlogs, a shortage of available warehouse space and a lack of available cargo vessels. For example, the extremely cold temperatures of harsh Siberian winters may cause coal to freeze due to its moisture content, which may create slowdowns in unloading coal from railway cars.

Any prolonged delay in exports due to transit capacity or adverse weather conditions could reduce our competitiveness resulting in lost profits or penalty/damages payments in international markets and adversely affect our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

Our operating costs could increase significantly

Our mining operations require a reliable supply of replacement parts, explosives, fuel (diesel fuel and gasoline) and lubricants. If the cost of any of these inputs increased significantly, our profitability could be reduced from our current expectations.

In addition, the cost of labor comprises a significant component our costs of sales (16.3%, 10.9% and 9.2% of the total cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively). Competition for skilled labor is intense in the coal industry, and labor costs have in the past increased significantly. The demand, and hence the costs, for skilled engineers, construction workers and operators will continue to increase, reflecting a significant demand from other industries and public infrastructure projects. If, after the Russian economy recovers from the Global Economic Crisis, salaries in Russia begin to increase as rapidly, as they were increasing in the years preceding the Global Economic Crisis, our margins could be reduced. Unless we are able to continue to increase our operational efficiency and the efficiency and productivity of our employees in line with or at a faster rate than the rate of their salary increases, such salary increases could have a material adverse effect our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

Major equipment and plant failures could reduce our ability to produce and deliver coal

Our mining operations depend on several critical pieces of equipment and plant, including a fleet of excavators, draglines, bulldozers, shovels, coal hauling trucks as well as coal crushing and sorting plants. In addition, between 2010 and 2015, our strategy is to procure modern large-capacity excavators, draglines and trucks and commission three new coal processing and enrichment facilities, which are expected to achieve operational efficiency ultimately leading to a growth in our production volume. If any of these pieces of equipment or plant suffered major damage or were destroyed by fire, abnormal wear, incorrect operation or otherwise, we may be unable to replace or repair them in a timely manner or at a reasonable cost, which would impact our ability to produce and deliver coal and may have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

Mining operations are capital intensive, and our capital investment program may not be implemented on schedule or within budget

A key element of our strategy is to increase production levels at our three mines up to the aggregate structural capacity of 11 million tonnes of coal per annum by 2015 through upgrading and expanding our mining equipment and commissioning three processing and enrichment facilities with an aggregate design capacity of 8.5 million tonnes per annum during 2010 and 2012. See "*Business — Capital Investment Program"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and capital resources — Capital requirements*." As part of this strategy, we planned total capital expenditures from 2010 until 2015 of approximately RUB 9.5 billion (exclusive of VAT) of which approximately RUB 298 million (exclusive of VAT) was already spent by 30 March 2010. We currently expect to fund these capital expenditures from the net proceeds from the Open Subscription, the proceeds of additional borrowings and cash from operations.

The capital investment program is subject to a variety of uncertainties, such as changes in economic conditions, including, but not limited to, reduction of our cash flow, delays in completion, cost overruns and defects in design and construction, and may require additional cash investment. We cannot assure you that our capital investment program will be completed on schedule or that our expected operational improvements will be fully realized as currently envisioned, which, in turn, may adversely affect our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

If we are unable to obtain adequate finance, we may have to limit our operations substantially and cut back or suspend our capital expenditure and expansion plans

Our business requires significant capital expenditures with respect to development, maintenance, production, transport, exploration and coal preparation. Our business plan requires substantial capital expenditures for the foreseeable future for the purposes of, among other things, development of our mines to reach production levels up to their aggregate structural capacity through upgrading and expanding our mining equipment and transportation fleet and commissioning three processing and enrichment facilities. Our ability to secure debt or equity financing in the amounts sufficient to meet financials needs could be adversely affected by many factors, which may be beyond our control, including, but not limited to, global and domestic economic conditions, the health of the Russian banking sector and regulatory developments. For example, the Global Economic Crisis has adversely impacted the ability of companies such as to raise finance and has increased and may in the future increase further the cost of such

finance. There is no assurance that we will be able to raise any necessary additional funds through bank financing or the issuances of debt or equity securities on terms acceptable to us, if at all. If we are unable to raise the necessary financing, we will have to revise our planned capital expenditures. Such reduction could adversely affect our ability to expand our business and meet production targets, and if the reductions are severe enough, they could affect our ability to maintain production at our current level, which could have a material adverse effect on our business, prospects, financial condition, results of operations and/or on the trading price of the Shares.

We could fail to finance or refinance our existing indebtedness

As of 31 December 2009, our total loans and borrowings were approximately RUB 3,859 million, of which the portion due within 12 months was RUB 1,655 million. Additionally, as of 31 December 2009, our current liabilities exceeded our current assets by RUB 1,094 million. For more information regarding our indebtedness, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and capital resources — Indebtedness*".

Our ability to pay principal and interest on, and to refinance our outstanding indebtedness depends on our operating performance and our ability to generate cash from operations or borrowings in the future, which, in turn, is affected by multiple factors including general economic, financial, competitive, legislative factors in the coal industry and Russian and global economy, which may be beyond our control. For example, any prolonged decline in demand for, or reduction in the price of coal could have a material adverse impact on our revenues from coal sales, and could also adversely affect our revenue from domestic coal sales to the extent that such decline has affected coal prices in the domestic coal market. Furthermore, because we operate in a highly competitive industry; if we fail to compete effectively this could result in loss of market share and/or reduced margins — which will, in turn, reduce profitability.

Moreover, we may not be able to refinance such indebtedness on commercially acceptable terms, if at all. Our inability to service debt through internally generated cash flow or other sources of liquidity would put us in default of our obligations to our creditors, which could have a material adverse effect on our business prospects, financial condition, results of operations and/or the trading price of the Shares.

We could be materially adversely affected if our lenders accelerate our debt due to any future failures to comply with our loan agreements

The terms of most of our loan agreements under which we or our subsidiaries are borrowers contain various representations, undertakings and provisions regarding events of default, including those related to current litigation and other proceedings, indebtedness, restrictions on payment of dividends, decreases of share capital, maintenance of certain financial ratios and compliance with applicable laws and regulations. For example, under two non-revolving credit line agreements with the Kemerovo branch of Sberbank entered into in March and July 2009, we are obliged to comply with debt covenants, which provide that (i) at the end of each quarter, our debt (defined as our non-current liabilities and short-term loans and borrowings, less cash) cannot exceed our EBITDA for the last four quarters by more than four times; and (ii) our net assets at the end of each quarter should not be negative. These measures are to be determined on the basis of statutory financial statements for the relevant period. In addition, some of our indebtedness is secured by pledges of property plant and equipment as well as inventory. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and capital resources — Indebtedness — Credit line agreements with Sberbank.*" Additionally, many of our loan agreements contain cross-default provisions whereby an event of default under one agreement may in and of itself result in a cross-default under other agreements. Furthermore, according to the terms of such agreements, certain of our actions aimed at developing our business and pursuing our strategic objectives, such as acquisitions, dispositions of assets, restructuring, investments into certain of our subsidiaries and others, require prior consent from the respective lenders.

We strictly monitor and aim to be in full compliance with the terms but we cannot assure you that there have not been breaches, which we are not currently aware of, we will not breach financial and other covenants in our loan agreements or that any such breaches will not result in new and renewed demands from our lenders. If we breach our loan agreements, and fail to obtain prior consent of lenders for certain actions, or fail to obtain extensions or waivers in respect of any future breaches of our loan agreements or amend our loan agreements, such failure could result in, among other things, acceleration of repayment of principal and interest under the relevant loan agreement and any other loan agreement under which a default on such instrument would trigger a cross-default. Breaches may also result in reduced opportunities for future borrowing or borrowing on commercial terms, liability for damages or inability to further develop our business and pursue our strategic objectives, loss of collateral pledged as security, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. You could lose your entire investment in the Shares if we become insolvent.

We may fail to expand our existing open-pit mines or develop new deposits

Our coal reserves decline as we produce coal. Our ability to increase coal production in the future will depend on our ability to implement our strategy, which includes increasing the volume of coal production at our existing open-pit mines. We also have a potential to increase our reserve base by developing an additional 5.5 thousand hectares of an agricultural land bank in our ownership, located near the existing mine fields. We do not, however, intend to focus on the expansion of our reserve base in the immediate future and see increasing production volumes on the existing fields as our current key strategic objective.

There can be no assurance that our planned development in the immediate term will result in additional economically recoverable coal reserves or that we will succeed in developing new deposits in the long term. Moreover, the acquisition and/or the development of new deposits in Russia require the approval of the Russian government. Delay or failure in securing the relevant Russian governmental approvals or licenses as well as any adverse change in government policies may cause a significant adjustment to our development and acquisition plans, which may materially adversely affect our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

The mineral resource and coal reserve data and other related data in this Offering Circular may be inaccurate, and our actual production, revenues and capital expenditures may differ materially from our estimates

Our mineral resource and coal reserve data, on which our production and capital expenditure plans are based, are estimates that were provided by us and reviewed and substantiated by IMC, independent mining and geological consultants. These estimates may be inaccurate and may differ materially from our actual production results. There are inherent uncertainties involved in estimating mineral resources and reserves, including many factors, assumptions and variables that are beyond our control. Our actual volume of mineral resources and reserves, rates of production and coal characteristics may be different from these estimates. In addition, our historical production levels may not be representative of our future production levels.

Fluctuations in coal prices, production costs, coal transportation costs, different recovery rates, or failure to obtain license extensions may ultimately result in our estimated reserves being revised. If such a revision results in a substantial reduction in proven or probable reserves at one of our mines, it could adversely affect our business, prospects, financial condition, results of operations and/or the trading price of the Shares. For more information on our mineral resources and coal reserves, including the qualifications, see the IMC Report.

Our production operations are subject to operational mining risks and conditions

Our production operations are subject to hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls, damage to persons or property, and/or the initiation of legal proceedings.

As with all open-pit coal mining companies, the hazards associated with our open-pit mining operations include:

- flooding of the open pit;
- collapses of open-pit walls;
- accidents associated with the operation of large open-pit mining and rock transportation;
- accidents associated with the preparation and ignition of large-scale open-pit blasting operations;
- production disruptions due to weather;
- equipment failure; and
- hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination. Also see *"— We may be subject to more stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations"*.

The occurrence of any of these hazards could result in production curtailments or shutdowns, injury to persons and damage to property, increased costs, litigation, termination of licenses or requiring us to make large capital expenditures to remedy the situation. The liabilities resulting from any of these risks may not be adequately covered by insurance, and no assurance can be given that we will be able to obtain additional insurance coverage at rates we consider reasonable, or at all. Also see *"— Our insurance may be insufficient."* Although we have implemented safety measures for our production facilities and provided on-the-job training for our employees, there can be no assurance that industry-related accidents will not occur in the future. In addition, although we have conducted geological investigations to evaluate our mining conditions and our mining plans have implemented recommendations arising out of such investigations, there can be no assurance that adverse mining conditions will not increase our costs of production, reduce our coal output, or result in the temporary suspension of our

operations. Any of these industrial hazards could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Our mining facilities are subject to severe climatic conditions, which could affect our coal production and operations

Our coal mining facilities are located in remote parts of Western Siberia and are subject to severe cold weather conditions, resulting in technical challenges for our mining processes. For instance, during January and February 2010, we suspended our hydraulic equipment for a few hours on several occasions due to severe temperatures below −35 Celsius. Although we currently employ technologies for operating in the harsh climate of Western Siberia, there can be no assurance that we will be able to continue to overcome the technical challenges related to weather and climate in the region at a commercially reasonable cost, which may have a material adverse effect on our business, revenues, financial condition, results of operations, prospects and/or the trading price of the Shares.

We are increasingly required to consider and ensure the sustainable development of, and provide benefits to, the Kemerovo region

We are one of the largest employers in the Kemerevo region. As a consequence of our leading market position and the perception that our activities have a high impact on the social and physical environment in which we operate, we face increasing public scrutiny of our activities. The potential consequences of such pressures, especially if not effectively managed, include damage to our reputation and substantial commitments of resources to social spending obligations, which could have a material adverse effect on our business, prospects, results of operations or financial condition.

We have been responsible for establishing some of the social and physical infrastructure in and around the city of Kemerovo. In February 2010, we entered into an agreement on social and economic cooperation with the administration of the Kemerovo region. The agreement is aimed at establishment of effective partnership with the regional authorities and allocation of our funds towards the development of local infrastructure, including residential construction, education, financing of safety and environmental measures and health rehabilitation of our personnel. We expect that the Kemerovo region will continue to be dependent on our business to a significant degree and that we will continue to need to maintain our current commitments in respect of social, employment and welfare infrastructure in the region. In addition, our ability to effect alterations in the number of our employees may be subject to political and social considerations, any and all of these factors may have a material adverse effect on our business, prospects, results of operations and/or the trading price of the Shares.

Our business may be affected by labor disruptions

Approximately 50.3% of our employees are members of a labor union. Under Russian Labor Code, our employees, are entitled to initiate collective negotiations with us aimed at entering into a collective bargaining agreement. Such collective bargaining agreements can establish certain benefits and privileges for our employees, including working conditions which are more favorable than those provided for under Russian labor law, such as an increase in employee wages which are indexed to the Russian consumer price index, restrictions on lay-offs, including restrictions on the use of part-time employees, the termination of temporary employees and substitutes, job search assistance to terminated employees and provision of a notice to the trade union prior to making any major lay-offs. We may be therefore forced to enter into a collective bargaining agreement, the conditions of which could be unfavorable for us. Our refusal to enter into a collective bargaining agreement may lead to work stoppages or strikes. Although we believe our present labor relations are good, there can be no assurance that a work slowdown, a work stoppage or strike will not occur and we are unable to estimate the effect of any such work slowdown, stoppage or strike on our production levels. Work slowdowns, stoppage or other labor-related developments, especially given the fact that majority of our employees are members of a labor union, could materially adversely affect our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

A violation of health and safety requirements and the occurrence of accidents could disrupt our operations and increase operating costs

A violation of health and safety laws or failure to comply with the instructions of the relevant health and safety authorities could lead to, among other things, a temporary shutdown of all, or a portion of, our mines and processing facilities and the imposition of costly compliance procedures. If health and safety authorities shut down all, or a portion of, our mines and processing facilities or impose costly compliance measures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

The nature of our operations creates a risk of accidents and fatalities among our workforce, and we may be required to pay compensation or suspend operations as a result of such accidents or fatalities, which could have a material

adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

We may be unable to acquire or retain mining licenses, permits or other regulatory approvals necessary to extract our reserves on satisfactory terms or at all and our licenses and permits may be suspended, amended or terminated prior to the end of their terms, or may not be renewed

Our business depends on the continuing validity of our licenses, our compliance with the terms of our licenses and our ability to secure new licenses or extend the terms of existing licenses. Our licenses provide us with the right to use or mine natural resources and expire in the period from 2019 to 2026. Regulatory authorities exercise considerable discretion in the timing of license issuance and renewal and in the monitoring of licensees' compliance with license terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Furthermore, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licensing authorities and procedures by which licenses are issued are often inconsistent with legislation.

Moreover, the acquisition and/or the development of new deposits in Russia require the approval of the Russian government. Delay or failure in securing the relevant Russian governmental approvals or licenses as well as any adverse change in government policies may cause a significant adjustment to our development and acquisition plans, which may materially adversely affect our profitability and growth prospects.

The Russian government periodically reviews compliance of Russian mining companies with the terms of their licenses. If government regulators determine that a license holder has failed to fulfill the specific terms of a license or has operated in the licensed area in a manner that violates Russian law, they may impose fines or suspend, amend or initiate termination proceedings with respect to the license. In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licenses, for example, by initiating legal proceedings where the issuance of a license may allegedly violate the civil rights or legal interests of a person or a legal entity. The licensing process may also be influenced by outside commentary, political pressure and other extra-legal factors.

In the case of subsoil licenses, unsuccessful applicants may bring direct claims against the issuing authorities that the license was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the license. Accordingly, licenses that we require may be invalidated or may not be issued or renewed. Licenses that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict our ability to conduct our operations, or to do so profitably.

As part of our obligations under licensing regulations and the terms of our licenses, we are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor operations, maintain appropriate regulatory and other filings and, upon request, submit appropriate information to licensing authorities, which are entitled to control and inspect our activities. In most cases, a license may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the license. The Ministry of Natural Resources of Russia (the "**Ministry of Natural Resources**"), however, has not issued any interpretive guidance on the meaning of "significant" or "material" terms of licenses. Court decisions on the meaning of these terms have been inconsistent and, under Russia's legal system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, no assurance can be given that, in the future, we will continue to hold all material licenses necessary for our existing operation in Russia or to obtain all necessary approvals and licenses required in connection with our expansion plans.

While we seek to comply with the terms of our subsoil licenses and believe that we are currently in material compliance with the terms of such licenses, there can be no assurance that our licenses will not be suspended or terminated under Russian law. In the event that the licensing authorities in Russia discover a material violation, we may be required to suspend our operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on our business.

To the extent that we have acquired companies with existing licenses or subsurface use contracts, the acquisition of, or entrance into, such licenses or subsurface use contracts was beyond our control. We cannot be certain that the licenses were properly obtained or that the previous beneficiary of such license or contract did not violate its terms in a manner which would cause the Russian government or a third party to challenge the validity of these licenses or contracts.

Any or all of these factors — as well as future changes to the regulation of the coal industry in Russia — may affect our ability to obtain, maintain or renew necessary licenses. If we are unable to obtain, maintain or renew necessary licenses, or are only able to obtain or renew necessary licenses with newly introduced material restrictions, we may be unable to benefit fully from our reserves, and our results of operations and prospects could be materially adversely affected.

The Russian government could enact protective trade restrictions on the export of Russian coal products

For the years ended 31 December 2007, 2008 and 2009, we exported approximately 28.5%, 36.4% and 36.4% of our coal by volume, respectively. Such exports benefited from the absence of trade restrictions with respect to the export of coal products currently found in Russia. There can be no assurance that the Russian government will not enact future legislation that may prohibit or restrict the export of Russian coal to all or certain foreign countries. Any such future protective trade restrictions could have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

Regulation by the Russian Federal Antimonopoly Service could lead to sanctions with respect to the subsidiaries we have acquired or established, our prices, our sales volumes or our business practices

Our business has grown substantially through the acquisitions of companies, some of which required the prior approval or subsequent notification of the FAS or its predecessor agencies. Relevant legislation in Russia restricts the acquisition, founding or transfer of companies in Russia by groups of companies or individuals, subject to certain conditions, without the appropriate approval or notification. While we believe that we have complied with applicable antimonopoly regulations, the legislation and regulations with respect to such matters are vague in certain parts and are subject to varying interpretations. If the FAS were to conclude that an acquisition or the creation of a new company was done in contravention of applicable legislation and competition has been reduced as a result, it could seek redress including invalidating the transactions that led to the limitation of competition, obligating the acquirer to perform activities to restore competition, and requiring the divestiture of such newly acquired or created company or other assets, or even the invalidation of the relevant acquisition. Any of these actions could materially affect our business and our results of operations.

Furthermore, negative publicity associated with any antimonopoly, administrative, criminal or other investigation or prosecution carried out with respect to our business practices, regardless of the outcome, could damage our reputation and result in a significant drop in the trading price of our shares and could materially adversely affect our business and prospects.

Kaskad-Energo, our wholly owned subsidiary, is included on the list of entities with a share in the market of a particular product of more than 35% and is therefore subject to stricter anti-monopoly control

Kaskad-Energo is included in the Russian Register of Persons Having a Market Share in Excess of 35% in a Particular Commodity Market or Having Dominant Position on a Particular Commodity Market (the "**FAS Register**"). In particular, the FAS has concluded that Kaskad-Energo has a market share of more than 50% but less than 65% in the market of supplying energy for the town of Anzhero-Sudzhensk.

The FAS Register is a database of business entities (and their groups), which is used to allow state control over such entities (and groups) to ensure their compliance with anti-monopoly laws and regulations. Inclusion in the FAS Register imposes certain reporting obligations on the entities. At present, such obligations consist of providing the anti-monopoly bodies with information on key performance results on a yearly basis.

As a consequence of inclusion in the FAS Register, Kaskad-Energo may attract a high level of scrutiny from the anti-monopoly authorities, which may take the form of binding recurrent requests to provide information.

Furthermore, according to the Russian anti-monopoly laws, being in the FAS Register constitutes a separate filing threshold, apart from the parties' assets and/or turnover.

The fact of the inclusion into the FAS Register does not per se serve as a sufficient evidence of the company being dominant in the respective market. However, as a general rule, if a company's share exceeds 50%, it is presumed to have a dominant position. Should (i) Kaskad-Energo fail to prove that it does not hold a dominant position in the relevant market; and (ii) the anti-monopoly authorities conclude that Kaskad-Energo is abusing its dominant position, then Kaskad-Energo may be subject to administrative sanctions (turnover-based fines) and its officials may be subject to administrative (fines, disqualification) liability.

Moreover, under the recently adopted amendments to Article 178 of the Criminal Code, which came into force on 30 October 2009, abuse of a dominant position may result in criminal liability for the company's officials if such abuse of a dominant position

- has a repeated character i.e. there have been more than two cases of administrative liability being imposed on the same person for abuse of dominance within three consequent years;
- takes the form of setting up and/or maintaining monopolistically high or low prices; unjustified refusal to enter into or evasion of entering into an agreement or restriction of access to the market to other entities; and
- has caused substantial damage (damage in excess of RUB 1 million) to legal entities, individuals or the state or resulted in significant income (income in excess of RUB 5 million) for the relevant company.

Imposition of any such sanctions on Kaskad-Energo and/or its officials could have a material adverse effect on our business, prospects, financial condition, result of operations and/or the trading price of the Shares.

Our insurance may be insufficient

The insurance industry is still developing in Russia, and many forms of insurance protection common in more economically developed countries are not available in Russia on comparable terms, including coverage for business interruption. At present, most of our production facilities are not insured, and we have no coverage for business interruption or for third-party liability, other than customary insurance coverage against the risks associated with our international trading operations and sales as well as the business in which we operate, other than insurance required under Russian law, collective agreements, loan agreements or other undertakings. Furthermore, we cannot confirm that the insurance we have in place is adequate for the potential losses and the liability we may suffer.

Since most of our production facilities lack insurance covering their property, if a significant event were to affect one of our facilities, we could experience substantial financial and property losses, as well as significant disruptions in our production activity, for which we would not be compensated by business interruption insurance. We also do not maintain separate funds or otherwise set aside reserves to cover losses or third-party claims. Thus, if an uninsured event were to occur, we could experience significant disruption in our operations, suffer significant losses and/or be required to make significant payments for which we would not be compensated, which in turn could have a material adverse effect on our business, prospects, financial condition, result of operations and/or the trading price of the Shares.

We have been, and following the Offering will continue to be, significantly influenced by our principal shareholder, whose interests may conflict with the interests of other holders of the Shares

Following the completion of the Offering, Mr. Prokudin, who is also our general director (chief executive officer), will beneficially own approximately 48.40% of our share capital. Accordingly, Mr. Prokudin is and will continue to be in a position to significantly influence the outcome of most matters submitted to general shareholders' meetings for a vote, including, but not limited to, the election or removal of directors, the declaration of dividends and other policy decisions. Additionally, Mr. Prokudin is and will continue to be able to significantly influence the outcome of any vote on any proposed amendment to our charter, merger proposal, proposed substantial sale of assets or other major corporate transactions. He is and will also continue to be able to exercise significant influence over any decision regarding a change of control of us and to discourage bids for our shares at a premium over the market price. Although there is currently no shareholder agreement between Mr. Prokudin and Mr. Danilov (our deputy general director and Chairman of the Board of Directors, who will beneficially own approximately 16.26% of our share capital following the completion of the Offering), they plan to join their interests together into one company. In such case, such company will become our controlling shareholder exercising a much greater degree of influence over our operations. Mr. Prokudin may have interests that differ from other holders of the Shares, which may negatively affect the trading price of the Shares.

Our competitive position and future prospects depend on the expertise and experience of our principal shareholder and senior management

Mr. Prokudin, in his capacity as our principal shareholder and chief executive officer, and our senior management team have been and, we believe, will continue to be important in the implementation of our strategy and the operation of our day-to-day activities. The experience, personal connections and relationships of members of senior management are important to the conduct of our business. Furthermore, personal connections and relationships of these individuals are important to the conduct and the future of our business. However, there can be no assurance that these individuals will continue to make their services available to us in the future. While we have entered into employment contracts with such persons, the retention of their services cannot be guaranteed. For example, under Russian law, our senior management may resign by giving one month's and, in some cases, two weeks' notice. We do not maintain "key man" insurance covering any of our senior managers. Moreover, competition in Russia for management and technical personnel, such as mining engineers, with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect our ability to retain our existing senior management and technical personnel and attract additional suitably qualified senior management and technical personnel.

The loss or diminution in the services of members of our senior management team or technical personnel or an inability to attract and retain additional senior management and technical personnel could have a material adverse effect on our business, financial condition, results of operations, future prospects and/or the trading price of the Shares.

Our management information system, accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting

Our management information system and financial reporting function may be less developed in certain respects than those of our competitors or of coal producers in more developed markets and may not provide our management with as much or as accurate information as those of our competitors or of producers in more developed markets. In addition, our system of internal control over financial reporting is not designed for the preparation of consolidated financial statements in accordance with IFRS.

We have taken, and we continue to take, steps to improve our accounting systems and internal controls, including the developments and documentation of control procedures over the financial statements closing process and hiring qualified personnel in the area of financial reporting. Despite these steps, we may not be able to detect or prevent a material misstatement of our annual IFRS consolidated financial statements or to ensure that our IFRS consolidated financial statements are prepared in a timely manner in accordance with the applicable requirements. Our inability to develop improved financial reporting function and system of internal controls could have a material adverse effect on our business, prospects, financial condition, results of operations, and/or the trading price of the Shares.

We have not independently verified information that we have sourced from third parties

We have sourced certain information relating to the coal industry contained in this Offering Circular from private companies and institutions, international organizations and Russian federal, regional and local governments and governmental agencies, and we have relied on the accuracy of this information without independent verification. Official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of western countries. Official statistics may also be produced on different bases than those used in western countries. Any discussion of matters relating to the coal industry and Russia in this Offering Circular must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

We may be deemed to have failed to approve "interested party transactions" in accordance with Russian legislation

Under Russian law, certain transactions defined as "interested party transactions" require approval by disinterested directors or disinterested shareholders of the companies involved.

We have in the past carried out, and continue at present to carry out, transactions that require interested party transaction approvals in accordance with Russian law. Certain of these transactions may not have received approval as interested party transactions in accordance with the procedures set forth under Russian law. Although we believe these transactions generally took place on market terms, such transactions could be challenged in court by minority shareholders on the grounds that they lacked the requisite corporate approvals.

In general, the provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. Although we endeavor to obtain all corporate approvals required under Russian law to consummate transactions, we cannot be certain that all such corporate approvals are or have been obtained in accordance with Russian law. Accordingly, there is a risk that past and future transactions will be challenged on the basis of a failure to obtain all requisite approvals. Any such challenge could result in the invalidation of transactions that are important to our business.

In addition, our minority shareholders may refuse to approve future transactions with interested parties that require disinterested shareholders' approval, or there may be an insufficient number of disinterested shareholders in the general shareholders' meeting to constitute a quorum required for approval of transactions with interested parties. This could have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

Titles to certain companies and assets we have acquired through privatization, bankruptcy sale or by other means could be challenged

Our business includes a number of companies and assets that have been privatized, and we may in the future acquire additional companies and assets that have been privatized. Privatization legislation in Russia is vague, internally inconsistent and in conflict with other elements of Russian legislation, and the process of privatization, in general, was disorganized and controversial. Consequently, many privatizations in Russia, even after the statute of limitations for challenging transactions entered into in the course of privatizations has expired, are susceptible to challenge, at least on technical grounds, including through arbitrary or selective action by governmental authorities, motivated by political or other extra-legal considerations.

In the event that the authorities challenge any of our privatized companies or assets on the grounds that they were improperly privatized and we are unable to defeat such challenges, we risk losing ownership of the relevant

company or asset, which in turn could have a material adverse effect on our business, prospects, financial condition, results of operations and/or the trading price of the Shares.

The forced liquidation of our subsidiaries due to negative assets could adversely affect our results of operations

In accordance with Russian legislation, in the event that a company's net assets, as stated in the annual balance sheet prepared under Russian Accounting Standards ("**RAS**"), fall below the minimum share capital required by law, the company must voluntarily liquidate. If it fails to do so within 6 month from the end of the relevant calendar year, the company's creditors may accelerate their claims or, if such acceleration is impossible, demand termination of relevant obligations and payment of damages, and governmental authorities may seek the involuntary liquidation of the company. Courts have on occasion ordered the involuntary liquidation of a company for having negative net assets historically, even if the company had continued to fulfil its obligations and net assets were in excess of the minimum amount of charter capital at the time of liquidation. If any of our subsidiaries' net assets fell below the minimum share capital required by law, and an involuntary liquidation were to occur, we would be forced to reorganize the operations we currently conduct through any such subsidiaries.

Currency fluctuations may materially adversely affect our results of operations

According to the CBR, the Rouble appreciated against the U.S. dollar by 6.3% and 2.9% in the years ended 31 December 2007 and 2008, respectively. The Rouble depreciated against the U.S. dollar by 21.6% in the year ended 31 December 2009 as compared to the year ended 31 December 2008, in large part due to the impact of the Global Economic Crisis on the Russian economy. Our presentation and functional currency is the Russian Rouble. While all of our domestic coal revenue and the majority of our costs and expenses are incurred in Roubles, our export coal revenues are denominated in U.S. dollars. Consequently, appreciation of the Rouble against the U.S. dollar would lead to a decrease of the Rouble equivalent of our export proceeds denominated in the U.S. dollars, and thus, negatively affect our results of operations.

Approximately 0.4%, 2.4% and 54.5% of our total loans and borrowings were denominated in the U.S. dollar as at 31 December 2007, 2008 and 2009, respectively. The depreciation of the Rouble against the U.S. dollar increases our U.S. dollar liabilities and costs presented in Roubles. The Russian government has used significant amounts of its international currency reserves to support the Rouble but has stated that it may be unwilling to continue such support in the future. This could result in significant devaluation of the Rouble and a material adverse effect on our financial position, results of operations and/or the trading price of the Shares.

Limitations on the conversion of Roubles to foreign currencies in Russia may increase our costs when making payments in foreign currencies to suppliers and creditors and could make us to default on our obligations to them

Many of our major capital expenditures and financing commitments are denominated and payable in U.S. dollars. Much of our planned capital expenditure and financing are also likely to be denominated and payable in foreign currencies. Russian legislation currently permits unlimited conversion of Rouble revenues into foreign currency. However, there can be no assurance that there will not be changes in the relevant regulations that could impose limitations on currency conversion, particularly in the event of an economic or currency crisis. Constraints on currency conversions could limit our ability to meet our payment and debt obligations, which could result in the loss of suppliers, acceleration of debt obligations and cross-defaults and, consequently, have a material adverse effect on our business, financial condition and results of operations and/or the trading price of the Shares.

Sustained periods of high inflation could adversely affect our business

While the revenue from coal exports, which accounted for 36.4% of our total sales volume of coal in the year ended December 31, 2009, substantially depends on international prices for coal, the costs of coal exports are closely linked to domestic cost factors. Russia has experienced high-level inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% in that year, according to the Russian Federal State Statistics Service ("**Rosstat**"). In 2009, 2008 and 2007, inflation in Russia was 8.8%, 13.3%, and 11.9%, respectively. (Source: Rosstat). We tend to experience inflation-driven increases in certain of our costs, such as salaries, fuel and energy costs, which are linked to the general price level in Russia. For example, according to Rosstat, the nominal average monthly wage from January through December 2008 was 25.2% higher than the corresponding period in 2007, and the inflation-adjusted average monthly wage grew by 9.7% from January through December 2008, compared to a 17.2% increase during the same period in 2007. If wage inflation in Russia continues to increase, the rise in our labor costs may accelerate and our advantages over our competitors with foreign operations that have historically had to pay higher average wages than those paid by us in Russia may be eroded or eliminated faster than is currently the case. Due to competitive pressures, we may not be able to increase the prices that we receive for our export products sufficiently in order to preserve operating margins, particularly

when such inflation is accompanied by depreciation of the Russian Rouble against the U.S. dollar. Accordingly, high rates inflation in Russia could increase our costs and decrease our operating margins.

Also see *"— Our operating costs could increase significantly"*.

Risks Relating to the Russian Federation

Political and Social Risks

Political and governmental instability, including conflicts among federal, regional and local authorities and other political conflicts, could create an uncertain operating environment hindering our long-term planning ability and could have an adverse effect on our business, results of operations, financial condition and prospects

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. Vladimir Putin, a former President of Russia who currently is Russia's Prime Minister, generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On 2 December 2007, the State Duma elections were held and, on 2 March 2008, presidential elections were held in Russia. Though the recent structure of political forces in the State Duma did not change substantially, a new President, Dmitry Medvedev, assumed power from President Putin following the inauguration on 7 May 2008. Although a significant degree of continuity appears to have been maintained between the two administrations due, in large part, to the appointment of Vladimir Putin as Russia's Prime Minister, there can be no assurance that significant changes in the economic and political environment will not occur. Shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the government, major policy shifts or lack of consensus between the President of Russia, the government, Russia's parliament and powerful economic groups could lead to political instability which could have a material adverse effect on the value of investments relating to Russia, including the value of the Shares.

Russia is a federation of various sub-federal political units. The delineation of authority and jurisdiction among the members of Russia and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in areas such as licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the Russian courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, either of which may prevent us from effectively and efficiently carrying out our business strategy.

Emerging markets such as Russia are also subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. The emergence of any new or escalation of existing tensions in the region could negatively affect the economy of Russia and other countries that are involved. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities, with a resulting negative effect on the liquidity and trading prices of the Shares and on ability to raise debt or equity capital in the international capital markets.

In addition, ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in certain cases, military conflict and terrorist attacks. Thus, the conflict in Chechnya brought normal economic activity within Chechnya to a halt for a period of time as well as negatively affecting the economic and political situation in neighbouring regions. Indeed, terrorist attacks have been reported on a periodic basis in the neighbouring republics of Ingushetia and Dagestan. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow and in various places in southern Russia. For instance, on 29 March 2010, two suicide bombings were carried out at the Moscow subway during morning rush hour, killing 40 people and injuring many others. In the future, such tensions, military conflicts or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some or all regions of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Social instability, particularly that caused by worsening economic conditions and turmoil in the Russian financial markets, could lead to labor and social unrest, increased support for renewed centralized authority, nationalism or violence

Failure of the Russian government to adequately address social problems has led in the past, and could lead in the future, to labor and social unrest. Moreover, the worsening economic conditions and turmoil in the financial markets in Russia may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already led to a certain amount of labor and social unrest that may continue or escalate in the future. Such labor and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, including support for re-nationalization of property, or expropriation of, or restrictions on, foreign involvement in the economy of Russia as well as increased violence. Any of these consequences could have an adverse effect on confidence in Russia's political and social environment and the value of investments in Russia, restrict our operations and lead to a loss of revenue, or otherwise have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on our business as well as investments in Russia more generally

During the presidency of Vladimir Putin and the current presidency of Dmitry Medvedev, the political and economic situation in Russia has generally become more stable and conducive to investment. However, any significant struggle over the direction of future reforms or the reversal of the reform process could lead to a deterioration in Russia's investment climate that might constrain our ability to obtain financing in the international capital markets, limit our sales in Russia or otherwise have a material adverse effect on our business, results of operations, financial condition and prospects.

Moreover, regulatory authorities in Russia have a high degree of discretion and at times appear to exercise their discretion selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Such arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. In this environment, our competitors may receive preferential treatment from the Russian government and governmental authorities, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at our operations, could have a material adverse effect on its business, results of operations, prospects and/or the trading price of the Shares.

Furthermore, the government has the power in certain circumstances to interfere with the performance of, nullify or terminate contracts and, through its tax, environmental and prosecutorial arms, has engaged in selective investigations and prosecutions of particular companies or persons. Russian authorities have recently challenged some Russian companies and prosecuted their executive officers and shareholders on tax evasion and related charges. In some cases, the results of such prosecutions and challenges have been significant claims against companies for unpaid taxes and the imposition of prison sentences on individuals. Some observers speculate that in certain cases these challenges and prosecutions were intended to punish, and deter, opposition to the government or the pursuit of disfavored political or economic agendas or to further the interests of the Russian government and individual officials or business groups. Some observers have also speculated that certain environmental challenges brought recently by Russian authorities in the oil and gas sector have been targeted at specific Russian businesses under non-Russian control, with a view to bringing them under state control. More generally, some observers have noted that takeovers in recent years of major private sector companies in the oil and gas, metals and manufacturing sectors by state-controlled companies following tax, environmental and other challenges may reflect a shift in official policy in favor of state control at the expense of individual or private ownership, at least where large and important enterprises are concerned.

In the international sphere, Russia has adopted a more assertive approach to the definition and pursuit of its interests. To some observers, Russia has appeared on several occasions to have used economic leverage or control over oil and gas supplies to achieve political objectives. If Russia were to adopt restrictive economic measures against countries that are important to our export business, or if trade between Russia and such countries were otherwise to be interrupted for political reasons, our business, financial condition and results of operations could be materially and adversely affected.

The reversal of reforms, arbitrary government action or the use of government power, if directed at us, our major shareholders or our beneficial owners, could have a material adverse effect on the value of investments in Russia generally and on our business, financial condition, operating results, prospects and/or the trading price of our Shares.

Crime and corruption could create a difficult business climate in Russia

The political and economic changes in Russia in the 1990s have resulted in a decrease in the effectiveness of actions of law enforcement authorities against crime and corruption. The local and international press has reported that significant organized criminal activity has arisen, particularly in large metropolitan centers, and that high levels of corruption exist in Russia including the bribing of government officials for the purpose of instigating investigations by government agencies. Press reports have also described instances in which government officials engage in selective investigations and prosecutions to further their commercial interests or those of certain individuals. Additionally, some members of the Russian media are alleged regularly to publish disparaging articles in return for payment. The presence of organized or other crime, the demands of corrupt officials or potential future claims that we have been involved in official corruption could result in negative publicity or disrupt our ability to conduct our business effectively, which could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty

The official data published by Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in more economically developed countries. Additionally, we rely on and refer to information and statistics from various third-party sources and our own internal estimates. For example, substantially all the information contained in this Offering Circular concerning our competitors has been derived from publicly available information, including press releases. We believe that these sources and estimates are reliable, but we have not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Russia in this Offering Circular is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Economic Risks

Emerging markets such as Russia are generally subject to greater risks than more developed markets, and global financial or economic crises or even turmoil in any large emerging market country, could have an adverse effect on our business and the value of the Shares

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world, and, generally, investing in emerging markets such as Russia is only suitable for sophisticated investors who fully appreciate that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly.

Global financial or economic crises or even financial turmoil in any large emerging market country tend to adversely affect prices in equity markets of most or all emerging market countries as investors move their money to more stable, developed markets. For example, in November 2009, a major Dubai-owned investment company announced a restructuring of its outstanding debt, which prompted a significant sell-off in the global financial markets.

The Russian equity markets have been highly volatile beginning in the second half of 2008, principally due to the impact of the Global Economic Crisis on the Russian economy. Such volatility has caused market regulators to temporarily suspend trading on MICEX and RTS multiple times in recent years. MICEX and RTS have experienced significant overall decline since their peaks in May 2008. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the Shares.

Economic instability in Russia could have an adverse effect on our business

From 2000 through the first half of 2008, Russia experienced rapid growth in its GDP, higher tax collections and increased stability of the Rouble, providing a certain degree of economic soundness. However, the Russian economy has been adversely affected by the Global Economic Crisis, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. A sustained deterioration of the economic situation in the world may lead to a further worsening of the economic

crisis in Russia, and, as a result, is likely to impact the profitability of our business. Any of the following risks, which the Russian economy has experienced at various times in the past and some of which have already occurred during the current crisis, may have or have already had a significant adverse effect on the investment climate in Russia and, in turn, may burden or have already burdened our operations:

- significant declines in GDP;
- high levels of inflation;
- sudden price declines in the natural resource sector;
- high state debt/GDP ratio;
- instability in the local currency market;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- pervasive capital flight;
- corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population;
- large amount of unprofitable enterprises which continue to operate due to deficiency in the existing
- bankruptcy procedure;
- wide use of barter and non-liquid bills in settlements for commercial transactions;
- prevalent practice of tax evasion; and
- growth of the black-market economy.

The Russian economy has been subject to abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

In December 2008, the international credit rating agency Standard & Poor's Financial Services downgraded Russia's foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Russian government may default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the current financial and economic crisis that began in the second half of 2008. The agency also changed its outlook from stable to negative on Russia's key ratings in December 2008. In February 2009, Fitch Ratings Ltd downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, stating that the lowering of the ratings on Russia reflects risks associated with the sharp reversal in external portfolio and other investment flows, which has increased the cost and difficulty of meeting the country's external financing needs. In January 2010, Fitch Ratings Ltd raised its outlook on Russia's credit rating to stable from negative and affirmed its long-term sovereign rating at BBB. Should any of the international credit rating agencies issue additional negative credit assessments, a further reduction in foreign investment and an increased cost of borrowing for the Russian government may occur. In late 2008, the Russian government announced plans to institute more than U.S.$200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending. There can be no assurance that these or other measures adopted by the Russian government to ameliorate the effect of the current financial and economic crisis will result in a short-term recovery of the Russian economy. Indeed, the impact of the Global Economic Crisis on the Russian economy has led to, among other things, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the Rouble against the U.S. dollar and Euro, the rise of unemployment and an increase in the inflation rate.

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the price of crude oil, which decreased by approximately 70% in the second half of 2008, only to

recover approximately 75% by the end of 2009. A sustained decline in the price of crude oil, natural gas and other commodities could further disrupt the Russian economy.

Any deterioration in the general economic conditions in Russia could adversely influence the level of consumer demand for various products, including those sold by us, and therefore could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

The physical infrastructure in Russia is in poor condition, which may lead to interruptions in the effective financial and economic activity

The physical infrastructure in Russia is largely outdated and has not been adequately funded and maintained over the past two decades. Russia's poor physical infrastructure disrupts the transportation of goods and supplies as well as communications and adds costs to doing business in Russia. Particularly affected are the railway and road networks, power-generation and transmission networks, communication systems and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. Power disruptions also occur: in May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for one day, disrupting normal business activity. Other parts of the country face similar problems. Furthermore, in August 2009, an accident occurred at the Sayano-Shushenskaya Hydroelectric Power Plant, the largest hydro power plant in Russia in terms of installed capacity, when water from the Yenisei River flooded the turbine and transformer rooms at the power plant's dam, killing more than 70 people and causing billions of Roubles in damage. As a result of the accident, the plant has halted power production, leading to severe power shortages for both residential and industrial consumers.

The federal government is actively pursuing the reorganization of the nation's rail, electricity and telephone systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt our business operations, including, among others, delivery of coal to our consumers and ability to fully comply with product quality standards, each of which could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

The Russian banking system remains underdeveloped, and we are only able to conduct banking transactions with a limited number of creditworthy Russian banks

Russia's banking and other financial systems are not well developed or well regulated, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced further serious turmoil. As a result of various market rumors and certain regulatory and liquidity problems, several privately owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the government and foreign-owned banks generally were not adversely affected by the turmoil.

Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks.

Prior to the Global Economic Crisis, there was a rapid increase in lending by Russian banks, which many believe had been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market was leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which further deteriorated the risk profile of Russian bank assets.

The Global Economic Crisis has led to the collapse or bailout of some Russian banks and to significant liquidity constraints for others. Profitability levels of most Russian banks have been adversely affected. Indeed, the Global Economic Crisis has prompted the government to inject substantial funds into the banking system amid reports of difficulties among Russian banks and other financial institutions. We generally conduct our banking relationships with, and maintain accounts in, a number of Russian banks, including Sberbank, VTB, Ursa Bank, Bank of Moscow, Gazprombank, TransCreditBank and GLOBEX, and subsidiaries of foreign banks, such as Raiffeisenbank and UniCredit Bank. The bankruptcy or insolvency of one or more of these banks could adversely affect our business.

The continuation or worsening of the banking crisis or the bankruptcy or insolvency of the banks in which we hold our funds could prevent us from accessing our funds for several days or affect our ability to complete banking transactions in Russia, or may result in the loss of our deposits altogether, which could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Legislative and Legal Risks Relating to Russia

Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on our business

Risks associated with the Russian legal system include, to varying degrees, the following:

- inconsistencies between: (i) federal laws; (ii) decrees, orders and regulations issued by the President, the government and federal ministers; and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- the relative unavailability of Russian legislation and court decisions in an organized manner that facilitates understanding of such legislation and court decisions;
- the relative inexperience of jurists, judges and courts in interpreting newly adopted legislation and complex commercial arrangements;
- substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Legislation relating to disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in the Russian Federation. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Additionally, the relatively recent enactment of many laws and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws are in doubt, and many new laws remain untested. Any or all of these weaknesses could affect our ability to enforce our legal rights in Russia, including rights under our contracts, or to defend against claims by others in Russia.

Corporate governance standards in Russia are not as developed as those in Western Europe or the United States, and, as a result of the limited protection of rights of minority shareholders under Russian law, investors may be unable to pursue legal redress against us

In 2002, Russia introduced its first corporate governance code, which is recommended for companies listed on Russian stock exchanges. However, the Russian legal system fails to provide adequate support for strong corporate governance practices. According to the European Bank of Reconstruction and Development, failures of the Russian corporate governance regime include using political connections in hostile takeovers, unlawfully engaging police or other law enforcement agencies in corporate conflicts and exercising improper influence over judicial verdicts, in particular those involving state-owned or other major business interests.

In addition, as a joint stock company incorporated in Russia, we are not required to comply with UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States. Corporate governance standards in Russia are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and information disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights.

Despite relatively recent amendments to the Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended (the "**Joint Stock Companies Law**"), minority shareholders have a limited ability under Russian law to protect their rights against majority shareholders. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See *"Description of Share Capital and Certain Requirements of Russian Legislation — Interested Party Transactions."* While these protections are similar, for example, to the types of protections available to minority shareholders in Western corporations, in practice, corporate governance standards have not always been as rigorously applied in many Russian companies as in Western companies.

The supermajority shareholder approval requirement is satisfied by a vote of 75% of all voting shares that are present at a general shareholders' meeting. As a result, a controlling shareholder owning slightly less than 75% of the outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders' meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. Any such actions by our major shareholders or management could materially and adversely affect the value of the Shares. As a result of deficiencies of shareholder protections mentioned above, some minority shareholders of Russian companies have suffered significant losses due to abusive share dilutions, asset transfers and transfer pricing practices, while other shareholders have suffered as a result of fraudulent bankruptcies initiated by hostile creditors. While the Joint Stock Companies Law provides that a shareholder or shareholders owning not less than 1% of the company's issued ordinary shares may bring an action for damages caused to the company by the company's managers or directors (and provides further that any shareholder may bring actions against a company's management and directors for compensation of damages caused to the company or such shareholder or shareholders by breach by those directors or management of certain anti-takeover provisions of the Joint Stock Companies Law), Russian courts to date have not had much experience with respect to such lawsuits and only recently has a federal law been passed and came into force on 21 October 2009 that contemplates class action litigations. Accordingly, the ability of the holders of the Shares to pursue legal redress against us may be limited.

Moreover, some protections for minority investors that are provided under Russian law may impose additional costs on us. For example, the Joint Stock Companies Law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value. The decisions that trigger this right to sell shares include decisions with respect to a reorganization; the approval by shareholders of a "major transaction" involving assets in excess of 50% of the balance sheet value of the company's assets calculated according to RAS; and the amendment or approval of a restated version of the company's charter in a manner that limits shareholder rights. Any obligation on us to purchase shares in these circumstances, though limited to 10% of our net assets calculated in accordance with RAS at the time the matter at issue is voted upon, could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Regulation of Russian capital markets may provide inadequate protection to holders of the Shares

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new concepts in Russia and are unfamiliar to many Russian companies and managers and are considerably less developed in Russia than in the United States and Western Europe. In addition, several different agencies regulate the Russian securities market, including the FSFM, the Ministry of Finance, the FAS, the CBR, and various professional self-regulatory organizations. The regulations adopted by these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities regulations can change rapidly, which may adversely affect our ability to conduct transactions in securities. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Shareholder liability under the corporate law of Russia could result in our becoming liable for the obligations of our subsidiaries

Russian law generally provides that shareholders in a Russian joint stock company or participants of a limited liability company are not liable for the obligations of such a company and bear only the risk of loss of their investment. This may not be the case, however, when one legal entity is capable of determining decisions made by another entity. The legal entity capable of determining such decisions is called the effective parent entity (*osnovnoye obshchestvo* in Russian). The legal entity whose decisions are capable of being so determined is called the effective subsidiary entity (docherneye obshchestvo in Russian). The effective parent bears joint and several liability for transactions entered into by the effective subsidiary in carrying out business decisions if:

- the effective parent gives binding instructions to the effective subsidiary; and
- the right of the effective parent to give binding instructions is set forth in the charter of the effective subsidiary or in a contract between such entities.

Moreover, under Russian law, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action of an effective parent. In these instances, the other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that causes the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, in our position as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries.

Arbitrary government action could have an adverse effect on our business and reduce the value of the Shares

Government authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at our operations, could lead to the loss of key licenses, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Lack of independence and inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or you from obtaining effective redress in a court proceeding, which could have an adverse effect on our business or the value of the Shares

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is often understaffed and underfunded. Judges are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow, and court orders are not always enforced or followed by law enforcement agencies.

Additionally, the press has often reported that court claims and governmental prosecutions are sometimes influenced by or used in furtherance of political aims or private interests. We may be subject to such claims and may not be able to receive a fair hearing. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain and could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which such title is encumbered or to obtain certain approvals, consents or registrations and to comply with the requirements contained in such approvals, consents, registrations and other regulations

Following the dissolution of the Soviet Union, land reforms commenced in Russia and real estate legislation changed continuously. Over the following years, more than 100 federal laws, presidential decrees and governmental resolutions were enacted or issued. Almost all Russian regions passed their own real estate legislation. In many

instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose of land.

In 2001, the Russian Civil Code was amended, and the new Russian Land Code as well as a number of other federal laws regulating land use and ownership was enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. Moreover, in order to use and develop land and other real estate in Russia, approvals or consents of or registrations with various federal, regional and local governmental authorities are required. Furthermore, it is not always clear which governmental body has the right to lease land in relation to certain land plots; construction approval procedures are intricate and such approvals may be contested or totally cancelled; and building and environmental regulations often contain requirements that are difficult to fully comply with in practice. Failure to obtain the required approvals, consents or registrations and to comply with the requirements contained in such approvals, consents, registrations and other regulations may lead to severe consequences for landowners and other real estate owners and lessees, including with respect to any current construction activities. These failures and other uncertainties mentioned above may have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

The Russian taxation system is relatively underdeveloped

The Russian government is constantly reforming the tax system by redrafting the Russian Tax Code; these changes have resulted in some improvement in the tax climate. As of 1 January 2009 the corporate profits tax rate was reduced to 20 per cent. For individuals who are tax residents in Russia the current personal income tax rate is 13 per cent. The general rate of VAT is 18 per cent.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. For example, under certain circumstances, the current three-year statute of limitations for the assessment of taxes pursuant to a tax audit can be significantly extended. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. Nonetheless, there have been several instances when such laws have been introduced and applied retroactively.

Despite the Russian government taking steps to reduce the overall tax burden in recent years in line with its objectives, there is a risk that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on our business, financial condition, results of operations, prospects and/or the trading price of the Shares. Additionally, taxes have been utilized as a tool for significant state intervention in certain key industries.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. These uncertainties could possibly expose us to significant fines and penalties and potentially severe enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden, and could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and/or the trading price of the Shares.

Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the audit commences. The tax authorities are prohibited from carrying out repeat on-site tax audits in respect of the same taxes for a tax period which has already been audited (exceptions include where such audit is carried out in connection with the restructuring/liquidation of a taxpayer, or as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable, or by a higher-level tax authority for the purpose of checking the activities of lower-level tax authorities). This limitation of the tax audit period is related to the statute of limitations for the commission of a tax offence, which is also limited to three years from the date on which it was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the statute of limitations may be extended beyond three years.

Tax audits may result in additional costs to us if the relevant tax authorities conclude that we did not satisfy our tax obligations in any given year. Such audits may also impose additional burdens on us by diverting the attention of management resources. The outcome of these audits could have a material adverse effect on our business, financial condition, results of operations and/or the trading price of the Shares.

In October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued a ruling concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the

amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax. The ruling provides that where the true economic intent of operations is inconsistent with the manner in which they have been taken into account for tax purposes a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unsubstantiated. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance. The tax authorities have actively sought to apply this concept when challenging tax positions taken by taxpayers in court, and are anticipated to expand this trend in the future. Although the intention of this ruling was to combat tax law abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court.

The above conditions create tax risks in Russia that are more significant than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on our operations, including management resources. Further, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines, penalties and enforcement measures, and could materially adversely affect our business, results of operations, financial condition and/or the trading price of the Shares.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may result in the Group's prices being challenged by Russian tax authorities

Transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e. if the price of such transactions differs from the prices of similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court practice is available) as to how these rules should be applied. Moreover, the State Duma of the Russian Federation is in the process of considering and adopting proposed amendments to the transfer pricing legislation, which may come into force as early as 2010. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on our business, financial condition, results of operations and/or the trading price of the Shares.

Russian tax legislation is consistently becoming more sophisticated. It is possible that new additional revenue raising measures might be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect our overall tax efficiency and may result in significant additional taxes becoming payable. We cannot offer prospective investors any assurance that additional tax exposures will not arise. Additional tax exposures could have a material adverse effect on our business, financial condition, results of operations and/or the trading price of the Shares.

Russian legislation may not adequately protect against expropriation and nationalization

The Russian government has enacted legislation to protect foreign investment and other property against expropriation and nationalization. In the event that such property is expropriated or nationalized, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. Expropriation or nationalization of our property, business could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

Restrictive currency regulations may adversely affect our business and financial condition

Notwithstanding significant liberalization of the Russian currency control regime and the abolishment of certain restrictions from 1 January 2007, the Federal Law No. 173-FZ "On Currency Regulation and Currency Control" of 10 December 2003, as amended (the "**Currency Law**"), and current regulations still contain a number of limitations on foreign currency operations. In particular, Russian companies must notify Russian tax authorities on opening, closing or changes of details of bank accounts denominated in any currency with banks located outside of Russia. Such a notification must be filed within one month from the date on which such an account was opened or closed or on which the account details were changed. Moreover, certain currency control restrictions were not repealed from 1 January 2007, and these include a general prohibition of foreign currency operations between Russian companies

(except for the operations specifically listed in the Currency Law and the operations between the authorized banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings to Russia. Restrictions on our ability to conduct some of these transactions could increase our costs, or prevent us from continuing necessary business operations, or from successfully implementing our business strategy, which could have a material adverse effect on our business, results of operations, financial condition, prospects and/or the trading price of the Shares.

As a result of the current state of the banking sector, considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. Any delay or other difficulty in transferring or remitting funds could limit our ability to meet payment and debt obligations as they become due, which could result in the acceleration of debt obligations and cross-defaults and, in turn, have a material adverse effect on our business, revenues, financial condition, results of operations, prospects and/or the trading price of the Shares.

Risks Relating to the Shares and the Trading Market

If the issue of Subscribed Shares is not completed, we will not receive the proceeds from such share issue and our shareholding structure may differ from what is currently contemplated

As more fully described in *"The Offering"* and *"Plan of Distribution and Transfer Restrictions"* in connection with the Offering, we will issue Subscribed Shares through the Open Subscription. If we fail to file a Placement Notification with the FSFM as provided by Russian law, we would be unable to consummate the Offering as currently intended and therefore we may not receive or retain all or a significant portion of the anticipated proceeds from the Offering of the Subscribed Shares.

Holders may not be able to exercise their pre-emptive rights

Generally, existing holders of shares of Russian open joint stock companies are entitled to statutory pre-emptive rights with respect to newly issued shares placed through an open subscription, pursuant to Russian law and our charter, as described in *"Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Rights attaching to the Shares."* Holders of our Shares in certain jurisdictions may face restrictions under relevant local law on their ability to exercise statutory pre-emptive rights with respect to any new equity issuances by us. In particular, U.S. holders of our Shares may not be able to exercise such statutory pre-emptive rights, unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. We do not currently expect to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such U.S. holders to exercise such statutory pre-emptive rights.

The trading price of the Shares may be highly volatile

The Russian stock markets have experienced extreme price and volume fluctuations, especially since the beginning of the current financial crisis. Consequently, the trading prices of the Shares may be subject to wide fluctuations in response to a number of factors, including:

- variations in our operating results and those of other Russian companies;
- variations in national and industry growth rates;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

Moreover, the market price of the Shares may decline below the offer price per Share, which will be determined based on the results of the bookbuilding exercise conducted by the Joint Lead Managers.

Furthermore, future sales of Shares may affect the market price of the Shares. Sales, or the possibility of sales, of substantial numbers of Shares in the public markets, including the Russian stock market, following the Offering could have an adverse effect on the trading prices of the Shares and could affect our ability to obtain further capital through an offering of equity securities. We and the Selling Shareholders have undertaken not to offer, issue or sell the Shares or any of our securities that are substantially similar to the Shares for 180 days after the Closing Date, subject to certain limited exceptions. See *"Plan of Distribution and Transfer Restrictions"*. Sales of such securities by any of these persons following the end of this period or the waiver of these restrictions could have an adverse effect on the trading prices of the Shares. Further, subsequent equity offerings may reduce the percentage ownership

of our existing shareholders. Moreover, newly issued preferred shares, if any, may have rights, preferences or privileges senior to those of the Shares.

The Shares may be de-listed from MICEX or RTS

In order to maintain our listing on MICEX and/or RTS, we are required to comply with listing requirements, including, among others, the securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements as well as minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for de-listing a company.

There can be no assurance that a failure to comply with corporate governance requirements will not result in a de-listing of the Shares. A Russian stock exchange de-listing could have a material adverse effect on the value of our Shares. See *"Management and Corporate Governance — Corporate Governance"* for a discussion of our compliance with the listing requirements.

The New Shares will not become transferable until a valid Placement Notification is filed with the FSFM, and the failure to duly and timely file the Placement Notice or any other violations of Russian securities laws could result in the issue of the New Shares being held invalid or incomplete.

The New Shares (including the Subscribed Shares) issued in the Open Subscription will generally become transferable following filing by us of a valid Placement Notification with the FSFM, provided that the filing of such Placement Notification is duly and timely made. We intend to file the Placement Notification on or about 13 May 2010, but in any event not later than 30 days following completion of the placement, which is the deadline established for such filing under applicable Russian law and our decision on issuance with respect to the New Shares.

A Russian court may hold the issue of the New Shares invalid or failed if we violated Russian law in the issuance process. Furthermore, there is a risk that the issuance of the New Shares, in general, may be challenged in court by any interested party for failing to comply with Russian securities laws within three months from the date of filing of the Placement Notification with the FSFM. Any such challenge, if successful, may result in the invalidation of the issuance of the New Shares, cancellation of the New Shares and return of the proceeds from the Open Subscription to the holders of the New Shares.

Investors in the Offering will suffer immediate and substantial dilution in net tangible book value per Ordinary Share

The price at which the Shares are being sold in the Offering is substantially higher than the Group's net tangible book value per ordinary share. Therefore, purchasers of the Shares will incur immediate and substantial dilution in net tangible book value per ordinary share. Furthermore, the issue of the New Shares offered in the open subscription will also dilute the Group's net tangible book value per ordinary share. For more information on dilution, see *"Dilution"* below.

Our ability to pay dividends will depend upon the level of dividends and distributions, if any, received from our operating subsidiaries and other factors

We may be unable or elect not to declare dividends in the future. The payment of dividends, if any, by us will depend on, among other things, our future profits, financial position and capital requirements, the sufficiency of our distributable reserves, the ability of subsidiaries to pay dividends or distributions to us, credit terms, general economic conditions and other factors that our directors deem to be important from time to time. Should we decide against declaring dividends in the future, the trading price of the Shares may be adversely affected.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our Shares

Ownership of shares in Russian joint stock companies (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of a registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and

rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. See *"Description of Share Capital and Certain Requirements of Russian Legislation"* for more discussion of the share registration system and registrars in Russia. This creates risks of loss not normally associated with investments in other securities markets.

Non-resident investors or investors which are legal entities or organizations not organised under Russian law that hold the Shares through permanent establishment in Russia may not be able to benefit from double tax treaties with respect to dividends on Shares

In general, payments of dividends by a Russian entity to non-resident legal entity or organization and non-resident individuals are subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may generally be subject to reduction pursuant to the terms of an applicable double tax treaty between Russia and the country of tax residence of non-resident investors to the extent such non-resident investors are entitled to benefit from this double tax treaty and the corresponding tax treaty reliefs provided by such treaty.

We believe that payments of dividends on the Shares made by us to non-resident investors may be subject to withholding taxation at a reduced rate if such reduction is provided for by an applicable double tax treaty, provided the Russian tax documentation requirements are satisfied. For a non-resident legal entity or organization, such documentation would include an annual advance confirmation of the investor's tax residency.

However, procedures for advance treaty clearance are not provided for by current Russian legislation with respect to non-resident individual investors. Therefore, technically, for non-resident individual investors a reduction of withholding income tax provided by a respective double tax treaty between Russia and the country of the tax residence of such non-resident individual investors could not be obtained. If non-resident individual investors do not obtain double tax treaty relief at the time the dividend income is paid to such non-resident individual investors and income tax is withheld by a Russian payer of dividends, such non-resident individual investors may apply for a refund within one year from the end of the tax period in which the tax was withheld. The documentation requirements to obtain such a refund would include a confirmation of the income received and the taxes paid in the country of tax residence of the non-resident individual investors as confirmed by the relevant tax authorities of such countries.

Payments of dividends by a Russian legal entity to an investor which is a legal entity or organization not organized under Russian law that holds the Shares through a permanent establishment in Russia should generally be subject to Russian withholding tax at a rate of 15%. An investor that is a legal entity or organization not organized under Russian law that holds the Shares through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e. without withholding of the tax by a Russian entity distributing the dividends to such investor) if such investor provides the Russian entity distributing the dividends as the Russian tax agent with special documentary evidence confirming the fact that this dividend income is attributable to a permanent establishment of the investor in Russia. This evidence includes a notarised copy of the document confirming registration of the investor with the Russian tax authorities. The local tax authorities at the investor's place of tax registration must also confirm the fact that this dividend income is attributable to the permanent establishment of the investor in Russia.

Alternatively, payments of dividends on the Shares made by us to an investor which is a legal entity or organization not organized under Russian law that holds the Shares through a permanent establishment in Russia may be subject to Russian taxation at a rate not exceeding 9%. This lower rate could apply to each such investor that holds the Shares through a permanent establishment in Russia if the applicable double tax treaty between Russia and the country of the tax residence of such investor provides for the non-discrimination of tax residents of such country as compared to Russian tax residents. In such case, a tax rate not exceeding 9%, (i.e., the rate applicable to Russian legal entities) should be applied with respect to the gross dividend amount payable to such investor to the extent such investor is entitled to benefit under such double tax treaty and provided further that such investor satisfies the Russian tax documentation requirements, including the requirement that an investor should provide an annual advance tax residency confirmation. However, there can be no assurance that such double tax treaty relief will be available to an investor which is a legal entity or organization in each case not organised under Russian law that holds the Shares through a permanent establishment in Russia. See "*Russian Taxation Considerations*".

Capital gains from the sale of Shares may be subject to Russian income tax

If a non-resident investor which is a legal entity or an organization disposes of the Shares (other than through a permanent establishment in Russia) and the proceeds from such disposal are deemed to be received from a Russian source, the gross proceeds from such disposal may be subject to withholding tax in Russia at a rate of 20%. Alternatively, the capital gain from the sale may be subject to a 20% withholding tax. Such gain is generally

determined as the gross proceeds from the disposal of the Shares less the cost of acquisition of such Shares and less expenses incurred by such non-resident investor in relation to acquisition, holding and sale of the Shares (provided that the cost of acquisition of the Shares and the other expenses can be confirmed by appropriate documents). Russian withholding tax would apply if more than 50% of our assets consist of immovable property located in Russia.

Where the proceeds from a disposal of the Shares are received from a source within the Russian Federation by a non-resident investor that is an individual, there is a risk that Russian withholding tax would be charged at a rate of 30% on the gross proceeds from such disposal less any available cost deduction. The imposition or risk of imposition of this withholding tax could adversely affect the value of the Shares.

A resident investor which is a legal entity or an organization should generally be subject to Russian profits tax at a rate of 20% on any capital gain. An investor that is a legal entity or organization not organized under Russian law that holds the Shares through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e. without withholding of the tax) if such investor provides the Russian entity acquiring the Shares as the Russian tax agent with special documentary evidence confirming the fact that the income from disposal of Shares is attributable to a permanent establishment of the investor in Russia. This evidence includes a notarised copy of the document confirming registration of the investor with the Russian tax authorities. The local tax authorities at the investor's place of tax registration must also confirm the fact that this income from the disposal of Shares is attributable to the permanent establishment of the investor in Russia. Such gain is generally determined as the gross proceeds from the disposal of the Shares less the cost of acquisition of such Shares and less expenses incurred by such resident investor in relation to acquisition, holding and sale of the Shares (provided that the cost of acquisition of the Shares and the other expenses can be confirmed by appropriate documents). The imposition or risk of imposition of this withholding tax could adversely affect the value of the Shares.

A resident investor who is an individual should generally be subject to income tax at a rate of 13% on the gross proceeds from a disposal of the Shares less any available cost deduction (including, *inter alia*, the cost of acquisition of the Shares). In certain circumstances if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign legal entity or organization, the payer may be required to withhold this income tax. Unless the tax is withheld by the payer, the resident individual investor would be liable to pay the tax to the Russian budget. The imposition or risk of imposition of this withholding tax could adversely affect the value of the Shares. See "*Russian Taxation Considerations*".

Investors may be unable to repatriate their earnings from our Shares

In its Information Letter No. 31, dated 31 March 2005, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are non-Russian residents. We can give no assurance that this declaration will not be reversed in the future. If, in the future, Russian companies were again required to pay all dividends on ordinary shares in Roubles, then we may not be able to pay timely dividends to some or all shareholders and may incur additional conversion costs.

The ability to convert Roubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency market. Although there is an existing market within Russia for the conversion of Roubles into U.S. dollars, including the interbank currency exchange and over-the-counter markets, the further development of Russia's currency market is uncertain. At present, there is no developed market for hedging Roubles and Rouble-denominated investments. Our inability to pay dividends in a timely and efficient manner, or at all, could adversely affect the trading price of the Shares.

USE OF PROCEEDS

We expect to receive gross proceeds of approximately U.S.$96.9 million from the sale of the New Shares, assuming that all New Shares subscribed for are purchased and paid for. After the payment of fees and expenses associated with the issuance of the Subscribed Shares pursuant to the Offering and Open Subscription (including commissions of the Joint Lead Managers, fees and expenses of legal counsel to the Joint Lead Managers, our legal counsel and our auditors, as well as expenses related to the road show, printing and other expenses), we expect to receive net proceeds of the sale of the New Shares of approximately U.S.$89.8 million.

The Selling Shareholders will sell an aggregate of 10,868,158 Shares in the Offering, 3,339,438 of which will be sold by Mr. Prokudin and 7,528,720 of which by Laycraft. The Selling Shareholders expect to receive gross proceeds of approximately U.S.$70.6 million from the sale of the New Shares. None of the Selling Shareholders intends to use any proceeds from these sales to exercise its statutory pre-emptive rights to subscribe for Subscribed Shares.

We plan to use the net proceeds of the sale of the New Shares to procure and modernize our coal-mining equipment, as well as to construct new coal processing and enrichment facilities. Such mining equipment and enrichment facilities are intended to support our strategy, which is focused on further production growth, enhancement of operating efficiency and improvement of the quality of coal for sale.

COAL MINING INDUSTRY

Introduction

Coal is generally regarded as one of the most widely-used and affordable sources of energy in the world and is a major contributor to the world energy supply. Currently, according to IEA, the world relies on the consumption of coal for approximately 30% of the total primary energy demand and approximately 40% of total electricity generation. According to the BP Statistical Review, total global proven recoverable reserves of coal were approximately 826 billion tonnes as of the end of 2008, and world coal production in 2008 was approximately 6.8 billion tonnes. Accordingly, at the current worldwide production levels, global proven coal reserves are estimated to last over 120 years.

The coal industry consists of two key segments, which have a relatively distinct structure and different underlying driving factors: (i) steam or thermal coal, which is used primarily for energy generation; and (ii) coking or metallurgical coal, which is used primarily for steel making.

Total global demand for coal has been growing, particularly in Asia, as a result of an increasing demand for power, growing industrial production and the competitiveness of coal as a cost-efficient energy source. For example, between 1998 and 2008, according to the BP Statistical Review, total global coal consumption in the world has been growing at an average rate of 3.9% per annum, and the share of Asia Pacific region countries in total consumption has increased from 46% to 62%, including that of China, growing from 29% to 43%.

Coal is a widely distributed natural resource that is mined commercially in over 50 countries and used in over 70 countries worldwide. However, approximately 90% of known reserves are located in just eight countries. The United States is the largest holder of known coal reserves in the world with 29% of the total and Russia is the second largest holder with 19%, according to the BP Statistical Review. China is the world's largest thermal coal producer, followed by the United States. According to the BP Statistical Review, other leading coal producing countries include India, Australia, Russia, South Africa and Indonesia. The ten largest coal producing countries account for approximately 90% of the total world production.

	Proven coal reserves as of end 2008	
Country	*bln tonnes*	*% of total*
United States	238.3	28.8
Russia	157.0	19.0
China	114.5	13.9
Australia	76.2	9.2
India	58.6	7.1
Ukraine	33.9	4.1
Kazakhstan	31.3	3.8
South Africa	30.4	3.7
Poland	7.5	0.9
Brazil	7.1	0.9
Other	71.2	8.6
Total	**826.0**	**100.0**

Source: BP Statistical Review

Due to high transportation costs relative to coal prices the majority of coal produced is consumed locally. Domestic consumers are the predominant coal buyers, accounting for more than 80% of global coal consumption. However, the share of international trade has been continuously increasing over the past decades. According to the IEA data, since 1995, international thermal coal trade has increased on average by approximately 7% per annum and international coking coal trade by approximately 2% per annum international coal trade is effectively divided into two major regional markets: (i) the Atlantic market, made up of importing countries in Western Europe, notably the UK, Germany and Spain, and (ii) the Pacific market, which consists of developing and the Organization for Economic Co-operation and Development ("**OECD**") Asian importers, notably Japan, Korea and Taiwan and, increasingly, China. The world's leading coal-exporting countries are Australia, Indonesia, Russia, Colombia and South Africa.

Coal Characteristics

Coal is characterized by its use as either "thermal coal" (also referred to as "steam coal") or "metallurgical coal" (also referred to as "coking coal"). There are four types of coal by geological composition: lignite, sub-bituminous, bituminous and anthracite. According to the BP Statistical Review, sub-bituminous and lignite coals accounted for 49% of total global proven coal reserves at the end of 2008, whereas bituminous and anthracite accounted for 51%

of total global proven coal reserves. Each has characteristics that make it more or less suitable for different uses. Energy content and sulphur content are the most important coal characteristics and help to determine the best use of particular types of coal, as well as being used to determine the price of different qualities of coal.

Energy Content

The energy content of coal is commonly measured as the heat released on complete combustion in air or oxygen, expressed as the amount of heat (measured in kilocalories) per unit weight of coal (measured in kilograms) or "kcal/kg." Lignite coal is a brownish black coal (generally referred to as brown coal) and is the lowest rank of coal, characterized by a higher moisture content and lower heating value than sub-bituminous coal, and is used almost exclusively for electricity generation. Sub-bituminous coal is a "soft" black coal with an energy content generally lower than bituminous coal and is the type most commonly used for electricity generation. Generally, coal with higher energy content commands a premium.

Sulphur Content

Coal combustion produces sulphur dioxide, the amount of which varies depending on the chemical composition and the concentration of sulphur in the coal. Low sulphur coal is generally characterized as coal with a sulphur content of 1% or less by weight. Coal with lower sulphur content is considered to be of a higher quality as electricity generators worldwide have increasingly become subject to various regulatory restrictions on reducing sulphur dioxide emissions.

Ash and Moisture Content

Ash is the inorganic residue remaining after the combustion of coal. As with sulphur content, ash content varies from underground seam to seam. Ash content is an important characteristic of coal because electricity generating plants must handle and dispose of ash following combustion. Coal with lower ash content is considered to be of a higher quality.

The moisture content of coal varies by the type of coal, the region where it is mined and the location of coal within a seam. In general, high moisture content decreases the energy content and increases the weight of the coal, thereby making it more expensive to transport. Moisture content in coal, as sold, can range from approximately 5% to 30% (for bituminous and sub-bituminous) and up to 45% (for lignite) of the coal's weight. Coal with lower moisture content is considered to be of a higher quality.

There is a universally recognized quality benchmark for world market of thermal coal and used as reference in contract pricing: calorific value — 6,000 kcal/kg, ash content — less than 12%, sulphur content — less than 1%.

Global Coal Market

Role of coal in overall energy consumption

As one of the world's key energy sources, coal represents a source of secure and affordable energy in the face of growing demand. In 2008, coal accounted for approximately 29% of the world's primary energy demand, according to the BP Statistical Review. Over the period of 1998 to 2008, global consumption of coal has been growing at a faster rate than other sources of energy. Accordingly, the share of coal in total primary energy consumption has increased from approximately 25% to approximately 29% over this period.

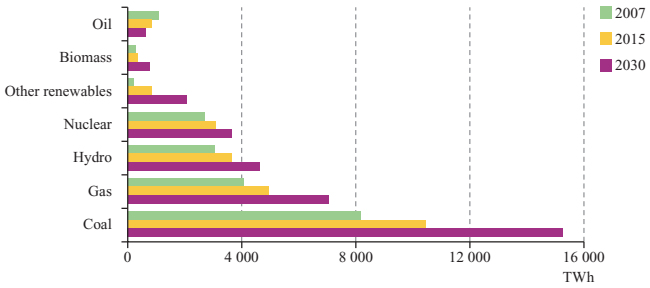
Global consumption of energy by type of source

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Consumption CAGR 98-08
							%					
Coal	25.4	25.0	25.2	25.2	25.3	26.5	27.0	27.5	28.1	28.8	29.2	3.9
Oil	38.7	38.9	38.3	38.3	37.9	37.4	37.1	36.6	36.0	35.5	34.8	1.3
Gas	23.1	23.2	23.6	23.8	24.0	23.9	23.6	23.7	23.7	23.9	24.1	2.2
Nuclear	6.2	6.3	6.3	6.4	6.4	6.1	6.1	5.9	5.9	5.6	5.5	1.2
Hydro	6.6	6.6	6.5	6.3	6.3	6.1	6.2	6.2	6.3	6.3	6.4	2.0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**3.5**

Source: BP Statistical Review

In 2007, coal fuelled approximately 42% of the world's electricity, gas accounted for 20%, nuclear for 15%, renewables for 16% and oil for 7% of the world's electricity generation, according to IEA. In the Reference Scenario (as defined below), IEA expects the amount of coal-fired electricity generation worldwide to increase and almost double by 2030 as compared to 2007 as illustrated below.

World electricity generation by fuel in the Reference Scenario



Source: IEA, "Reference Scenario"

(1) According to IEA, "References Scenario" provides a baseline picture of how global energy markets could evolve if governments make no changes to their existing policies and measures

Thermal coal demand

According to IEA, total global thermal coal consumption (excluding brown coal) was estimated to be approximately 5 billion tonnes in 2008. China's consumption was estimated to have exceeded 2.3 billion tonnes in 2008, which represents over 46% of market share, with the United States the next largest consumer, followed by India, EU and South Africa. The following table shows the top ten consumers of thermal coal (excluding brown coal) in 2007 and 2008, as estimated by IEA.

	Thermal coal consumption			
	2008	2007	2008	2007
	mln tonnes		*% of total*	
Country/Region				
China	2,326.6	2,073.2	46.5	44.4
United States	937.1	934.6	18.7	20.0
India	491.7	454.1	9.8	9.7
EU	249.5	274.8	5.0	5.9
South Africa	172.9	181.0	3.5	3.9
Other Asia	157.0	136.5	3.1	2.9
Japan	128.2	128.8	2.6	2.8
Russia	121.9	95.5	2.4	2.0
Other CIS countries	101.2	92.4	2.0	2.0
Korea	81.0	70.3	1.6	1.5
Australia	70.0	68.0	1.4	1.5
Other	163.2	161.8	3.3	3.5
Total	**5,000.3**	**4,671.0**	**100**	**100**

Source: IEA, Coal Information

(1) Includes anthracite and bituminous coal; excludes brown coal.

It is generally anticipated by industry research available to us that Asian countries, in particular China and India, will account for the majority of incremental demand for thermal coal in the coming years. According to IEA, China and India account for over 75% of coal-fired power generation capacity in construction as of 2008.

	GW	% of total
Coal-fired power-generation capacity under construction, 2008		
China	112	52
India	51	24
United States	19	9
Europe	17	8
Other	17	8
Total	**216**	**100**

Source: IEA

Based on IEA, "Reference Scenario", primary coal demand in Asian countries is expected to grow at approximately 3-4% per annum in 2007-2030, whereas in developed countries demand is expected to remain stable or decline due to lower rates of economic growth and increasing usage of alternative energy sources.

	1980	2000	2007	2015	2030	CAGR 2007-30
						%
Primary coal demand						
OECD	1,379	1,563	1,654	1,588	1,576	(0.2)
North America	571	832	848	843	888	0.2
United States	537	777	792	784	830	0.2
Europe	663	467	482	420	378	(1.0)
Pacific	145	264	325	325	310	(0.2)
Japan	85	137	164	155	139	(0.7)
Non-OECD	1,181	1,711	2,895	3,880	5,405	2.8
E.Europe/Eurasia	517	292	301	306	373	0.9
Russia	n/a	158	146	166	227	1.9
Asia	572	1,250	2,396	3,351	4,748	3.0
China	446	899	1,847	2,633	3,424	2.7
India	75	235	346	436	837	3.9
ASEAN	5	42	109	173	314	4.7
Middle East	2	12	14	16	32	3.7
Africa	74	129	151	158	182	0.8
Latin America	16	29	32	49	70	3.4
World	**2,560**	**3,275**	**4,548**	**5,468**	**6,981**	**1.9**
European Union	n/a	459	472	401	334	(1.5)

Source: IEA, "Reference Scenario"

(1) According to IEA, "Reference Scenario" provides a baseline picture of how global energy markets would evolve if governments make no changes to their existing policies and measures

Thermal coal supply

According to IEA, total global thermal coal production (excluding brown coal) was estimated to be approximately five billion tonnes in 2008. China's production was estimated to total 2.3 billion tonnes, which represents an approximate 47% market share, with the United States the next largest producer followed by India, Indonesia, South Africa, Indonesia, Australia and Russia. The following table shows the major producers of thermal coal (excluding brown coal) in 2008 and 2007, as estimated by IEA.

	Thermal coal production			
	2008	2007	2008	2007
	mln tonnes		*% of total*	
Country/Region				
China	2,334.0	2,087.3	46.8	44.8
United States	949.2	934.4	19.0	20.1
India	461.9	428.8	9.3	9.2
South Africa	234.2	246.1	4.7	5.3
Indonesia	214.9	201.0	4.3	4.3
Australia	185.3	181.9	3.7	3.9
Russia	181.9	160.4	3.6	3.4
Other CIS countries	128.4	118.5	2.6	2.5
Asia (excl. China, India and Indonesia)	78.8	76.7	1.6	1.6
Colombia	77.2	69.4	1.5	1.5
Poland	72.3	74.7	1.4	1.6
Other	72.7	76.1	1.5	1.6
Total	**4,990.9**	**4,655.3**	**100**	**100**

Source: IEA, Coal Information

(1) Includes anthracite and bituminous coal; excludes brown coal

Thermal coal trade

As highlighted above, the majority of coal produced is primarily consumed regionally due to high transportation costs relative to coal prices. Presently, the share of international trade in total production of thermal coal amounts to less than 15%. However, international trade volumes have been growing at a significant rate over the past 15 years in particular, with compound average growth rate between 1995 and 2008 of approximately 7%. Growth in trade in thermal coal has outpaced that in coking coal, which amounted to approximately 2% over the same period. Seaborne trade has become the major way of international coal trade.

million tonnes	1985	1990	1995	2000	2004	2005	2006	2007	2008
Production	2,658	2,890	3,100	3,121	4,019	4,273	4,493	4,655	4,991
Trade	274	299	297	421	557	595	646	679	676
in %	10.3	10.3	9.6	13.0	13.8	13.9	14.4	14.6	13.5
incl. seaborne	142	183	248	357	492	532	575	607	606
% of total trade	51.8	61.2	83.5	84.8	88.3	89.4	89.0	89.4	89.6

Source: IEA, Coal Information

The two major markets are the Atlantic region and the Asia-Pacific region, and the process between the two can vary significantly due to differences in the cost of ocean freight and other transportation related costs. The world's leading coal exporting countries are Indonesia, Australia, Russia, Colombia and South Africa, which collectively account for over 75% of total exports. In the Atlantic region, Europe consumes around 30% of global thermal coal exports, receiving shipments from Russia, South Africa, Colombia and Indonesia. In the Asia-Pacific region, Australia, Indonesia, Russia and China are the major exporters. Japan, South Korea and Taiwan are the three largest thermal coal importing countries in the world.

	Thermal coal exports	
	2007	2008
	mln tonnes	
Country/Region		
Indonesia	167.7	173.0
Australia	112.4	115.0
Russia	85.2	85.9
Colombia	67.2	73.6
South Africa	65.8	61.3
China	50.7	42.7
Kazakhstan	25.6	27.1
Other	104.6	97.4
Total	**679.2**	**676.0**

Source: IEA, Coal Information

	Thermal coal imports	
	2007	2008
	mln tonnes	
Country/Region		
Japan	128.8	128.2
Korea	65.8	75.5
Taiwan	54.9	60.2
UK	35.9	37.4
Germany	36.7	36.9
China	44.8	35.3
India	27.8	30.9
USA	31.4	29.3
Other Europe	134.4	124.8
Other Asia	71.1	75.2
Other	47.7	42.3
Total	**679.2**	**676.0**

Source: IEA, Coal Information

Going forward, the major expected developments in international trade, according to IEA, "Reference Scenario", are the switch of China to a net importer of coal and rapidly increasing import volumes in India.

Coal Pricing

The coal market is different from many other commodity markets in that there are no accepted reference or posted prices, and there is a very limited futures market outside of Europe. Coal is sold under term contracts or on the spot market with the coking and thermal coal markets operating relatively independently of each other.

Coal is a non-homogenous product with significant quality differentiation and is therefore priced according to certain characteristics. Thermal coal is judged by its calorific content and its energy content (other characteristics include ash, sulphur content, as well as hardness and moisture level, among others).

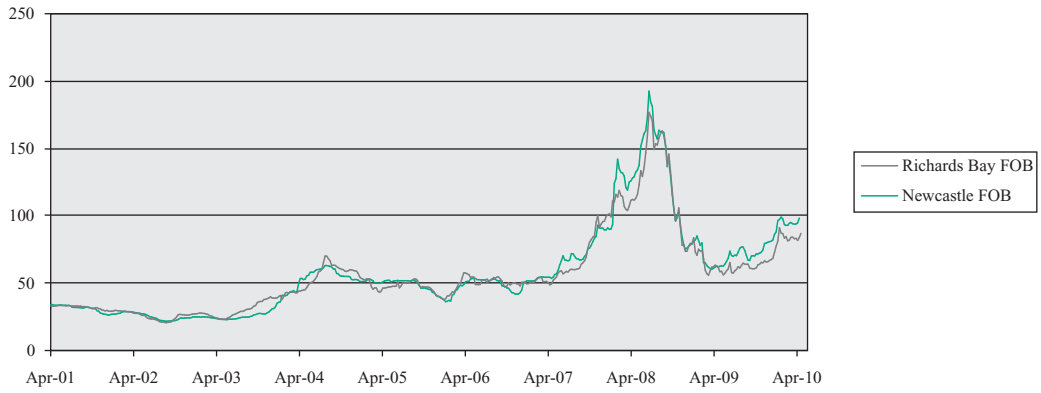
For most seaborne thermal coal markets, no single producer has sufficient market share to control prices. Thus, the sales prices for seaborne thermal coal in a particular market will normally fluctuate with changes in supply and demand for the coal, currency rates, prices of transportation and alternative fuels, and government regulations. There are additional influences on coal prices that affect the normal interaction of supply and demand by producers that are dedicated to a particular market or market segment and purchasers that desire diversified sources.

Most thermal coal sales are typically negotiated under contracts with a term of one to five years with annual, negotiated volume and price adjustments. Price settlements between Asian power companies and Australian coal producers have typically acted as benchmarks for pricing in the Asia-Pacific and the Atlantic region thermal coal export markets. These contracts are usually settled in the first quarter of the year, with new contract prices effective from April 1 to March 31 of the following year (the Japanese financial year, or "**JFY**"). Spot sales, as opposed to contract sales, are not necessarily short term, single shipment or low volume contractual arrangements. Spot coal sales are typically made either through bidding in a tender process or through direct negotiation between buyers and suppliers.

The table and graph below illustrates historic Japan-Australia contract prices and spot Newcastle FOB and Richards Bay FOB prices respectively.

	2001	2002	2003	2004	2005	2006	2007	2008	2009
					U.S.$ per tonne				
Japan-Australia JFY contract price . . .	34.50	28.80	26.75	44.00	53.00	52.50	55.65	125.00	70.00

Source: AME Mineral Economics



Source: Bloomberg

International thermal coal prices experienced a very substantial growth in 2006-2008 peaking out in July 2008 following the period of overall economic growth, strong demand for other energy commodities and specifically supply constraints in some of the key coal producing countries (a series of mine floods in Australia, power shortages in South Africa, internal transportation and regulatory problems in China). Following an economic slowdown and drop in other energy prices in the second half 2008 thermal coal prices have decreased considerably but have demonstrated an upward trend from May 2009 to March 2010.

Russian Coal Market

Russia is the world's largest country and covers a vast amount of topographically varied territory. This variation also applies to its coal reserves. Due to Russia's geographic diverseness and vastness, the variation of coal qualities and types crosses the spectrum of those found world wide, and includes, thermal, coking coals and anthracites.

Coal mining in Russia has a long history and the sector was one of the largest employers in the former USSR. The country produces both thermal and coking coal (used by steel producers) and is self-sufficient in both types of coal.

Russia already is the third largest exporter of thermal coal in the world after Indonesia and Australia and fifth largest exporter of coking coal after Australia, the United States, Indonesia and Canada, according to the IEA data.

Russia has extensive reserves of coal, with approximately 173 billion of recoverable reserves as of end 2008, according to Rosinformugol. According to the BP Statistical Review, Russia was believed to contain approximately 19% of the world's total coal deposits as of end 2008 and was ranked second after the United States by this metric at such date. The majority of these reserves, however, are located in unexplored and inhospitable areas. Existing coal production is relatively highly concentrated in several major basins, the most important of which being Kuznetskiy coal basin, also known as Kuzbass, primarily located in Kemerovo region in Western Siberia. According to Rosinformugol, Kuzbass accounted for approximately 60% of Russia's total coal production in 2009 having substantially increased its share in country's total over the past fifteen years as illustrated below. In 2009, total coal production in Kuzbass amounted to approximately 180 million tonnes including approximately 128 million tonnes of thermal coal and approximately 52 million tonnes of coking coal.

Shares in Russia's total coal production

	For the year ended 31 December	
	1995	**2009**
	%	
Basin/region		
Kuznetskiy basin (Kuzbass)	37.4	60.0
Kansko-Achinsk basin	12.2	11.8
East-Siberian region	14.3	12.1
Far East	13.2	9.1
Pechorski basin	8.9	4.0
Donetski basin	7.4	1.6
Moscow basin	1.4	0.1
Uralski basin	4.7	0.8
Other	0.5	0.5
Total	**100**	**100**

Source: Rosinformugol

Coal is mined in Russia in both open pits and underground mines. In 2009, the share of open-pit mines in total production amounted to 64% and generally open-pit mines have accounted for the majority of the growth in coal production volumes over the past decade, nonetheless in 2009 open-pit mines have experienced a production decline compared to 2008, whereas the production from underground mines has increased over the same period.

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**CAGR 98-09**	**2009/ 2008**
	mln tonnes												%	%
Open-pits	149.5	160.5	167.0	174.1	166.8	183.3	182.4	194.8	199.5	204.0	222.6	193,2	4.1	(13.2)
Underground mines	82.8	88.6	90.9	95.2	86.6	93.2	101.7	103.5	107.9	108.6	104.0	107,4	2.3	3.3
Total	**232.6**	**249.1**	**257.9**	**269.3**	**253.4**	**276.5**	**284.1**	**298.3**	**307.5**	**312.5**	**326.6**	**300.6**	**3.5**	**(8.0)**

Source: Rosinformugol

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**CAGR 98-08**	**2009/08**
	mln tonnes												%	%
Production	232.6	249.1	257.9	269.3	253.4	276.5	284.1	298.3	307.5	312.5	326.6	300.6	3.5	(8.0)
Exports	23.7	27.3	37.5	41.5	50.3	59.9	72.0	79.6	92.0	98.6	101.2	107.4	15.2	6.1
as % of production	10	11	15	15	20	22	25	27	30	32	31	36		
Imports	15.0	16.0	25.3	27.9	20.1	25.2	25.4	22.7	26.1	23.7	29.8	22.7	7.1	(23.8)
Net export	8.7	11.3	12.2	13.6	30.2	34.7	46.6	57.0	65.9	74.9	71.4	84.7	22.8	18.6
Apparent consumption[(1)]	223.5	237.8	245.7	255.7	223.2	241.8	237.5	241.4	241.6	237.6	255.2	215.9	1.5	(15.4)

(1) Calculated as total production less net export; includes production losses and changes in inventories

Source: Rosinformugol

Thermal coal production in Russia is relatively highly concentrated with the two largest producers — SUEK and KRU — accounting for over 55% of Russia's total production in 2008 and 2009, according to Metall Expert.

Overall, the ten largest producers accounted for approximately 80% of Russia's total production over the same time periods.

2009 was characterized by a significant decline in production volumes for the coal industry, which was accordingly reflected in the performance of most of producers. Nonetheless, a number of producers, including us, managed to increase their production volumes considerably despite adverse market environment.

Thermal coal production	For the years ended 31 December				
	2008	2009	Change	2008	2009
	mln tonnes		%	%	%
Company					
SUEK	93.3	84.9	(9.0)	37.3	36.9
Kuzbassrazrezugol	45.4	43.4	(4.4)	18.2	18.9
SDS	10.5	13.0	23.8	4.2	5.7
Vostsibugol	11.9	12.2	2.5	4.8	5.3
Mechel	10.7	6.8	(36.4)	4.3	3.4
Russkiy Ugol	7.3	6.3	(13.7)	2.9	2.7
KTK	5.5	6.2	12.7	2.2	2.7
UK Zarechnaya	5.3	5.7	7.5	2.1	2.5
LUTEK	5.3	4.6	(13.2)	2.1	2.0
Evraz-Holding	4.9	4.1	(16.3)	2.0	1.8
Other	50.0	41.5	(17.0)	20.0	18.1
Total	**250.1**	**229.8**	**(8.1)**	**100**	**100**

Source: Metall Expert

(1) Excluding anthracite production; aggregate production data might differ from the information sourced from Rosinformugol in other parts of the section

Western Europe remains the major destination of Russian coal exports accounting for approximately 46.5% of total exports in 2009, according to Rosinformugol. However, the share of Asian region has been increasing in the past years following the rapid economic growth and steadily increasing demand for energy in China, India and other Asian countries. In particular, the most notable recent development in the structure of Russian coal exports was the rapid increase in the export volumes to China which totaled almost 10 million tonnes and accounted for over 9% of total exports in 2009 compared to just 0.2 million tonnes in 2008. (Source: Rosinformugol).

Approximately 75% of Russian exports is seaborne, including 48% through Russian ports, 17% through Baltic ports and 10% through Ukrainian ports. Approximately 25% of Russian exports are transported by land transport. (Source: Rosinformugol).

Russian coal exports	For the year ended 31 December			
	2008	2009	2008	2009
	mln tonnes		%	
Country/Region				
United Kingdom	12.7	16.1	13.0	15.1
China	0.2	9.9	0.2	9.3
Japan	9.0	8.5	9.2	8.0
Ukraine	13.4	8.1	13.7	7.6
Turkey	10.1	8.0	10.4	7.5
Netherlands	4.8	7.6	4.9	7.1
Poland	4.1	6.5	4.2	6.1
Latvia	4.0	6.3	4.1	5.9
Finland	6.2	6.1	6.4	5.7
Korea	6.6	5.5	6.8	5.2
Germany	7.0	4.2	7.2	4.0
Other	19.4	19.5	19.9	18.3
Total	**97.5**	**106.3**	**100**	**100**

Source: Rosinformugol

Russia has an own system of coal grading dating back to Soviet times. The table below sets forth indicative correspondence between Russian and western coal classification systems:

	Russian System		Western (US) System[1]	
Brown Coals	Brown (B)	1B	ligB	Lignite
		2B	ligA	
		3B		
Hard Coals	Long-Flame (D)		SubC	Sub-bituminous
			SubB	
			SubA	
			hvCb	Bituminous
	Long-flame-gas (DG), gas (G), gas-fat (GZh), hvBb gas-semi-lean (GZhO) and artly fat (Zh)		hvBb hvAb	
	Fat (Zh), coking-fat (KZh), coking (K), mvb coking-semi-lean (KO), coking-caking (KS and KSN)		mvb	
	Semi-lean-coking (OS) and lean-coking (TS)		lvb	
	Lean (T)		sa	
	Semi-antracite (PA)			
	Anthracite	A1	an	Anthracitic
		A2		
		A3	Ma	

Source: USGS, Rosnedra and Rosinformugol

(1) The modifiers "hv", "mv" and "lv" stand for "high volatile", "medium volatile" and "low volatile", respectively. They denote the gas content of coal, from high to low.

Thermal Coal Consumption

Coal in Russia traditionally accounts for a relatively smaller share in the country's energy consumption (approximately 16% of primary energy demand and approximately 30% of the Russian thermal power generation fuel mix, according to Rosinformugol) compared to world average and, in particular, emerging markets such as China or India. Gas remains the dominant source of fuel in the country, accounting for over 50% of total primary energy demand and slightly below 70% of the Russian thermal power generation fuel mix.

Primary energy consumption in Russia, 2008	%
Gas	52.9
Oil	19.1
Coal	16.6
Primary electricity	10.4
Other	1.0
Fuel consumption by Russian thermal power plants, 2009	
Gas	68.9
Coal	29.1
Fuel oil	2.0

Source: Rosinformugol

Power generation accounts for the overwhelming majority of thermal coal consumption in Russia with slightly below 70% of the total in 2008. In 2009, power generation suffered substantial decrease in consumption volumes of approximately 15%, whereas the demand for coal from households and municipalities — our primary market — demonstrated greater robustness with consumption decreasing by just 6%.

Russian thermal coal consumption	2008	Share	2009	Share	Change
	mln tonnes	*%*	*mln tonnes*	*%*	*%*
Power generation	108.3	71	91.6	68	(15)
Households, municipalities, agricultural complex	25.9	17	24.4	18	(6)
Other	19.0	12	19.2	14	1
Total	**153.2**	**100**	**135.2**	**100**	**(12)**

Source: Rosinformugol

Coal occupies a relatively small portion in Russia's fuel mix, primarily due to availability of cheap gas and historical efforts dating back to Soviet times to increase the share of gas-fired generation in the country. However, over the

past years the Russian government officials has repeatedly declared the intention to increase the role of coal in domestic energy consumption in the medium to long term. For example, according to the presentation of the Russian Energy Balance Forecast Association, published in August 2009, demand for coal to be used in power generation is expected to rise from 2007 to 2020 at an average rate of approximately 3% per annum, significantly outpacing growth in demand for gas and other fuel.

Expected demand for different types of fuel	2007	2010	2015	2020	CAGR 2007-20
	tonne coal equivalent				%
Gas	206.3	195.5	215.6	241.9	1.2
Coal	72.8	77.0	88.1	109.3	3.2
Oil	6.7	6.2	5.0	5.1	(2.1)
Other	9.3	8.6	9.0	9.3	0.0
Total	**295.2**	**287.2**	**317.7**	**365.7**	**1.7**

Source: Russian Energy Balance Forecast Association

Thermal coal prices

Thermal coal prices in Russia have historically been broadly linked with overall energy commodities prices, but most directly with local prices of gas, which is the other primary fuel consumed by power utilities in Russia. Although there are several limitations which prevent coal and gas from becoming direct substitutes for one another, in the long run in a normalized market environment, gas and coal prices generally demonstrate strong correlation ratios.

Historically, gas prices in Russia were fixed at a low level, *i.e.*, significantly below the export prices adjusted for transportation and taxation costs (so-called export netback level). In November 2006, the Russian government adopted a liberalization schedule, according to which domestic gas prices were to reach the export netback level by January 2011. The government had also established a schedule of fixed rates by which the regulated prices will be increased before 2011. This schedule was subsequently revised and amended but the overall trend towards price increases aimed at gradual convergence with export netback prices remained intact. As such, starting 1 January 2007 regulated domestic prices were increased by 15%, starting 1 January 2008 — by 25%, in 2009 prices were increased on a quarterly basis resulting in aggregate growth of 27.7% over the year, and starting 1 January 2010 prices were raised by 15%. While the government policy is subject to changes, if the announced principle of convergence with export prices is maintained it is expected to lead to further rises in domestic gas prices in the coming years.

In the environment of steadily growing Russian domestic gas prices, it can be expected that Russian domestic thermal coal prices will generally follow a similar upward trend, due to the increased bargaining power of coal suppliers vis-à-vis their customers. Furthermore, in the past, most commercial negotiations with coal producers on behalf of power companies were conducted in a centralized manner by RAO UES, state-owned electricity monopoly holding. Now that RAO UES has been restructured, coal suppliers negotiate directly with stand-alone generating companies and therefore may occupy a stronger bargaining position than they had previously enjoyed.

With respect to coal sold to households and municipalities, regional authorities in Russia usually set out the maximum level of such prices on annual basis. However, in our experience, these maximum prices have historically substantially exceeded the market level and, therefore, have not affected our revenues in all regions where we sell thermal coal to households and municipalities with the exception of the Kemerovo region. In the Kemerovo region, where retail prices are traditionally set below the market level, the local government compensates us for the price differential between the market price and the regulated price. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Price Dynamics — Regional pricing regulations."*

Reserve Reporting Methodologies

International reporting methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes currently being utilized are:

- United States Geological Survey Circular 831;
- Ontario Securities Commission Instrument 43-101;
- Australasian Joint Ore Reserves Committee ("JORC") Code;
- Institute of Materials, Minerals and Mining Reporting Code;

- Pan — European Reserves and Resources Reporting Code; and
- South African Code for Reporting Mineral Resources and Mineral Reserves.

Each of these codes recognises a difference between mineral resources and reserves. Conversion from a mineral resource to a reserve requires the application of "modifying factors." These modifying factors include mining, economic, marketing, legal, environment, social and governmental factors. A "resource" is geologically defined; it becomes a reserve when the modifying factors, especially technical and economic, are taken into account. Each of these codes includes strict guidelines for data quality and reporting for different mining conditions.

Under the JORC Code, coal resources are sub-divided, in order of decreasing geological confidence, into measured (highest level), indicated and inferred (lowest level) categories.

A measured coal resource is that part of the total coal resource for which quantity and quality can be estimated with a high level of confidence, based upon information gathered from points of observation that may be supported by interpretative data.

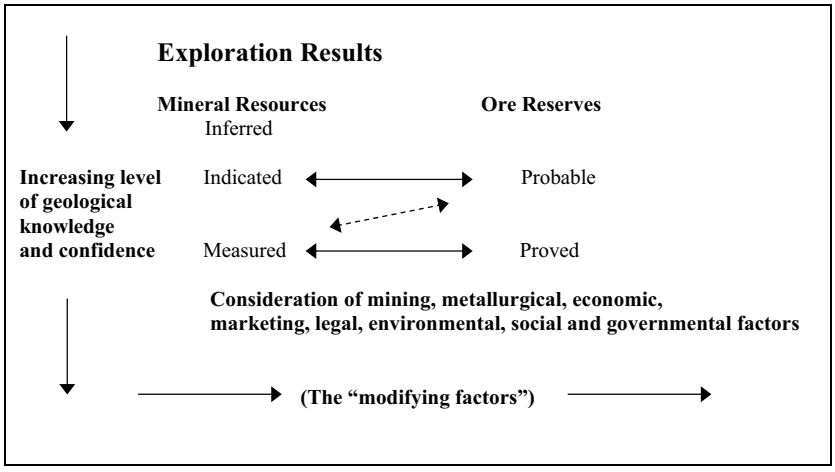
An indicated coal resource is that part of the total coal resource for which quantity and quality can be estimated with reasonable levels of confidence based upon information gathered from points of observation that may be supported by interpretative data.

An inferred coal resource is that part of a total coal resource for which quantity and quality can only be estimated with low levels of confidence. The quantity and quality are inferred using points of observation that may be supported by interpretative data.

Coal reserves are the economically mineable parts of a measured or indicated resource. Coal reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include proper consideration of all relevant modifying factors such as: mining methods, economic, marketing, legal, environmental, social and governmental factors.

A proven coal reserve is the economically mineable part of a measured coal resource for which the modifying factors have been satisfied. A probable coal reserve is the economically mineable part of an indicated coal resource.

The below chart illustrates the relationship between reserves and resources under the JORC Code.



Source: IMC Report

Russian reporting methodologies

Deposits under the Russian methodology are classified into one of four classes based upon the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralization. The initial classification is intended to identify those resources warranting further study.

Depending on the extent of further exploration, coal resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources.

Explored and evaluated deposits are further classified based upon the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A. These resources include only explored deposits and must satisfy the following criteria:

- the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;

- the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;

- the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated;

- the mineral reserves have been mapped based upon test wells, workings and detailed trial runs.

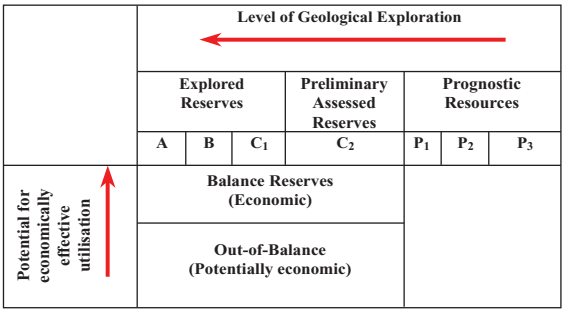
Category B. These reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on a basis of geological criteria and geophysical and geochemical research.

Category C1. These reserves are characterized by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2. These reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and the boundaries of the deposit are mapped based upon data gathered from only a limited number of test wells and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable reserves in categories P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves.

Reserves and resources reporting system in Russia is illustrated below.



Source: IMC Report

The critical differences between the two systems are:

(i) Balance reserves under the Russian system are often estimated based on cut-off parameters approved by GKZ (Russian State Commission on Reserves) many years before the mine design is produced, and the actual economic situation is not accounted for. The process of cut-off parameters review and balance reserve re-estimation is very long and formalised. The JORC Code is less formalised and enables to make an economic assessment and reserves re-estimation within a much shorter period; and

(ii) In Russia, deposit development is planned for the whole amount of industrial reserves, sometimes without any time limits set by realistic forecast period. Under the JORC system, reserves are established on the basis of a realistic economic model, which in practice usually corresponds to the actual mining period, up to 20 year long.

Overview

We are one of the fastest-growing thermal coal producers in Russia. Based on 2009 production volumes, we ranked seventh among the largest thermal coal producers in the country, according to Metall Expert. In the ten years since our establishment in 2000, we have commissioned and launched three open-pit mines, reaching production volume of 6.15 million tonnes of coal for the year ended 31 December 2009. We expect to continue to grow our production volume, in particular as a result of the launch of the Cheremshansky mine in 2008 and ongoing investments into our high performance modern mining equipment aimed at achieving production levels up to the aggregate structural capacity of our existing mines of 11 million tonnes of thermal coal per annum.

We conduct our mining operations at three open-pit mines located in the Kuzbass area of Russia. The Kuzbass area is located within the Kemerovo region, Russia's largest coal producing region accounting for 60% of Russia's total production in 2009, and home to six of the 10 largest Russian coal-producing companies in terms of production volume. Open-pit mining, our high-performance and large-capacity equipment, which has undergone substantial modernization since 2006, as well as the compact location of our production and administrative facilities, enable us to maintain low production costs and overhead expenses. Our mining operations are supported by well-developed production and transportation infrastructure able to support the structural capacity of our existing mines and helping to further ensure low operating and administrative costs, as well as efficient production and distribution. One of the principal components of our support infrastructure is our own railway network, which stretches over 70 kilometers and enables us to transport 100% of our coal from our open-pit mines to the main railway hub at the long-distance railway network, operated by Russian Railways. We believe further expansion of our production level up to the aggregate structural capacity of our existing mines will not require significant capital expenditure, other than into additional mining equipment and coal processing and enrichment facilities. See "— *Capital Investment Program.*" Our domestic sales are supported by one of the largest retail coal distribution networks in Western Siberia comprising 60 points of sale as of 31 December 2009, which, together with our strong regional presence, positions us as one of the principal suppliers of thermal coal to retail consumers in the region.

We enjoy a relatively large base of mineral resources, which, according to the IMC Report, totaled approximately 409.3 million tonnes of ROM coal resources as of 1 January 2010, of which 191.6 million tonnes were proven and probable reserves of ROM coal, recoverable during the period between 2010 and 2029. We produce exclusively sub-bituminous thermal coal, classified as grade "D" under the Russian classification system, with a naturally low sulphur and phosphorus content as well as a relatively high calorific value, which is in demand both in Russia and abroad.

For the year ended 31 December 2009, our total sales, in both domestic and export markets, amounted to 7.41 million tonnes of coal, of which 6.03 million tonnes were extracted by us and 1.38 million tonnes were resold after purchasing from other coal producers. We maintain diversified sales capabilities, including a wide retail domestic distribution network and growing export operations, which help us achieve stable and efficient distribution of our coal. For the year ended 31 December 2009, approximately 4.71 million tonnes, or 63.6%, of our thermal coal sales were to domestic consumers in Russia, of which 58.8% was sold through our retail coal distribution network in Western Siberia. Approximately 36.4% of our thermal coal sales in volume terms for the year ended 31 December 2009 were export sales, primarily to Poland, South Korea and China.

For the year ended 31 December 2009, we had total revenue of RUB 10,658 million, EBITDA of RUB 2,177 million and profit for the year of RUB 663 million. Our gross margin and EBITDA margin were 23.3% and 20.4%, respectively. As of 31 December 2009, our net debt was RUB 3,773 million, with net debt to EBITDA ratio of 1.7.

Competitive Strengths

We believe that we operate in an attractive industry with strong long-term growth fundamentals. Based on various industry reports available to us, we expect demand for thermal coal, as the primary fuel for electricity generation worldwide, to remain robust in the coming years and, particularly, we expect the coal industry to benefit from industrial growth in emerging markets such as China and India. Domestically, thermal coal producers are expected to benefit from the ongoing liberalization of gas and electricity markets, which, we believe, could lead to higher prices for thermal coal deliveries to power generation companies and, thereby, influence the overall level of domestic coal prices. We consider ourselves well placed to take advantage of these favorable market dynamics in both domestic and export thermal coal markets because of the following competitive strengths:

Strong organic growth potential on the back of a demonstrated track record

At the time of our establishment in 2000, our operations consisted of a single undeveloped site within the Karakansky South license area. Over the past ten years, we have developed and launched production of three mines, established extensive transportation and distribution infrastructure, earned a strong reputation for quality products and reliable services with our customers and became one of the major producers of thermal coal in Western Siberia.

Further production growth up to the aggregate structural capacity of our three mines will be based on existing facilities, licenses and infrastructure and is not expected to require significant capital expenditure, other than into coal mining equipment and processing and enrichment facilities. Our planned commissioning of processing and enrichment facilities during 2010-2012 is expected to further enhance our ability to provide quality products to our clients, increase our operating efficiency and expand our export capabilities.

Strong base of coal reserves

We enjoy a strong base of mineral resources, which, according to the IMC Report, totalled approximately 409.3 million tonnes of ROM coal as of 1 January 2010, including approximately 191.6 million tonnes of proven and probable reserves, recoverable between 2010 and 2029. We view our resources as relatively large compared with our production of 6.15 million tonnes during the year ended 31 December 2009 and the aggregate structural capacity of our existing mines. Furthermore, a significant part of our resources was historically classified as reserves and has been only recently re-classified as resources, following changes in auditing methodology adopted by IMC, under which only resources recoverable within a 20-year period can be deemed as reserves.

High product quality

Our coal resources exclusively consist of sub-bituminous thermal coal, classified as grade "D" under the Russian classification system, which has a naturally low sulphur and phosphorus content and a relatively high calorific value. Accounting for approximately one fourth of the total thermal coal production in the country, grade "D" is the most widely used thermal coal grade in Russia. Grade "D" thermal coal is extensively used domestically by both industrial and retail consumers, and is also in demand among European and Asian customers. The low sulphur content of our thermal coal allows us to benefit from the "clean coal" requirements of the European Union and gain market share in the Eastern European markets, which have implemented such requirements at the expense of local coal producers in such markets that are unable to supply coal with the required sulphur content (and by replacing seaborne imports that are limited by port-infrastructural constraints and costs).

Efficient low-cost production

We conduct our mining operations exclusively at three open-pit mines. Our open-pit mines are located within five kilometers of each other, which allows us to conduct a number of operations centrally and, thereby, minimize various overhead costs and expenses. For example, our mines share a common fleet of equipment, administrative resources and repair and support service centers. Furthermore, the advantages of open-pit mining, as compared with underground mining, include lower costs, a higher level of workplace safety and less complicated technological processes as well as the ability to use larger and more powerful shovels and trucks. In 2006, we embarked on a significant technical upgrading program, which was designed to upgrade and modernize our production equipment and implement advanced technologies in order to increase production levels, improve the quality and range of our products, reduce production costs and lessen the environmental impact of our operations. Our mining operations are now supported by a fleet of high-performance and large-capacity modern mining and transportation equipment from such leading international manufactures as Komatsu, P&H and BelAZ, characterized by a low degree of wear, low breakdown time and high utilization.

Established support infrastructure

Our operations are supported by well-developed production, logistics and distribution infrastructure. One of the principal components of this infrastructure is our own railway network, enabling us to transport 100% of our coal from our open-pit mines to the Russian Railways System. We believe that we are among only a few Russian coal producers that own and operate such a railway network. Our railway infrastructure consists of over 70 kilometers of railroads, six railway stations, our own locomotives and a design capacity to transport 12 million tonnes of coal per annum. We currently utilize the excess capacity of our railway network by providing transportation services to such Russian thermal coal producers as KRU and Russian Coal. However, as we increase our production, we will be able to replace the third-party traffic with our own coal without incurring additional costs associated with an enhancement of the rail capacity. Our infrastructure also includes a wide-road transportation network, our own coal sorting and storage facilities, power infrastructure and one of the largest retail coal distribution networks in Western Siberia.

Extensive retail network

Since our establishment, we have been continuously expanding and building our coal retail distribution network. As of 31 December 2009, we owned and operated 60 retail points of sale throughout the Kemerovo, Novosibirsk, Omsk and Altay regions, selling 2.77 million tonnes of coal through this channel during the year ended 31 December 2009. This distribution network, coupled with our strong regional presence, positions us as one of the principal suppliers of coal to retail customers in Western Siberia. We believe that we have a reputation for reliability, superior product

delivery, competitive pricing, and familiarity with customers' needs. With additional points of sale to be acquired or established in the near term, we believe that our distribution network will provide us with a stable market for our coal and a unique opportunity to secure future growth.

Diversified sales and distribution capabilities

We have historically developed as a domestically oriented company, primarily servicing retail and small wholesale customers. As our production has increased, in particular over the past three years, we were also able to develop and strengthen our export operations. By diversifying our sales structure through our export operations, we believe that we are better equipped to reduce our exposure to fluctuations in any single market and stabilize our cash flows. We believe that our sales structure offers us both the benefits of traditionally higher international coal prices while maintaining our exposure to a more stable domestic market, supported by our strong retail network. Furthermore, our established railway infrastructure enables us to purchase lower-quality thermal coal from third-party producers and sell it through our retail distribution network to satisfy domestic demand, while allowing us to shift our own higher-quality thermal coal to export markets, where we can secure higher profitability margins.

Experienced management team with a proven track record in the industry

Our management has significant experience in the coal industry and a proven track record in the successful execution of complex projects. Our founding and controlling shareholder, Mr. Prokudin, has over 32 years and our senior management has on average over 16.7 years of experience in the industry. The core management team has remained largely unchanged since our incorporation in 2000 and has been instrumental in executing our growth strategy. In response to challenging market conditions in the fourth quarter of 2008, our management implemented a number of measures designed to increase operational efficiency involving reduction of headcount and optimization of overhead and administrative expenses. Through these measures, we were able to successfully weather the Global Economic Crisis and maintain high operating and financial results for the year ended 31 December 2009. For further details concerning our management, see *"Management and Corporate Governance."*

Business Strategy

We intend to continue to seek opportunities to leverage our competitive strengths and pursue opportunities to increase shareholder value through the following strategies:

Further production growth and efficiency improvement

The cornerstone of our business development strategy in the coming years is to increase our production levels to the structural capacity of our existing mines. We expect to grow production volumes, first and foremost, through expanding and upgrading our equipment fleet as well as through increasing operational efficiency by commissioning coal enrichment facilities. Our strategy is to procure modern excavators, draglines and trucks with larger capacities, advanced automation features and increased reliability, which we expect will allow us to make significant efficiency improvements and further reduce the number of personnel involved in mining operations. In addition, between 2010 and 2012, we plan to commission three new coal processing and enrichment facilities utilizing steeply inclined and dense-medium separation processes with an aggregate design capacity of 8.5 million tonnes of coal per annum. These processing facilities are expected to allow us to make our coal extraction process more efficient and achieve other operational improvements, ultimately leading to a growth in our production volumes.

In the longer term, once we have reached the structural capacity of our existing mines, we believe that we are well positioned to further expand our capacity through exploring neighbouring land plots on our property and acquiring new licenses in the region, leveraging our knowledge of both the industry and the local geology.

Enhancement of product quality and entering new markets

In addition to volume growth, we intend to further improve the quality of our product with construction of the new processing and enrichment facilities outlined above. We believe that higher quality coal will allow us to command higher coal prices, diversify and expand our customer base and reduce our transportation costs. Furthermore, we believe that enhancing our coal quality would allow us to access entirely new geographic markets, which are currently not available to us due to the more onerous requirements for coal quality in such markets. Following the construction of our processing and enrichment facilities, we expect to be able to sell coal with higher calorific value, as well as to produce a range of new products.

Further strengthening of distribution and sales capabilities in Russia and internationally

We plan to further develop our distribution network of retail subsidiaries in order to maintain our long-standing established relationships with retail consumers throughout Western Siberia and to substantially increase our

distribution capacity. With 60 owned and operated points of sale already in place, we plan to acquire or establish additional points of sale in the near term.

Furthermore, we aim to broaden and improve our product range and the scope of services offered to our retail clients. For example, we plan to further diversify the preparation of coal mixes of different calibre in order to adjust the characteristics of our coal in accordance with customer specifications, improve our delivery services, introduce advanced payment mechanisms and continue developing other measures aimed at maximizing value added for our customers and, thereby, enabling us to command premium prices for our product.

In export markets, we aim to widen the range of our counterparties, aiming to increase our direct access to end customers, including through creating our own trading representatives and subsidiaries. For example, in 2010 we plan to establish a subsidiary in Poland to monitor the local market more closely, develop our relationship network and participate in various tenders for coal supply held by local power utilities and coal trading companies. We believe that enhancing our marketing capabilities would widen our distribution options and allow greater flexibility in choosing optimal sales destinations, pricing terms, length and terms of contracts.

Cost optimization and profitability improvements

We intend to maintain our position as a low-cost producer of coal. We aim to achieve this through further upgrading our mining equipment, launching new processing and enrichment facilities that can minimize coal losses in the extraction and transportation processes, taking additional measures in relation to headcount optimization, and imposing further strict controls over administrative and overhead expenses. In addition, we aim to continue to manage our exposure to the risks associated with the Russian Railways System, such as potential hikes in transportation tariffs, shortage of railway cars and damages incurred to our coal products during transportation. Accordingly, our Board of Directors approved an acquisition of a significant, but non-controlling, stake in a company owning and operating a railcar fleet, followed by conclusion of long-term lease contract for rail cars at fixed prices. We have filed a petition with the FAS to obtain an approval of the acquisition and are presently awaiting a decision.

Further enhancement of corporate governance standards

We have evolved as a privately held company run by our founding shareholders with effective decision-making power vested with a fairly small group of directors and officers. We realize that, as a public company, we are under obligation to form qualitatively different corporate governance accountability and disclosure standards. We seek to distinguish ourselves from many Russian companies by focusing on transparency and refining our corporate governance code to a level that is compatible with international standards, such as by appointing two independent directors to our Board of Directors. We also plan to introduce a Remuneration Committee and an Investment and Strategy Committee.

Our History and Development

We, in our present form, are principally a result of a merger between OJSC KeNoTEK (itself formed by way of the reorganization of LLC KeNoTEK) and OJSC "Kuzbasskaya Toplivnaya Company" (formed by way of the privatization of State Unitary Enterprise Kuzbasskaya Toplivnaya Company in 2001).

In April 1999, the local government of the Kemerovo and Novosibirsk regions signed joint resolution No. 18\217 on the creation of a joint venture coal mining enterprise to ensure stable supply of coal to the local population of their respective regions. Under the resolution, LLC KeNoTEK, a mining company, was formed and registered in the city of Kemerovo on 30 April 1999. The same year, LLC KeNoTEK acquired subsoil licenses for the Karakansky South field and commenced exploration activities at the field as well as construction of the railway track connecting the Karakansky coalfield to the federal railway station Meret, operated by Russian Railways. Production began at the Karakansky South field in 2000. In 2001, the management of LLC KeNoTEK acquired all participatory interests in LLC KeNoTEK belonging to the local governments. In 2003, LLC KeNoTEK acquired the subsoil license for the Karakansky South-1 field and commenced coal production at the field in 2005. In February 2006, LLC KeNoTEK was reorganized as an open joint stock company, OJSC KeNoTEK. In the same year, our shareholders adopted a resolution to reorganize KTK by merging OJSC KeNoTEK into it.

On 2 March 2000, State Unitary Enterprise Kuzbasskaya Toplivnaya Company was formed in accordance with the resolution of the local government of the Kemerovo region. In 2001, State Unitary Enterprise Kuzbasskaya Toplivnaya Company was subsequently privatized and reorganized as an open joint stock company. OJSC "Kuzbasskaya Toplivnaya Company" was registered on 28 December 2001. All our shares were then acquired by our management. In 2003, we acquired subsoil use rights for the Vinogradovsky field and commenced coal production in 2004. In 2005, we acquired subsoil use rights for the Cheremshansky field and commenced coal production in May 2008. In 2006, we acquired subsoil use rights for the Vinogradsky-2 and Karakansky South fields and commenced coal production at the fields in 2007 and 2009, respectively.

Power generation subsidiary

Our power-generation facility, Kaskad-Energo, was created in 2003 as part of a joint venture agreement between us and the local government of Kemerovo region to ensure uninterrupted generation of heat and electric power to businesses and the general population of Anzhero-Sudzhensk. The same year, we installed our first power-generation unit with an electrical capacity of 2.5 MW, followed by the installation of the second power-generation unit with an electrical capacity of 6 MW. In 2006, we acquired the shares of the local government of the Kemerovo region in Kaskad-Energo and became its sole shareholder.

Retail distribution subsidiaries

As our mining operations grew, we acquired a number of distribution assets, which, over a period of ten years, developed into one of the largest distribution networks operating throughout the Kemerovo, Novosibirsk, Omsk and Altay regions of Western Siberia and now serves as one of the key thermal coal suppliers to retail customers in these regions.

Kuzbasstoplivosbyt was our first retail distribution subsidiary. It was created in 2003 as part of a joint venture agreement entered between us and the local administration of the Kemerovo region, the principal activity of which was the retail sale of coal in the Kemerovo region. As of the date of this Offering Circular, we own a 75% share in the charter capital of Kuzbasstoplivosbyt, with the remaining 25% owned by the local government of the Kemerovo region. As of 31 December 2009, Kuzbasstoplivosbyt owned and operated 27 points of sale and distributed 1.20 million tonnes of coal to retail customers in the Kemerovo region in 2009.

In 2006, we acquired a controlling interest in the charter capital of TransUgol, the core activity of which was the retail distribution of coal in the Omsk region. As of the date of this Offering Circular, we own a 51% share in the charter capital of TransUgol with the remainder owned by five individuals with extensive coal distribution experience in the Omsk region. As of 31 December 2009, TransUgol owned and operated five points of sale and distributed 0.09 million tonnes of coal to retail customers in the Omsk region in 2009.

In 2006, we and Mr. O.A. Vaschenko entered into a joint venture agreement under the terms of which Altay Fuel Company was formed, the primary activity of which became the retail of coal in Altay region. As of the date of this Offering Circular, we own a 51% share in the charter capital of Altay Fuel Company with the remainder owned by Sibirenergouglesnab. As of 31 December 2009, Altay Fuel Company owned and operated seven points of sale and distributed 0.23 million tonnes of coal to retail customers in the Altay region in 2009.

In 2008, we and Novosibirsktoplivosbyt entered into a joint venture agreement under the terms of which Novosibirsk Fuel Corporation was formed with the primary activity of the retail distribution of coal in Novosibirsk region. As of the date of this Offering Circular, we own a 51% share in the charter capital of Novosibirsk Fuel Corporation with the remainder owned by Novosibirsktoplivosbyt. As of 31 December 2009, Novosibirsk Fuel Corporation owned and operated 21 points of sale and distributed 1.25 million tonnes of coal to retail customers in the Novosibirsk region in 2009.

Transportation subsidiary

In 2007, we became a sole shareholder of TEKM, which operates our proprietary rail transportation network, connecting our mines and facilities to six of our railway stations and, ultimately, to the Russian Railways System. For the year ended 31 December 2009, the railway network operated by TEKM transported 9.7 million tonnes of coal of which 62.6% of freight volume consisted of our coal and 37.1% of freight volume consisted of coal transported in connection with transportation services provided by TEKM to major Kuzbass coal producers.

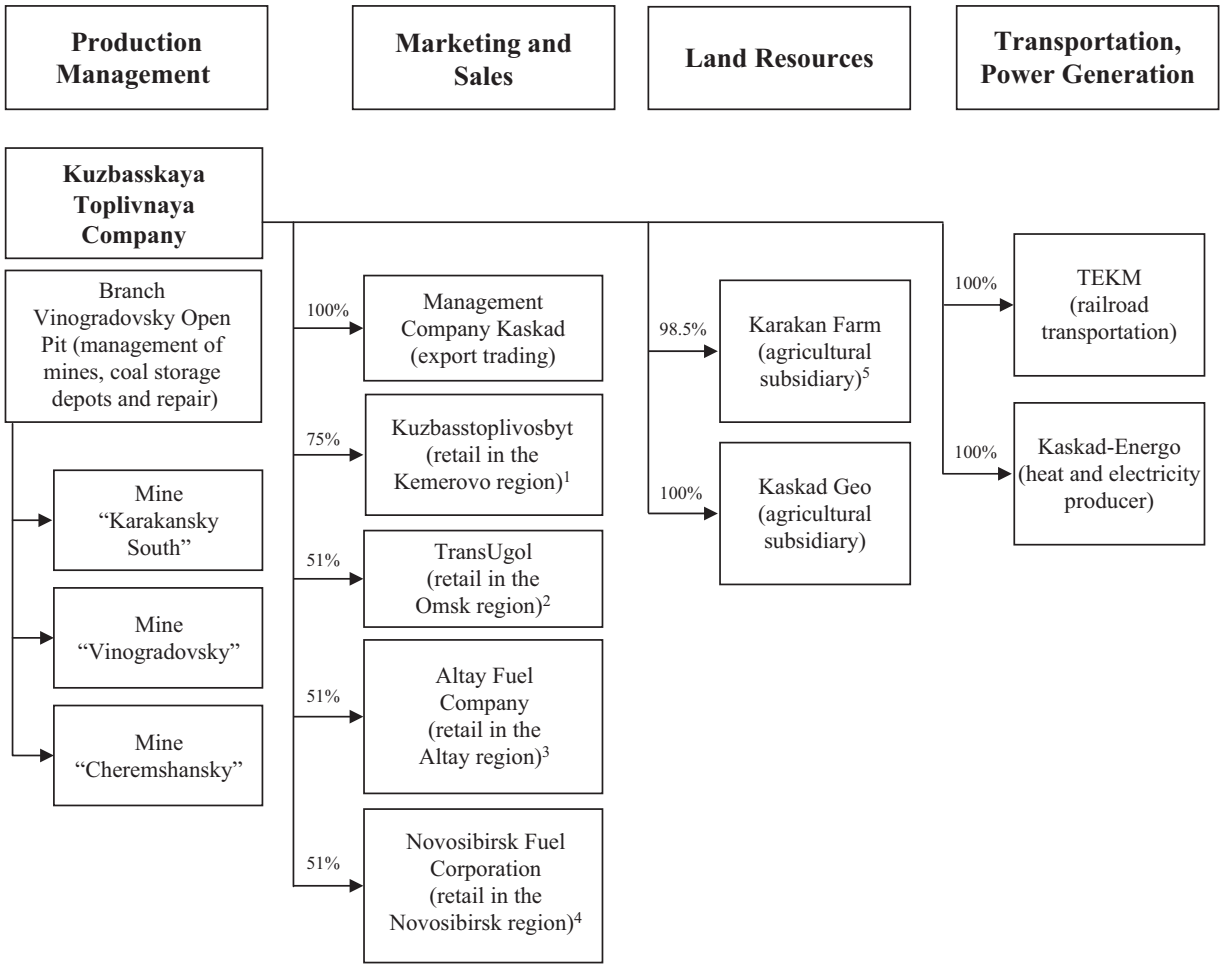
Trading subsidiary

As we evolved from a domestically oriented company, primarily servicing retail and small wholesale customers in Western Siberia, to one of the major thermal coal producers in Russia in terms of production volume, we sought to enhance our export marketing capabilities. In 2007, we became the sole shareholder of the Management Company Kaskad, a trading subsidiary focused on export sales and marketing.

Organizational Structure

We are an open joint stock company incorporated under the laws of the Russian Federation (with registration number 1024200692009) and Kuzbasskaya Toplivnaya Company is our profit center. We operate through a number of subsidiaries incorporated in Russia, which are our operating companies, providers of certain services for our business, as well as holders of certain licenses for our business. Our strategic management is carried out by the General Director of Kuzbasskaya Toplivnaya Company within a vertically integrated management structure and operational management is carried out by the Director of Vinogradovsky Open Pit.

The following chart and accompanying table describe our current corporate structure:



(1) The remaining 25% participation interest in Kuzbasstoplivosbyt is held by the local government of the Kemerovo region.

(2) The remaining 49% participation interest in TransUgol is held by five private individuals.

(3) The remaining 49% participation interest in Altay Fuel Company is held by Sibirenergouglesnab.

(4) The remaining 49% participation interest in Novosibirsk Fuel Corporation is held by Novosibirsktoplivosbyt.

(5) The remaining 1.5% participation interest in Karakan Farm is held by two private individuals.

The activities of our subsidiary entities are set out in the table below.

Subsidiary name	Principal activity	Ownership interest as of the date of this Offering Circular
Management Company Kaskad	Wholesale sale of coal	100%
Kuzbasstoplivosbyt	Retail sale of coal	75%
TransUgol	Retail sale of coal	51%
Altay Fuel Company	Retail sale of coal	51%
Novosibirsk Fuel Corporation	Retail sale of coal	51%
Karakan Farm	Retail sale of agricultural products and development of agricultural land	98.5%
Kaskad Geo	Retail sale of agricultural products and development of agricultural land	100%
TEKM	Railroad transportation services	100%
Kaskad-Energo	Electricity generation	100%

Reserves and Resources

We have retained an international consulting firm, IMC, to conduct an independent review of the coal resources and reserves of our mines and evaluate the reserves in accordance with the JORC Code. These reviews included site visits to our mines in order to collect data and review the operations. Subsequent to the site visits, IMC reviewed the available information and conducted economic evaluations. Moreover, IMC reviewed the methodologies and data

used by us to develop Russian reserve estimates. Based upon its review, IMC believes that the resource estimates, on which it based its estimates of our coal reserves, are reasonable. IMC has recently revised its assumptions and auditing methodology under a current version of which only resources recoverable within a 20-year period can be deemed as reserves. Such change resulted in re-classification of a substantial portion of our reserves into resources. For an explanation of the IMC's assumptions and methodology, see the IMC Report.

Coal resources

According to the IMC Report, we had total measured and indicated coal resources of approximately 409.3 million tonnes of ROM coal as of 1 January 2010. Resources are defined by the JORC Code as that part of a deposit in such form and quantity that has reasonable prospects for eventual economic extraction. Coal resources are subdivided in order of decreasing geological confidence into measured (highest level) to indicated and inferred (lowest level) categories. For further details on the different levels of coal resources, see the IMC Report.

The following table summarizes our ROM coal resources according to the JORC Code as of 1 January 2010:

	As of 1 January 2010				
Mine	**Measured**	**Indicated**	**Inferred**	**Total**	**Share**
	mln tonnes				*%*
Karakansky South mine	**20.0**	**24.2**	**—**	**44.1**	**11**
Karakansky South field	0.3	0.4	—	0.7	
Karakansky South-1 field	7.3	18.3	—	25.6	
Karakansky South-2 field	12.4	5.5	—	17.9	
Vinogradovsky mine	**78.0**	**95.5**	**—**	**173.5**	**42**
Vinogradovsky field	8.4	27.7	—	36.1	
Vinogradovsky-2 field	69.6	67.8	—	137.4	
Cheremshansky mine	**27.0**	**142.6**	**22.1**	**191.7**	**47**
Total	**125.0**	**262.2**	**22.1**	**409.3**	**100**

Source: IMC Report

Coal reserves

Coal reserves are the economically mineable part of measured or indicated resource; more specifically, proven coal reserves are the economically mineable part of measured mineral resources, while probable coal reserves are the economically mineable part of indicated mineral resources. Generally, conversion of the resources into reserves requires an application of various modifying factors, including mining methods, economic, marketing, legal, environmental, social and governmental factors. Coal reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined.

We enjoy a large base of proven and probable reserves recoverable between 2010 and 2029, which, according to the IMC Report, totaled approximately 191.6 million tonnes of ROM coal as of 1 January 2010.

The table below sets forth our ROM coal reserves according to the JORC Code, recoverable between 2010 and 2029, as of 1 January 2010:

	As of 1 January 2010			
Mine	**Proven**	**Probable**	**Total**	**Share**
		mln tonnes		*%*
Karakansky South	16.0	19.0	35.0	18.3
Vinogradovsky	26.3	31.2	58.5	30.5
Cheremshansky	16.5	81.7	98.2	51.3
Total	**58.8**	**132.8**	**191.6**	**100**

Source: IMC Report

In 2010 and 2011, we plan to commission two coal-processing facilities with steeply-inclined separators, which will allow us to separate DRC and high ash ROM coal from overburden. Presently, DRC is dumped as waste, forming part of the operational loss, and is not included in the estimate of the proven and probable resources recoverable between 2010 and 2029. Extraction of DRC from overburden will make it possible to process DRC into a commercial product with an ash content of approximately 9.0-9.2%. We plan to commission the first processing facility, which is currently under construction, in the second half of 2010 and the second processing facility in the second half of 2011.

The table below summarizes our DRC reserves of ROM coal recoverable between 2010 and 2029, according to the JORC Code, as of 1 January 2010:

Mine	As of 1 January 2010			
	Proven	Probable	Total	Share
		mln tonnes		%
Karakansky South	2.8	3.3	**6.1**	23
Vinogradovsky	3.0	3.7	**6.7**	26
Cheremshansky	2.2	11.0	**13.2**	51
Total	**8.0**	**18.0**	**26.0**	**100**

Source: IMC Report

We believe that we also have the potential to increase our reserve base by developing 5.5 thousand hectares of an agricultural land bank in our ownership, located at or near our existing mine fields and title to which is held by our two agricultural subsidiaries, Kaskad Geo and Karakan Farm. We do not, however, intend to focus on the expansion of our reserve base in the immediate future, other than through reclassification of existing resources, and see increasing production volumes at our existing mines as our current key strategic objective.

Coal composition

We produce exclusively sub-bituminous thermal coal, classified as grade "D" under the Russian classification system, with naturally low sulphur and phosphorus content and a relatively high calorific value. Heat, sulphur, ash, phosphorus and moisture content as well as calorific value are the most important means for assessing the quality of coal. On average, our ROM coal has the following characteristics: 0.27-0.80% sulphur content, 13.2-18.2% ash content, 12.5-17.0% moisture content, 0.03-0.04 phosphorous content and 4,900 - 6,000 kcal/kg calorific value. We were able to achieve the extraction of coal with a calorific value of 6,000 kcal/kg as a result of commissioning the Cheremshansky mine, launched in April 2008. Coal of higher calorific value is more widely used in the power generation industry abroad and commands a higher market price. For further information on coal classification, see *"Coal Mining Industry — Russian coal market"*.

The following table sets forth the characteristics of coal at each of our mines as of 1 January 2010:

Mine	As of 1 January 2010						
	Grade	International classification	Calorific value	Sulphur content	Ash content	Moisture content	Phosphorus content
			kcal/kg	%	%	%	%
Karakansky South	D	Sub-bituminous	4,900-5,530	0.27-0.30	13.2-15.2	14.0-17.0	0.03
Vinogradovsky	D	Sub-bituminous	4,900-5,500	0.27-0.30	14.5-18.2	13.9-17.0	0.04
Cheremshansky	D	Sub-bituminous	5,100-6,000	0.50-0.80	17.2	12.5-15.0	0.03

Mining Operations

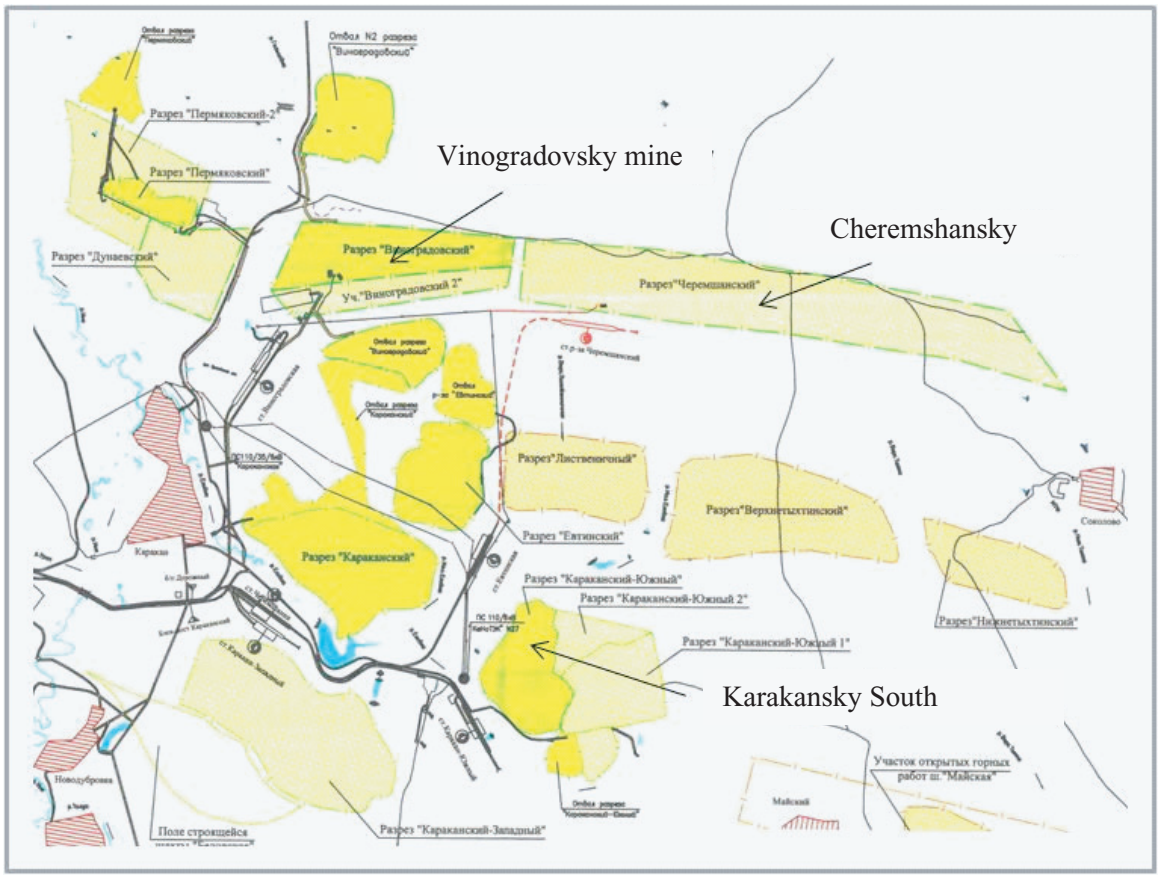
Production

We produce coal exclusively from three open-pit mines:

- the Karakansky South mine, which consists of three licensed coal fields;
- the Vinogradovsky mine, which consists of two licensed coal fields; and
- the Cheremshansky mine, which consists of one licensed coal field.

The Karakansky South and Vinogradovsky mines are located in the Belovo town district and the Cheremshansky mine is located in the Prokopyevsk town district of the Kemerovo region, approximately 200 kilometers to the south of the city of Kemerevo in the Kuzbass area, where our headquarters are situated. Kuzbass, located in Western Siberia, is the largest coal producing area in Russia, having produced 181.3 million tonnes of coal or 60.3% of the total coal production in Russia in 2009. (Source: Rosinformugol). The region covers approximately 26,000 square kilometers and contains large mineable reserves distinguished by thickness of seam, concentration and high quality coal. Our three mines form part of the Karakansky coal deposit, located within the Erunakovsky geological economic district.

The map below sets forth a regional overview of our coal production sites:



Between 2000 and 2009, we recorded a strong growth in production volume with an increase from 0.37 million tonnes of ROM thermal coal for the year ended 31 December 2000 to 6.15 million tonnes of ROM coal for the year ended 31 December 2009. For the year ended 31 December 2009, the Karakansky South mine accounted for approximately 43.1% of our total coal production with the Cheremshansky and Vinogradovsky mines accounting for approximately 33.5% and 23.4% of our total coal production, respectively.

The table below sets forth a summary of the production volume each mine for the periods indicated:

	For the year ended 31 December									
Mine	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
	mln tonnes									
Karakansky South	0.37	1.30	2.30	2.38	2.73	2.56	2.64	2.74	2.59	2.65
Vinogradovsky	—	—	—	—	0.41	1.77	1.65	1.36	1.91	1.44
Cheremshansky	—	—	—	—	—	—	—	—	0.98	2.06
Total	**0.37**	**1.30**	**2.30**	**2.38**	**3.14**	**4.33**	**4.29**	**4.10**	**5.48**	**6.15**

We expect our production growth to continue. A key element of our business development strategy is to increase our production volume at our three mines by 79% from 6.15 million tonnes of ROM coal in 2009 up to their aggregate structural capacity (11 million tonnes of ROM coal per annum). We expect to grow production volumes through (i) organic development of our existing mines supported by additional investments into high performance modern mining equipment; and (ii) commissioning of three coal processing and enrichment facilities with an aggregate design capacity of 8.5 million tonnes of processed coal per annum.

Based on our detailed business plan, further production growth up to the structural capacity of our three existing mines of 11 million tonnes of ROM coal per annum will be based primarily on the development of the Vinogradovsky and Cheremshansky mines, which account for approximately 73% of such aggregate structural capacity. The Vinogradovsky mine will require an increase of 108% from its 2009 production volume of 1.44 million tonnes of ROM coal and the Cheremshansky mine will require an increase of 143% from its 2009 production volume of 2.06 million tonnes of ROM coal to reach their respective structural capacities of three and five million tonnes of ROM coal per annum in 2015. The Karakansky South mine is expected to reach its structural capacity by 2013, increasing its production by 13% from its 2009 production volume of 2.65 million tonnes of ROM coal to its structural capacity of three million tonnes of ROM coal in 2013.

Our actual production volumes will also depend on the market environment and our ability to sell the produced coal, and, therefore, the below plans might be adjusted accordingly.

The table below sets forth a summary of scheduled production volumes to reach the structural capacity of each mine for the periods indicated:

Mine	For the year ending 31 December					
	2010	2011	2012	2013	2014	2015
	mln tonnes					
Karakansky South	2.75	2.75	2.90	3.00	3.00	3.00
Vinogradovsky	1.40	1.75	2.30	2.50	2.50	3.00
Cheremshansky	2.70	3.00	3.50	4.50	4.50	5.00
Total	**6.85**	**7.50**	**8.70**	**10.00**	**10.00**	**11.00**

(1) Structural capacity means the maximum production capacity that we believe we could be achieve (taking into account projected stoppages for planned repair and maintenance) in an annual period if we were able to process all the coal that could be mined using our existing mine facilities after acquisition of certain mining equipment and construction of three coal processing/enrichment facilities in accordance with our current capital expenditure program.

In addition, between 2010 and 2012, we plan to commission three coal processing and enrichment facilities utilizing steeply-inclined and dense-medium separation processes, which are expected to allow us to minimize operational losses and achieve other operational improvements, ultimately resulting in increased production volumes.

Stripping ratio

The initial step in the open-pit mining is removal of overburden for the purpose of obtaining access to the coal. The stripping ratio, or the number of cubic meters of overburden that must be removed to access and extract one tonne of coal, is a significant factor in production efficiency. Generally, the greater the stripping ratio, the greater the consumption of materials, energy and other production costs per tonne of coal. To minimize stripping costs, the Vinogradovsky and Cheremshansky mines use a block system of development in which the licensed area is divided into several blocks to be developed in succession. Currently, mining operations at the Vinogradovsky and Cheremshansky mines are conducted in the first block. To achieve the aggregate structural capacity of our three mines, new blocks of the deposits will need to be developed, which requires removal of the overburden unrelated to current production, resulting in increased stripping ratios. Our stripping ratios at the Vinogradovsky and Karakansky South mines are expected to peak in 2010 followed by a subsequent decline.

The following table sets summarizes historical and scheduled stripping ratios for each mine for the periods indicated:

Mine	For the year ended 31 December								
	2007	2008	2009	2010[(1)]	2011[(1)]	2012[(1)]	2013[(1)]	2014[(1)]	2015[(1)]
	cubic meters per tonne								
Karakansky South	4.5	4.7	5.2	5.4	5.0	4.2	4.3	4.3	4.0
Vinogradovsky	7.9	5.9	6.2	7.5	7.0	6.0	5.5	5.5	4.6
Cheremshansky	—	10.9	10.2	9.4	9.3	9.1	7.8	7.8	6.8

(1) Stripping ratio that we believe could be achieved provided that we reach aggregate structural capacity of all three mines of 11 million tonnes of ROM coal per annum and make all other capital investments in accordance with our capital expenditure program for 2010-1015.

Karakansky South mine

Karakansky South mine is an open-pit mine, consisting of three licensed fields: the Karakansky South, Karakansky South-1 and Karakansky South-2 fields. Exploration wells to investigate the mining capacity at the mine were first drilled in 1984 and, by 2005, in exploration work was completed. Production at the Karakansky South and Karakansky South-1 fields began in 2000 and 2006, respectively. We began production at Karakansky South-2 field in 2009.

As of 1 January 2010, according to the IMC Report, the Karakansky South mine had total proven and probable reserves of approximately 35.0 million tonnes of ROM coal, recoverable between 2010 and 2029. The mine's total proven and probable reserves of ROM coal accounts for 18.3% of our total proven and probable reserves at our three mines, as of 1 January 2010.

The mine is 3.2 kilometers long, 2.4 kilometers wide and 90 meters deep. The maximum seam gradient of the mine is eight degrees. The Karakansky South mine in its final stage of development and uses the non-transportation (dragline) method for overburden removal (as described in "— *Coal mining techniques*" below). The average stripping ratio of the total amount of ROM coal reserves of the mine is approximately 4.0 cubic meters per tonne. In

2009, the stripping ratio of the total amount of reserves of the mine was 5.2 cubic meters per tonne. We anticipate that the stripping ratio at the Karakansky-South mine will increase to 5.4 cubic meters per tonne in 2010 and subsequently decline, eventually falling to 4.0 cubic meters per tonne in 2015.

Total coal production at the Karakansky South mine was approximately 2.74 million tonnes, 2.59 million tonnes and 2.65 million tonnes of ROM coal for the years ended 31 December 2007, 2008 and 2009, respectively. The structural capacity of the Karakansky South mine is 3.00 million tonnes of ROM coal per annum, which we aim to achieve by 2013.

The following table summarizes coal production at the Karakansky South mine for the years ended 31 December 2007, 2008 and 2009:

Karakansky South mine fields	For the year ended 31 December					
	2007		2008		2009	
	Production	Share	Production	Share	Production	Share
	mln tonnes	*%*	*mln tonnes*	*%*	*mln tonnes*	*%*
Karakansky South	2.00	73.0	1.32	51.0	0.07	2.6
Karakansky South-1	0.74	27.0	1.27	49.0	0.42	15.8
Karakansky South-2	—	—	—	—	2.16	81.5
Total	**2.74**	**100**	**2.59**	**100**	**2.65**	**100**

Vinogradovsky mine

The Vinogradovsky mine is an open-pit mine, consisting of two licensed fields: Vinogradovsky and Vinogradovsky-2. Exploration wells to investigate the mining capacity at the mine were drilled in 1984 and, by the same year the exploration work was completed. The Vinogradovsky mine was commissioned in 2004 and production at the Vinogradovsky field began in 2006. We aim to begin production at the Vinogradovsky-2 field in 2012.

As of 1 January 2010, according to the IMC Report, the Vinogradovsky mine had total proven and probable reserves of approximately 58.5 million tonnes of ROM coal, which accounts for 30.5% of our total proven and probable reserves at our three mines. The mine is 4.2 kilometers long, 1.8 kilometers wide and 76 meters deep. The angle of the coal seam drop is fairly consistent at about 20 degrees. The coalmine is subdivided into two mining blocks, which are developed in succession, using the transportation method for the overburden removal (as described in "— *Coal mining techniques*" below). The average stripping ratio of the mine is approximately 4.0 cubic meters per tonne. In 2009, the stripping ratio of the total amount of reserves of the mine was 6.2 cubic meters per tonne. We anticipate that the stripping ratio at the Vinogradovsky mine will increase to 7.5 cubic meters per tonne in 2010 and subsequently decline eventually falling to 4.6 cubic meters per tonne in 2015.

Total coal production at the Vinogradovsky mine was approximately 1.36 million tonnes, 1.91 million tonnes and 1.44 million tonnes of ROM coal for the years ended 31 December 2007, 2008 and 2009, respectively. The structural capacity of the Vinogradovsky mine is 3.00 million tonnes of ROM coal per annum, which we aim to achieve in 2015.

The following table summarizes the coal production at the Vinogradovsky mine for the years ended 31 December 2007, 2008 and 2009, respectively:

Vinogradovsky mine field	2007		2008		2009	
	Production	Share	Production	Share	Production	Share
	mln tonnes	*%*	*mln tonnes*	*%*	*mln tonnes*	*%*
Vinogradovsky	0.65	47.8	0.61	31.9	0.51	35.4
Vinogradovsky-2	0.71	52.2	1.30	68.1	0.93	64.6
Total	**1.36**	**100**	**1.91**	**100**	**1.44**	**100**

Cheremshansky mine

The Cheremshansky mine is an open-pit mine, consisting of a single licensed coalfield. Exploration wells to investigate the mining capacity were first drilled in 2006 and, by 2009, the exploration work was completed. The Cheremshansky mine was commissioned and began production in 2008.

According to the IMC Report, the Cheremshansky mine had total proven and probable reserves of approximately 98.2 million tonnes of ROM coal, which accounted for 51.3% of our total proved and probable reserves at three mines, as of 1 January 2010. The mine is 9.0 kilometers long, 0.3 kilometers wide and 80 meters deep. The angle of the coal seam drop ranges between 80 and 90 degrees. The Cheremshansky mine is subdivided into four blocks, which are being developed in succession using the transportation method for overburden removal (as defined in "— *Coal mining techniques*" below). Presently, the mining operations are conducted in the first block. The average stripping ratio of the total amount of reserves of the mine is 5.5 cubic meters per tonne. In 2009, the stripping ratio of

the total amount of reserves of the mine was 10.2 cubic meters per tonne. We anticipate that the stripping ratio at the Cheremshansky mine will decrease to 9.4 cubic meters per tonne in 2010, and eventually fall to 6.8 cubic meters in 2015.

Total production at the Cheremshansky mine was approximately 0.98 million tonnes and 2.06 million tonnes of ROM coal for the years ended 31 December 2008 and 2009, respectively. The structural capacity of the Cheremshansky mine is 5.00 million tonnes of ROM coal per annum, at which we aim to achieve by 2015.

The following table provides information on our coal production by the Cheremshansky mine for the periods described:

Cheremshansky mine field	For the year ended 31 December					
	2007		2008		2009	
	Production	Share	Production	Share	Production	Share
	mln tonnes	*%*	*mln tonnes*	*%*	*mln tonnes*	*%*
Cheremshansky	—	—	0.98	100	2.06	100
Total	**—**	**—**	**0.98**	**100**	**2.06**	**100**

Coal mining techniques

We engage exclusively in open-pit mining. The advantages of open-pit mining, as compared to underground mining, include lower costs, a higher level of workplace safety and less complicated technological processes as well as the ability to use larger and more powerful shovels and trucks, allowing for more efficient production.

The overburden is first drilled and blasted to loosen the rock, using Ingersoll-Rand DML drilling rigs and Granulite, Emulsol and Sibirit explosives. The overburden is then removed utilizing either transportation or non-transportation methods, depending on a degree of the coal seam drop and other geological factors.

- The transportation method, used at the Vinogradovsky and Cheremshansky mines, involves the removal of overburden using such transportation as EKG-5A and P&H 2300 shovel excavators as well as Komatsu PC-400, Komatsu PC-1250, Komatsu PC-1250 SP and Komatsu PC-3000 hydraulic excavators. The overburden is then loaded into BelAZ dump trucks with a capacity ranging from 45 tonnes to 220 tonnes and hauled for further rock disposal into inside or outside dumps. Depending on the stage of mining operations, haul distance varies between two and five kilometers.
- The non-transportation (dragline) method, used at the Karakansky South mine, involves the removal of the overburden using draglines, such as ESh-10/70 (13/50) walking dragline excavators, which transfer the overburden directly to inside or outside dumps without assistance of transportation vehicles.

Once the coal layer is exposed, shovel and hydraulic excavators are used to excavate it and load it into BelAZ dump trucks for transportation to a sorting, storage and loading area.

Infrastructure and mining equipment

We conduct our mining operations exclusively at three open-pit mines, located within five kilometers from each other, which allows us to utilize a single auxiliary infrastructure to support our operations and, thereby, minimizing various overhead costs and expenses. Our auxiliary infrastructure includes a railway network with over 70 kilometers of railroad and railway stations, sorting, storage and loading facilities, repair and maintenance centers, road transportation network and power infrastructure. In addition, our mines share a common fleet of high-performance and large capacity mining and transportation equipment from leading international and domestic manufactures.

Operational management of our three mines is carried out at the same administrative building, ensuring smooth and close management of the mining operations. Further, our mining facilities are located less than 200 kilometers from our headquarters and other administrative facilities in the city of Kemerovo.

Equipment fleet

Our mining operations are supported by a comprehensive range of modern domestic and imported equipment, which is on par with similar western coal companies. In 2006, we embarked on a significant capital investment program, which was, in part, designed to procure state-of-the-art excavators, draglines and trucks with larger capacities, advanced automation features and increased reliability with the objective to:

- increase the efficiency of our production process by reducing unit costs;
- increase production levels;
- reduce the number of personnel involved in mining operations;

- improve safety through the use of advanced automated features; and
- lessen the environmental impact of our mining operations.

For the years 2006 to 2009, we estimate that we spent RUB 4,863 million of cash on acquisition of property, plant and equipment, of which we estimate RUB 3,553 million was for expanding and modernizing our mining equipment and transportation fleet. As of 31 December 2009, we operated a fleet of 97 heavy bulldozers, excavators, draglines, drill rigs and other equipment utilized in the overburden removal and coal extraction process, manufactured by such leading manufacturers as Komatsu, P&H and EKG. As of the same date, we also owned and operated 67 BelAZ dump trucks with capacity ranging from 45 tonnes to 220 tonnes used to transport overburden to sites located separate from the area of coal extraction and coal to railway sorting and storage facilities. In fact, we believe we were one of the first coal companies in Russia to purchase BelAZ trucks with 220-tonne capacity. The general condition of the equipment is characterized by a low degree of wear, low breakdown time and high utilization rate.

Due to geographical proximity, all three mines share a considerable portion of the operating equipment. In particular, our dump trucks and drilling rigs may service different mining projects depending on our annual scheduled workload. This approach makes it possible to maximize the use of our equipment and avoid redundancy and low utilization.

In order to increase our production levels up to the aggregate structural capacity of our existing mines and achieve greater efficiency, we will continue acquisition of high-performance modern mining equipment in accordance with our business development strategy for the years 2010 to 2015. For an additional discussion, see *"— Capital Investment Program"*.

Maintenance and repair facilities

Allocation and maintenance of our mining and processing equipment for our three mines is monitored and managed by our centralized equipment department, which makes it possible to maximize use of our equipment and avoid redundancy and low utilization. Preventive maintenance and routine repairs are primarily carried out at our mining equipment repair workshop and equipment depot with a total combined area of 3,500 square meters, located in close proximity to the administrative building.

We also have dedicated repair vehicles, which are equipped with power generators, electro-welding units, washers, compressors and other equipment necessary to conduct repairs directly at production sites. In addition, we maintain ongoing relationships with domestic and international manufacturers of our equipment and machinery and, when necessary, retain such manufacturers or their local agents to conduct repairs or maintenance under one-time agreements.

The motor transport depot maintains a spare parts warehouse, which we believe is adequately stocked with replacement components necessary to conduct timely repairs and maintenance operations of our mining equipment. In 2009, we also completed construction of a fuel and lubricant storage facility with a storage capacity of up to 4,000 cubic meters and a chemical laboratory for testing fuel and lubricants.

In the second part of 2010, we plan to commission a facility for parking and servicing 220-tonne heavy-duty trucks with a total repair space of 3,500 square meters. This facility will include heated modern repair shops and all requisite equipment to conduct repair and maintenance of the vehicles, such as shaving/milling benches, lathes, drilling machines, presses, (drop) hammers, lifting equipment and gear and tyre tools. See *"— Capital Investment Program"*.

Sorting and storage facilities

Currently, the following primary products are subject to extraction from our mines: (i) ROM coal of grade "D" (characterized by a variable ash content and a gross calorific value in excess of 7,190 kcal/kg), (ii) oxidized ROM coal of grade "D" (characterized by a variable ash content and a gross calorific value between 5,390 and 7,190 kcal/kg), (iii) DRC, produced in the course of selective mining when the coal seams are cleaned up and characterized by an ash content of 45-55%, and (iv) high ash coal, which is produced from thin seams as well as from seams with significant number of dirt interlayer.

The coal produced at our mines is transported from coalfaces to our three storage facilities for further shipment to consumers. The storage facilities are located directly at our proprietary railway loading stations. As of 31 December 2009, the combined total capacity of our three storage facilities was 0.46 million tonnes of coal per annum.

Prior to shipment, a portion of our coal undergoes further processing at the sorting facilities located in the immediate vicinity of the coal storage facilities adjacent to the rail loading stations. For the years ended 31 December 2007, 2008 and 2009, we processed approximately 33.6%, 46.7% and 50.0%, respectively, of the total coal volume produced. At the moment, only oxidized and non-oxidized ROM coal undergoes processing while

DRC and high ash coal are currently dumped into the waste heaps due to the absence of the required processing facilities.

As of 31 December 2009, our sorting facilities consisted of two coal-crushing units, Premiertrak XA-400 and Tracpactor 428, with a combined total capacity of two million tonnes of coal per annum and three mobile screening units, Turbo Chieftain 1400/1800, Warrior1800, and HORIZON 6203, with a combined total capacity of 1.7 million tonnes of coal per annum. The main purpose of the sorting facilities is to divide coal into three different particle sizes: 0-25 mm, 5-50 mm and 50-200 mm. The proportion of sizes as well as the volume of the screened coal varies depending on the market demand. Sorting our coal into sizes allows us to separate lumpy coal, which is prized by our retail customers and commands a relatively higher price.

As of 31 December 2009, we produced five different marketable products, categorized by calorific value, sulphur content, ash content and moisture content. The following table sets forth the coal characteristics and volume of our current principal thermal coal products for the year ended 31 December 2009:

	As of and for the year ended 31 December 2009					
Marketable product[1]	**Calorific value**	**Sulphur content**	**Ash content**	**Moisture content**	**Sales volume**	**Share**
	Kcal/kg	*%*	*%*	*%*	*mln tonnes*	*%*
ROM coal[2]	4,999-5,636	0.32	11.7	15.8	3.26	54.0
Oxidized coal[3]	4,560-4,899	0.44	12.2	19.8	0.02	0.4
Sorted coal	5,107-5,802	0.29	10.4	14.7	1.16	19.3
Screenings[4]	5,129-5,383	0.32	10.8	16.4	0.11	1.8
Screenings[4]	5,524-5,748	0.42	8.9	15.2	1.48	24.5
Total					**6.03**	**100.0**

(1) Excluding third-party coal

(2) Raw coal, which has not been treated or sorted

(3) Oxidized coal is oriented towards domestic customers, which demand coal with lower calorific value and higher ash content

(4) Output of screening units

Our planned commissioning of the three processing and enrichment facilities between 2010 and 2012 is expected to enable us to further improve the quality of our ROM coal as well as process DRC and high ash coal, thereby increasing our production volume and reducing our operational losses. For more information, see *"— Capital Investment Program"*.

Railroad and railway stations

Railway transportation is our principal mean of transporting materials to our mines and coal to our customers or boundary transfer points or export sea-terminals. We are among only a few Russian coal producers that own and operate a transportation network that is directly connected to the federal railway system, operated by Russian Railways. As such, our coal transportation network provides us with a competitive advantage by ensuring a reliable means of transporting our coal to the federal railway system which in turn transports our coal to customers or boundary transfer export points or sea-terminals.

Our proprietary coal transportation network is operated by our subsidiary, TEKM, and includes rail lines with a total operating length of over 70 kilometers, connecting our mines and facilities to six of our railway stations and, ultimately, to the Russian Railways' station, Meret. Two of the operating stations, Uba (the main station connecting our railway network to Meret station) and Vinogradovskaya (located at the mines), are owned by us and the rest are leased from third parties. From the Meret railway station, our coal is transported by Russian Railways via the federal railway system to final domestic destinations, boundary transfer points or export sea-terminals.

In addition, TEKM provides transportation services to major Kuzbass coal producers (such as KRU and Russian Coal) by linking them to the federal railway network, which allows us to utilize excess capacity and maximize efficiencies of our own railway network. For the years ended 31 December 2007, 2008 and 2009, transportation services by TEKM in connection with our operations accounted for approximately 54.7%, 58.7% and 62.6%, respectively, of TEKM's freight volume, with the remainder consisting of transportation services for the third party entities.

Currently, the railway operated by TEKM has an annual transportation capacity of approximately 12 million tonnes of coal, out of which approximately 85.8% was utilized for the year ended 31 December 2009. We transported 7.5 million tonnes, 9.2 million tonnes and 9.7 million tonnes of coal for the years ended 31 December 2007, 2008 and 2009, respectively. As we increase our production volume, we will be able to replace the third-party traffic with coal from our mines without incurring additional costs associated with enhancing the rail capacity.

The following table summarizes the transported coal volume by TEKM for the periods under review:

Entities	For the year ended 31 December					
	2007		2008		2009	
	Transported volume	Share	Transported volume	Share	Transported volume	Share
	mln tonnes	*%*	*mln tonnes*	*%*	*mln tonnes*	*%*
Own coal	4.1	54.7	5.4	58.7	6.1	62.9
Third-party	3.4	45.3	3.8	41.3	3.6	37.1
Total	**7.5**	**100**	**9.2**	**100**	**9.7**	**100**

Currently, TEKM owns and operates a fleet of five diesel locomotives and leases four diesel locomotives from third-party providers for transporting coal to the Meret railway station. We have entered into transportation services agreements with independent railway transportation companies to use their railway cars for transportation in addition to the railway cars that we source from Russian Railways. The agreements generally provide for a monthly tariff paid by us based upon the volume of services provided. We anticipate our transportation needs will continue to grow in line with our business plan, which envisages increased production volume at our existing mines, reaching the structural capacity of our mines and increased export sales volumes resulting from product quality improvements. We also anticipate that with growing transportation needs, our transportation expenses, which accounted for 43.4% of our cost of sale for the year ended 31 December 2009, will increase as well. To meet our growing coal transportation requirements, acquire better control over our transportation expenses and reduce our dependency on railway cars owned by Russian Railways and third-party providers, our Board of Directors approved an acquisition of a significant, but non-controlling stake in a company owning and operating a railcar fleet followed by a conclusion of long-term leasing contract for rail cars at fixed prices. We have filed a petition with the FAS to obtain an approval of the acquisition and are presently waiting for a decision. See *"Risk Factors — Risks Relating to Our Business and Industry — We rely on Russia's railway transportation system to deliver our coal"*.

Coal is loaded into rail cars at our three loading stations: Karakansky-South, Vinogradovsky and Kaskad. The loading stations connect our mines with our rail network and have a combined total estimated capacity, as of 1 January 2010, of 11.5 million tonnes of coal per annum.

The following table summarizes main characteristics of our loading stations as of 1 January 2010:

Loading station	As of 1 January 2010			
	Loading tracks	Loading capacity	Maximum daily loading capacity	Annual processing capacity
	no. of tracks	*no. of rail cars*	*no. of rail cars*	*mln tonnes*
	3	20	55.5	
	4	25	69.5	
Karakansky-South	5	20	55.5	4.4
	7	15	41.0	
Vinogradovsky	9	20	55.0	2.3
	5	35	97.5	
Kaskad	6	35	97.5	4.8
Total	**39**	**170**	**471.5**	**11.5**

Source: IMC Report

All of our deliveries from the Meret railway station to final domestic destinations, sea-port or boundary transfer points for export destinations utilize the Russian Railways System. In the past, Russian Railways has generally allocated us sufficient railway capacity. In accordance with the technical provisions approved by Russian Railways on 3 March 2009, the total annual railway capacity that Russian Railways can accept through Meret station amounts to 19.7 million tonnes of coal, out of which 13 million tonnes is reserved for our coal starting from 2013 (8 million tonnes in 2010; 10 million tonnes in 2011 and 2012 and 13 million tonnes from 2013 and onwards). There is no assurance, however, that we will not experience any material delay in transporting our coal as a result of insufficient railway transport capacity. See *"Risk Factors — Risks Relating to Our Business and Industry — We rely on Russia's railway transportation system to deliver our coal"*.

TEKM also engages in, and is responsible for, the construction and repair of our coal transportation network, which we believe to be in good overall condition. A locomotive shed with a total area of 582 square meters, operated by TEKM, is located on the industrial site of the Vinogradovsky mine as part of our repair bays, and maintains modern railway repair equipment, which allows TEKM to efficiently and expeditiously repair any faults within our railway system. We also lease a storage facility utilized to store fuel and lubricants from KRU.

In addition to utilizing the Russian Railways System, we also ship our exports to end customers through a number of Russian ports, depending on the location of a particular customer. Our principal shipment routes include routes from the Murmansk, Vysotsk and Ust-Luga ports to European markets and from the Vostochny port in the city of Nakhodka to Asian markets. See *"Risk Factors — Risks Relating to Our Business and Industry — Transit capacity and adverse weather conditions at ports used by us may impede shipments through such terminals"*.

The table below sets forth a breakdown of our exports of coal by port of shipment for the years ended 31 December 2007, 2008 and 2009:

	For the year ended 31 December					
	2007		2008		2009	
Port of export	**Exports**	**Share**	**Exports**	**Share**	**Exports**	**Share**
	thousand tonnes	*%*	*thousand tonnes*	*%*	*thousand tonnes*	*%*
Murmansk	68	15.0	158	15.5	—	—
Vysotsk	27	6.0	355	34.8	56	3.7
Ust-Luga	—	—	—	—	—	—
Vostochny	53	11.7	314	30.7	1,418	94.1
Ventspils	5	1.1	51	5.0	—	—
Izmailsky	29	6.5	—	—	25	1.7
Rizhsky	25	5.4	—	—	—	—
Saint Petersburg	73	16.2	9	0.9	—	—
Baltiysky Les	14	3.1	—	—	—	—
Kaliningrad	24	5.4	—	—	—	—
Rosterminalugol	134	—	—	—	—	—
Berdyansky	—	—	—	—	8	0.5
Total	**452**	**100**	**1,020**	**100**	**1,507**	**100**

Power infrastructure

Power to our mining and other production facilities is fed by 110 overhead transmission line from the Belovskaya power plant to two surface substations, owned by us. The KeNoTEK 110/35/6 substation is located at the Karakansky South mine and equipped with two 16 MVA transformers. The Cheremshansky 35/6 substation is located at the Cheremshansky mine and equipped with two 10 MVA transformers. At the substations the voltage of the power supply is stepped down to 6 kV, a working value suitable to power consumers. The total length of the 6kV electric overhead lines is 100 kilometers. The licensed maximum electric load permitted to be consumed is 6.5 MW, whereas the average actual maximum load of electricity in 2009 amounted to 5.0 MW. Therefore, according to the IMC Report, our current power supply system is sufficient to support current consumption with an acceptable level of fail-safety. In addition, we believe our power supply to be reliable with no major delays or interruptions experienced in the past and sufficient to support production levels up to the structural capacity of our existing mines of 11 million tonnes per annum. Our total consumption of electricity amounted to 21.5 million kWh, 23.3 million kWh and 25.7 million kWh for the years ended 31 December 2007, 2008 and 2009, respectively.

Our power requirements are fully hedged through our wholly owned power-generating facility, Kaskad-Energo, located in the town of Anzhero-Sudzhensk. The annual energy volumes generated by Kaskad-Energo and the revenue generated from sales of electricity fully exceed our energy consumption volumes and associated costs. For example, for the year ended 31 December 2009, Kaskad-Energo generated approximately 49.1 million kWh of electric and thermal power combined, while our consumption for that year amounted to approximately 34.1 million kWh. Similarly, the average price per 1 kWh consumed by us in 2009 amounted to RUB 42.2 while the average price per 1 kWh produced by Kaskad-Energo amounted to RUB 41.6.

Production facilities, such as administrative facilities, garages and depots, are heated by our proprietary boilers fueled by our coal.

Transportation fleet and road infrastructure

The mines are served by an all-weather road with a total length of 30.5 kilometers, utilized for transporting people, materials and equipment. In addition to vehicles involved in coal mining operations, as of 31 December 2009, we owned and operated approximately 53 support vehicles, such as buses, fuel delivery trucks, crane trucks, vehicles for watering and washing, sand spreaders and off-road utility vehicles.

Administrative facilities

Our headquarters are located in Kemerovo, less than 200 kilometers from our production facilities, where we determine our policy and strategy, maintain our sales and marketing functions, and place major supply orders.

Our operational management is located at our administrative and recreational complex with an area of nine thousand square meters, situated within close proximity to our production site. The administrative building also has facilities for sterilization, clothing change rooms, laundry, dry-cleaning and clothing repair workshop, which are equipped with an independent ventilation system to prevent an outflow of polluted air into the other parts of the building. The building also houses training facilities, an assembly hall, a first aid station, a dispatcher office, a canteen and a cooking area.

Capital Investment Program

In the past years, we have undertaken substantial investments to establish our existing mining facilities, purchase requisite equipment and construct supportive railway and other infrastructure at our mines. We estimate that our capital expenditure in the last ten years amounted to approximately RUB 9 billion. For the years ended 31 December 2007, 2008 and 2009, we spent RUB 1,105 million, RUB 2,007 million and RUB 1,084 million of cash on acquisition of property, plant and equipment, respectively.

At the current stage of our development, the principal objectives of our capital expenditure program for the years 2010 to 2015 are to (i) increase our production levels up to the structural capacity of our existing mines through an upgrade and expansion of our mining and transportation equipment fleet and construction of two coal processing facilities with steeply-inclined separators; and (ii) increase the quality of our coal through construction of a dense-medium processing plant.

The following table sets forth the breakdown of our estimated investment amounts for each category of projects for the years 2010 to 2015:

For the year ending 31 December	Construction of processing facilities	Acquisition of equipment	Other infrastructure	Other	Total
		mln RUB, excluding VAT			
2010	421	558	125	70	**1,175**
2011	1,446	1,455	42	6	**2,950**
2012	2,712	604	2	4	**3,321**
2013	—	537	171	4	**712**
2014	—	663	2	4	**669**
2015	—	676	2	4	**681**
Total	**4,579**	**4,494**	**343**	**91**	**9,507**

Our capital investment program for the years 2010 to 2015 contemplates a number of key projects set forth below, which are currently in progress or are expected to be commenced.

Steeply inclined separators

We plan to commission two coal-processing facilities at the Vinogradovsky and the Cheremshansky mines that will utilize steeply inclined separation processes. With an estimated annual design capacity of 2.0 million tonnes of coal per annum each, the facilities are designed to wash DRC and high ash coal and produce coal concentrate with an ash content of 9.0-9.2%. The steeply-inclined separators are designed to separate DRC and high ash ROM coal from the overburden in a stream of water due to different volumetric weights in the structure of carbonaceous rock mass. Currently, DRC, together with the overburden, is dumped into the waste heaps due to its high ash content, which results in mining losses. Extraction of DRC from the overburden is expected to allow us to decrease the losses of coal during extraction and process it into a commercial product, thereby increasing coal production volumes. Lowered ash content of coal is expected to also reduce transportation costs and costs associated with the environmental damage caused by coal mining operations. We currently estimate that capital expenditure in connection with these two new facilities will amount to RUB 1,846 million (excluding VAT). Design and development works of the steeply inclined separator at the Vinogradovsky mine were completed in 2009 and the first stage of the facility is currently under construction. We expect the construction of the facility to be completed in the second half of 2010. The second facility is planned to be commissioned in the second half of 2011 at the Cheremshansky mine and will also have additional equipment for dense medium washing, which would also enable it to process ROM coal and produce a concentrate with an ash content of 4.9%.

Dense-medium processing plant

We also plan to construct a larger coal processing and enrichment facility that will utilize dense-medium separation process with an estimated design capacity of 4.5 million tonnes of coal per annum. In contrast to the steeply-inclined separators, dense-medium processing plant will allow us to process ROM coal and produce high quality concentrate with an ash content of 4.9%. The plant will have two separate processing lines and will use wheel separators and hydrocyclones to produce coal concentrate with an ash content of 4.9% (13.6% of output volume)

and coal concentrate with an ash content of 9.0% (64.5% of output volume), according to the IMC Report. The rest of the output from the processing plant will consist of middling product with an ash content of 16.3% (12.2% of output volume) and waste (9.7% of output volume). The primary purpose of the new coal processing and enrichment facility is to reduce the ash content of the raw coal produced at the Vinogradovksy and Cheremshansky mines. Such expansion into coal enrichment is expected to allow us to increase the volumes of processed coal with high calorific value in excess of 6,000 kcal/kg, diversify our sales mix with new products and access entirely new geographic markets, which are currently not available to us due to more stringent requirements for coal quality in such markets. Carolina Engineering LLC was engaged to undertake process design for the new enrichment facility, which was completed in 2009. We expect the construction of the plant to be completed by the end of 2012.

Modern mining equipment

We plan to continue acquisition of high performance state-of-the-art mining equipment with larger capacities, advanced automation features and increased reliability in order to increase output of the mines and achieve greater efficiency. To increase our production levels to the structural capacity of our existing mines, our capital investment program provides for the acquisition of the following mining equipment: 21 shovels (including one P&H shovel with a bucket capacity of 23 cubic meters), 22 dozers, 85 BelAZ trucks (including 11 trucks with the 220-tonne capacity), 29 loaders and three drill rigs.

Our ability to realize our capital improvements program depends on our ability to generate cash flow, obtain additional financing and refinance or restructure existing indebtedness. We continually review our capital improvements program in light of our cash flow, liquidity position, results of operations and market conditions. Based on the above factors, we may adjust our capital improvements program in the future. See *"Risk Factors — Risks Relating to Our Business and Industry — If we are unable to obtain adequate finance, we may have to limit our operations substantially and cut back or suspend our capital expenditure and expansion plans"*.

Marketing and Sales

We generate most of our revenue from the sale of coal (including compensation from the government), which represented 90.9%, 95.1% and 95.0% of our total revenue for the years ended 31 December 2007, 2008 and 2009, respectively, with the remaining revenue derived from the sales of electrical and heat power, transportation and storage services.

We initially developed as a domestically oriented company, primarily servicing retail and small wholesale customers, located primarily in the Siberian Federal District. For the years ended 31 December 2007, 2008 and 2009, our domestic sales accounted for 71.5%, 63.6% and 63.6% of the total sales by volume (including re-sales of purchased coal), respectively. As our production has increased over the past three years, we have been also able to develop and strengthen our export operations. For the years ended 31 December 2007, 2008 and 2009, our export sales accounted for 28.5%, 36.4% and 36.4% of the total sales by volume, respectively. By diversifying our sales structure through our export operations, we are better equipped to reduce our exposure to fluctuations in any single market and stabilise our cash flows. We believe our sales structure offers us both the benefits of traditionally higher international coal prices and exposure to the more stable domestic market, supported by our large retail network in Western Siberia.

The following table sets forth a breakdown of our coal production and sales by volume and value for the years ended 31 December 2007, 2008 and 2009:

	For The Year Ended 31 December					
Coal Sales	**2007**		**2008**		**2009**	
		%		**%**		**%**
Production *(mln tonnes)*	**4.10**		**5.48**		**6.15**	
Domestic sales volume *(mln tonnes)*	3.86	71.5	4.80	63.6	4.71	63.6
Export sales volume *(mln tonnes)*	1.54	28.5	2.74	36.4	2.69	36.4
Total sales volume *(mln tonnes)*	**5.40**	**100.0**	**7.54**	**100.0**	**7.41**	**100.0**
Domestic sales revenue *(mln RUB)*	2,521	71.8	4,190	51.5	5,124	50.6
Export sales revenue *(mln RUB)*	990	28.2	3,944	48.5	5,004	49.4
Total sales revenue *(mln RUB)*[1]	**3,511**	**100.0**	**8,134**	**100.0**	**10,128**	**100.0**

(1) Revenue derived from the domestic coal sales includes compensation from the government. For additional discussion on the compensation from the government, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Price dynamics — Regional pricing regulations"*.

Third-party coal sales

We also retail thermal coal purchased from third-party coal producers, such as SUEK, SDS-Ugol and Shakhta Kolmogorovskaya, to satisfy domestic demand.

The following table sets forth a breakdown of our coal and third-party purchased coal sales by volume for the indicated periods:

	For the year ended 31 December									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	mln tonnes									
Mined coal	0.36	1.28	2.29	2.37	3.16	4.31	4.23	3.94	5.24	6.03
Third-party purchased coal	1.44	1.87	0.67	2.04	2.09	1.86	1.68	1.46	2.30	1.38
Total	**1.81**	**3.15**	**2.96**	**4.41**	**5.25**	**6.17**	**5.91**	**5.40**	**7.54**	**7.41**

In 2000, we began our operations as a coal trader, supplying local utilities with coal of which almost 80% was purchased from third-party coal producers. As we developed our mining facilities, our business platform gradually shifted from coal trading to coal production. Therefore, the proportion of third-party coal sales has been steadily declining since 2000. We, nevertheless, believe that, in the near term, third-party coal sales offer us additional marketing flexibility to our domestic and export sales structure and allows us to utilize our surplus selling capacity and infrastructural capacity. In case of export price growth, we are in the position to shift sales of the coal produced by us towards more lucrative export markets (due to the fact that our coal is relatively high quality, and, therefore, meets the specifications of a number of export markets), while satisfying demands of the domestic market with sales of lower quality purchased coal. If the export market conditions deteriorate, we can decrease purchases of coal from third parties and focus on sales of our own coal. For the years ended 31 December 2007 and 2008, third-party coal accounted for 27.0% and 30.5% of the total sales by volume on both domestic and export markets. With the launch of the Cheremshansky mine in May 2008 and increased production of our own coal, third-party coal sales decreased to 18.6% of the total sales by volume for the year ended 31 December 2009. In the medium term, we expect to continue to grow production and sales volumes of our own coal and reduce our reliance on third-party coal.

Domestic sales

Our sales to domestic customers amounted to 3.86 million tonnes, 4.80 million tonnes and 4.71 million tonnes of coal for the years ended 31 December 2007, 2008 and 2009, respectively. Our key domestic customers are retail customers and public utility companies, sales to which represented 58.8% and 30.4% of the total domestic sales volume for the year ended 31 December 2009, respectively, with remaining the 10.8% attributable to the sales to power generation companies.

Most of our domestic sales are concentrated in the Siberian Federal District, in which the main destinations are Kemerovo, Omsk, Novosibirsk and Altay regions. Coal sales to our customers in the Siberian Federal District accounted for 80.9% of the total domestic sales by volume for the year ended 31 December 2009.

The following table summarizes our domestic market sales of coal (including our own and purchased coal) in different regions of Russia for the year ended 31 December 2009:

	For the year ended 31 December					
	2007		2008		2009	
Regions	Sales	Share	Sales	Share	Sales	Share
	mln tonnes	*%*	*mln tonnes*	*%*	*mln tonnes*	*%*
Central Federal District	0.24	6.1	0.13	2.8	0.28	5.9
North-Western Federal District	0.40	10.4	0.31	6.5	0.33	7.0
Volga Federal District	0.11	2.8	0.07	1.5	0.24	5.1
Urals Federal District	0.03	0.7	0.02	0.4	0.03	0.6
Siberian Federal District	3.09	80.0	4.25	88.6	3.81	80.9
Far East Federal District	—	—	0.01	0.2	0.02	0.4
Total	**3.86**	**100**	**4.80**	**100**	**4.71**	**100**

Sales to retail customers

The majority of our domestic sales are made to retail customers in Western Siberia. For the years ended 31 December 2007, 2008 and 2009, coal sales to retail customers amounted to 1.61 million tonnes, or 41.7%, 2.44 million tonnes, or 50.8%, and 2.77 million tonnes, or 58.8%, of our total domestic sales of coal by volume, respectively.

We conduct coal sales to our retail consumers through our extensive retail distribution network of four subsidiaries, located throughout the Kemerovo, Novosibirsk, Omsk and Altay regions of Western Siberia. Our retail subsidiary

Kuzbasstoplyvosbyt is co-owned together with the Kemerovo region, and in case of other subsidiaries, by persons and companies with extensive coal distribution experience in each respective region, which helps us secure local supply contracts and manage local distributors more efficiently. While we do not wholly own our retail subsidiaries, we sell our coal to the retail subsidiaries at market prices on an arm's length basis and receive full proceeds from such sales.

The coal sold to our retail subsidiaries is initially transported to our owned and operated points of sale and storage warehouses via the Russian Railways System. As of 31 December 2009, our distribution network included 60 owned and operated points of sale and 58 storage warehouses, employing over 30% of our total workforce. Our subsidiaries, in turn, resell the coal to retail customers and deliver it directly to customers' households by trucks. For the year ended 31 December 2009, our distribution network delivered 2.77 million tonnes of coal, positioning us as one of the principal suppliers of coal to retail consumers in Western Siberia. We plan to further develop our distribution network by acquiring or establishing additional points of sale in order to increase our domestic distribution capacity and secure our growth in the domestic thermal coal market.

The following table sets forth key characteristics of our distribution network for the year ended of 31 December 2009:

Trading subsidiary	Region	Share owned	Points of sale	Planned points of sale	Storage warehouses	Volumes delivered
		%				*mln tonnes*
Kuzbasstoplivosbyt	Kemerovo	75	27	1	21	1.20
TransUgol	Omsk	51	5	3	6	0.09
Altay Fuel Company	Altay	51	7	3	7	0.23
Novosibirsk Fuel Corporation	Novosibirsk	51	21	1	24	1.25
Total			**60**	**8**	**58**	**2.77**

Sales to public utility companies

For the years ended 31 December 2007, 2008 and 2009, coal sales to public utility companies amounted to 2.06 million tonnes, or 53.2%, 2.21 million tonnes, or 46.0%, and 1.43 million tonnes, or 30.4%, of our total domestic sales of coal by volume, respectively.

Sales to power generation companies

For the years ended 31 December 2007, 2008 and 2009, coal sales to power generation customers amounted to 0.20 million tonnes, or 5.2%, 0.15 million tonnes, or 3.1%, and 0.51 million tonnes, or 10.8%, of our total domestic sales of coal by volume, respectively. In 2009, our principal customers in the power generation industry were TGK-5, TGK-6, TGK-9 and TGK-14.

In addition, we sell poorly marketable low quality coal to Kaskad-Energo, our fully owned power generation subsidiary, which generates and supplies heat and electricity to industrial and retail customers located in the city of Anzhero-Sudzhensk. For the years ended 31 December 2007, 2008 and 2009, coal sales to Kaskad-Energo amounted to 0.10 million tonnes, 0.06 million tonnes and 0.11 million tonnes of coal, respectively. See *"Business — Energy Production"*.

Export sales

Our exports amounted to 1.54 million tonnes, or 28.5%, 2.74 million tonnes, or 36.4%, and 2.69 million tonnes, or 36.4%, of our total sales of coal by volume for the years ended 31 December 2007, 2008 and 2009, respectively.

The following table sets forth our export sales of coal by country for the periods indicated below:

Export destination	For the year ended 31 December					
	2007		2008		2009	
	Sales	Share	Sales	Share	Sales	Share
	mln tonnes	*%*	*mln tonnes*	*%*	*mln tonnes*	*%*
Poland	0.90	58.6	1.36	49.5	1.21	44.8
China	—	—	0.09	3.4	0.40	15.0
Ukraine	0.25	16.0	0.45	16.3	—	—
South Korea	0.03	2.1	0.16	5.9	0.87	32.4
UK	0.12	7.6	0.28	10.3	0.00	0.2
Romania	0.13	8.7	0.01	0.4	—	—
Japan	0.02	1.2	—	—	—	—
Sweden	—	—	0.00	0.1	0.04	1.6
Others	0.09	5.8	0.39	14.2	0.16	6.0
Total	**1.54**	**100**	**2.74**	**100**	**2.69**	**100**

Poland is our largest export market, representing 58.6%, 49.5% and 44.8% of our total export sales for the years ended 31 December 2007, 2008 and 2009, respectively. In 2009, we significantly expanded our exports to emerging Asian markets to take advantage of a rapid growth in demand for coal and corresponding increases in coal prices. For the year ended 31 December 2009, our exports to South Korea and China, combined, accounted for 47.4% of the total export sales volume, up from 9.3% in 2008 and 2.1% in 2007.

We rely on our long-term business relationship with local and international wholesale commodity traders to market and sell our coal to end customers. For the years ended 31 December 2007, 2008 and 2009, approximately 81.8%, 88.0% and 90.4%, respectively, of our coal exports was sold though international traders with the remaining 18.2%, 12.0% and 9.6%, respectively, being sold directly to various power generation companies. In 2009, our largest export customers were Kort Enterprises Limited (with respect to our sales to Poland) and Glencore International AG (with respect to our sales to China and South Korea), which together accounted for 89.7% of our export sales by volume.

The following table sets forth our export customers for the periods indicated below:

Export Customers	For the year ended 31 December					
	2007		2008		2009	
	Sales	Share	Sales	Share	Sales	Share
	mln tonnes	*%*	*mln tonnes*	*%*	*mln tonnes*	*%*
Kort Enterprises	0.69	44.9	1.21	44.3	1.02	37.7
Glencore International	—	—	0.74	27.0	1.40	52.0
SUEK AG	0.29	18.9	0.33	12.0	—	—
Remex Industries Ltd.	0.19	12.1	0.28	10.3	0.08	3.1
Brisson Alliance	0.24	15.3	0.00	0.2	0.13	4.9
Others	0.13	8.7	0.17	6.2	0.06	2.3
Total	**1.54**	**100**	**2.74**	**100.0**	**2.69**	**100.0**

Our sales strategy for the additional volumes of coal that we expect to produce from increasing our production levels to the structural capacity of our existing mines is to increase our export operations. Leveraging our relative geographic proximity to European and Asian markets, we plan to maintain and further strengthen our export sales in our traditional markets, such as Poland and Ukraine while continuing to maximize opportunities for sales growth in emerging Asian markets, such as China. In addition to strengthening sales in our current export markets, we believe that further improvement of the quality of coal with construction of the new coal processing and enrichment facilities in the next three years will allow us to penetrate new geographic markets, where we can secure higher profitability margins, but which are currently not available to us due to the more onerous requirements for the coal quality in such markets.

We also aim to widen the range of counterparties, including through the creation of our own trading representatives and subsidiaries. In 2010, we plan to establish a subsidiary in Poland to monitor the local market more closely, develop our relationship network and participate in various tenders for coal supply held by local power utilities and coal trading companies. We believe that enhancing our marketing capabilities would widen our distribution options and allow greater flexibility in choosing optimal sales destinations, pricing terms, length and terms of contracts.

Coal supply contracts

For the year ended 31 December 2009, approximately 99% of our total sales volume, as measured by tonnes of coal sold, was sold under short-term contracts (less than 12 months in duration). The remainder of our coal was sold on the spot markets.

Thermal coal is priced primarily on its calorific content (other significant characteristics include ash, sulfur and moisture content). Our coal supply contracts typically contain provisions that require us to deliver coal with specific coal characteristics. Failure to meet these specifications can result in price adjustments, economic penalties, suspensions or cancellation of shipments or termination of the contracts. In some instances, buyers have an option to adjust monthly volumes.

Coal supply contracts with our domestic and export customers, other than retail customers in the Kemerovo region, are generally concluded directly with no competitive bidding. In the case of our coal sales to retail customers in the Novosibirsk, Altay and Omsk regions, local administration of each respective region issues an annual notice setting forth a ceiling guidance price for coal sold to retail customers in its respective territory. In the Kemerovo region, the price of coal sold to retail consumers is subsidized by the local administration, which, on an annual basis, establishes a fixed retail price of coal sold to retail customers in such regions. The fixed retail price is substantially lower than the domestic market price. The administration of the Kemerovo region compensates us for the market price deferential, the amount of which is determined though a bidding process. For additional discussion, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Price dynamics — Regional pricing regulations"*.

We determine the payment method applicable to a specific customer based on such factors as our prior dealings with that customer, its current financial position and the prevailing market conditions. For new or short-term customers, payment in full must be made prior to delivery. For certain large customers with whom we have long-term relationships, we offer deferred payment terms for up to 30 days. In the case of coal sales to retail customers, payments are made 60 days in advance of delivery.

Approximately 70.1% of our domestic sales and 54.7% of our export sales in 2009 were made on a CPT basis, which requires us to transport our coal to the delivery terminal of the customer, such delivery terminal being a point of sale or a warehouse in case of domestic sales, and, a port, in case of export sales. In respect to coal delivery on CPT basis, the costs of transportation and warehousing is factored into the price. In 2009, our coal supply agreements to Asian markets with Glencore International provided for a delivery on a CPT basis, which required us to transport our coal to the Vostochny port in the city of Nakhodka. An additional 44.8% of our export sales in the same period were made on a DAF basis, which requires us to transport coal to the delivery terminal near the Russian border. In 2009, our coal supply agreements to Poland with Kort Enterprises provided for a delivery on a DAF basis, which required us to transport our coal to the delivery terminal near the Russian border with Belarus. In 2010, our supply agreements with Kort Enterprises provided for a delivery terminal near the Russian border with Poland. Under both the CPT and DAF arrangements, we incur the loaded car tariff charged for transporting the coal to the respective train terminal as specified in the contract and the railway tariff for transporting the empty rail car back from the train terminal to the railway station Meret, affecting the price we receive for our coal.

Approximately 29.9% of our domestic sales and 0.5% of our export sales in 2009 were made on a FCA Meret basis under which title to coal transfers when the coal is loaded on the customers' rail cars at Meret. The prices charged to customers for these deliveries are generally lower than prices charged to customers with deliveries under CPT and DAF terms, reflecting the fact that delivery is taken so close to the production facilities without additional charges having to be made for onward deliveries utilizing the Russian Railways System. Railway related costs do not, therefore, affect the price we receive for our coal with respect to delivery on FCA Meret basis. For additional discussion, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Price dynamics — Geographical destinations, terms of delivery and changes in rail tariffs in Russia"*.

Given the difference in the delivery terms, our average domestic and export prices are presented net of railroad tariffs. Our average domestic price for the years ended 31 December 2007, 2008 and 2009 was RUB 574 per tonne, RUB 770 per tonne and RUB 848 per tonne, respectively. Our average export price for the years ended 31 December 2007, 2008 and 2009 was RUB 595 per tonne, RUB 1,009 per tonne and RUB 970 per tonne, respectively. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Results of Operations — Price dynamics — Demand dynamics*".

Suppliers

The main supplies we purchase for our coal mining operations include replacement parts, diesel, fuel, explosives and lubricants. In 2009, our key suppliers of diesel and fuel were Edelveyes-Service LLC and Rutek LLC. Lubricants were provided by such suppliers as Unitech LLC, Fuel Resources LLC, PANavto LLC and Techpromkomplekt LLC. Blasting operations were carried out and explosives supplied by Znamya Limited.

For the key equipment spare parts, we have entered into contracts with KuzbassBelAuto LLC, Sumitec International LLC, Mining Solutions and other third-party suppliers.

We believe that we have established stable cooperative relationships with our key suppliers, which enable us to obtain a reliable supply of most materials required by our coal productions process. We further believe that many alternative suppliers exist for most of the materials we purchase and, therefore, we do not foresee any difficulty in obtaining an adequate supply of these materials.

Licenses

We are required to obtain a subsoil license from the Federal Agency for Subsoil Use with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such mineral deposit is located. In addition, operating permits are required with respect to specific mining activities. Among different subsoil licenses required for mining minerals in Russia, the two major types of licenses are: (i) an exploration license, which is an exclusive license granting the right of geological exploration and assessment within a defined area and is valid for five years from issuance, and (ii) a production license, which grants the license holder an exclusive right to produce minerals from a defined area and can be granted for a term of the expected operational life of the field based on a feasibility study. In practice, many of the licenses are issued as combined licenses, which grant the right to explore, assess and produce minerals from defined areas and are valid for 25 years from issuance.

As of 1 January 2010, we held a total of seven subsoil licenses, of which five are production licenses and two are combined exploration and production licenses. Most of our licenses expire between 2023 and 2026. The following table sets forth certain information regarding the subsoil licenses used by our coal mines as of 1 January 2010:

License holder and number	Licensed field	Year license obtained	Year license expires	Type	Deadline for reaching production volume level
KTK License KEM No01235 TE	Karakansky South	2006	2019	Coal mining	—
KTK License KEM No01260 VE	Karakansky South	2007	2012	Extraction of groundwater	—
KTK License KEM No01236 TE	Karakansky South-1	2006	2023	Coal mining	0.5 mln tonnes by 2007[1] 1.0 mln tonnes by 2009[2]
KTK License KEM No13490 TE	Karakansky South-2	2006	2026	Coal exploration and mining	1.0 mln tonnes by 2013
KTK License KEM No12082 TE	Vinogradovsky	2003	2023	Coal mining	0.5 mln tonnes by 2007[3] 1.5 mln tonnes by 2009
KTK License KEM No13489 TE	Vinogradovsky-2	2006	2026	Coal mining	0.5 mln tonnes by 2013
KTK License KEM No13097 TE	Cheremshansky	2005	2025	Coal exploration and mining	1 mln tonnes by 2013 2 mln tonnes by 2015

(1) Deadline for reaching the provided production volume level is 30 December 2007.

(2) Deadline for reaching the provided production volume level is 30 December 2009.

(3) Deadline for reaching the provided production volume level is 30 December 2007.

Our subsoil licenses impose certain obligations that must be complied with. Licenses require the licensee to pay certain local and federal taxes and to meet certain environmental requirements. They may be revoked if the licensee fails to comply with their terms or to heed warnings from the regulatory authorities. Licenses generally require the licensee holder to make various commitments, including extracting annually an agreed target amount of reserves, conducting agreed exploratory and development activities, protecting the environment in the license area from damage, providing certain progress reports and geological data to the relevant authorities and paying royalties and other amounts when due. We have employees whose specific responsibility is to monitor compliance with the terms of our licenses. We have in the past been subject to penalties for non-compliance with certain technical provisions of our licenses, although the fines imposed by regulatory authorities have not had a material adverse effect on our business or results of operations. Although we are currently in similar non-compliance with certain technical provisions of our licenses, we believe that we are in compliance with all material license requirements. See *"Regulation of the Coal Mining Industry in Russia"* for a description of the Russian regulatory rules relating to subsoil licenses. In addition, see *"Risk Factors — Risks Relating to Our Business and Industry — Our licenses and permits may be suspended, amended or terminated prior to the end of their terms, or may not be renewed"*.

The economic lives of our licensed fields can extend significantly beyond the license expiration dates. Under Russian law, we are entitled to renew the licenses to the end of the economic lives of the fields, provided certain

conditions are met. Currently, we are not aware of any circumstances that would prevent us from renewing our licenses as and when required.

Competition

We principally compete in three markets: the Russian domestic market, the European export market (particularly, Poland, Ukraine and the United Kingdom) and the Asian export market (particularly, China and South Korea).

Domestic market competition

In terms of 2009 production volumes, we ranked seventh among the largest thermal coal producers in Russia. Our largest thermal coal competitors on the Russian market are SUEK and KRU, which together accounted for more than 55% of domestic production for the year ended 31 December 2009. (Source: Metall Expert, February 2010). In addition to our principal competitors, we also compete to a certain degree with smaller mines located in proximity to our customers. For a table illustrating the leading Russian thermal coal producers and their relevant market share as of 31 December 2009, see *"Coal Mining Industry — Russian Coal Market"*.

In the domestic market, we compete with other thermal coal producers on quality of coal, proximity, transport systems, level of integration of services offered and customer relationships. Domestic competition in the thermal coal is limited by the fact that most thermal power stations were built near a specific thermal coal source and had their equipment customized to utilize the particular type of coal produced at the relevant local source.

Specifically, we believe that, in part due to our extensive distribution network, we have a competitive advantage in the segment of supplying public utility companies and retail customers over many larger thermal coal producers, which are primarily focused on supplying power generation companies. We have historically operated in this market segment with most of our domestic sales concentrated in the Siberian Federal District, in which the main destinations are the Kemerovo, Omsk, Novosibirsk and Altay regions. We believe that we will continue to operate successfully in this segment due to our profound understanding of specific market structure, considerable knowledge of customers' needs, reputation for superior product delivery and reliability as well as the benefits from economies of scale in contracting in those locations in which we have a significant market presence and a wide retail distribution network capable of supporting operations across most of the Siberian Federal District.

We believe that our coal competes favorably with that of our domestic competitors due to the following factors:

- Our coal's favorable characteristics, including naturally low sulphur and phosphorus content as well as relatively high calorific value, which is in high demand in Russia;
- Our ability, through our extensive railway and retail distribution networks, to provide stable and timely coal deliveries to our customers; and
- Good, long-term relations with our customers, extensive trade record and deep knowledge of our market segments and customer needs.

See *"— Our Competitive Strengths."*

Export market competition

With respect to export sales, we compete with other companies in Russia, including, among others, SUEK, KRU, Belon and SDS-Ugol, as well as with major overseas coal mining companies serving the European and Asian coal export markets, including, among others, Xstrata, BHP Billiton, Anglo-American and various Australian, Indonesian and South African producers.

In our export markets, competition is largely driven by coal quality and price. We believe our relatively high quality coal, competitive price, geographic proximity to our primary export markets and ability to meet customer specifications are our key competitive advantages. In addition, we believe that having our operations located in Russia provides us with cost advantages over many of our international competitors. These advantages include access to power and gas supplies at regulated prices that are low from international perspective, lower labor costs and more favorable tax and regulatory compliance regulations.

Energy Production

Our power generation asset consists of a wholly owned power-generating facility, Kaskad-Energo, involved in the generation and distribution of electric and thermal energy. It is located in the city of Anzhero-Sudzhensk. As of 31 December 2009, it had a total installed capacity of 9.5 MW of electricity and 175 Gcal/h of heat power. For the years ended 31 December 2007, 2008 and 2009, the electricity production of Kaskad-Energo was 40.7 million kWh, 49.8 million kWh and 49.1 million kWh, respectively. The heat power generated by Kaskad-Energo for the years ended 31 December 2007, 2008 and 2009 was 337,733 Gcal, 389,584 Gcal and 418,086 Gcal, respectively.

We believe that Kaskad-Energo serves as a hedge against potential price increases in respect of electricity utilized by our mines by generating energy volumes, which fully exceed our consumption volumes, and generating revenues from electricity sales that fully cover our electricity costs. For example, for the year ended 31 December 2009, Kaskad-Energo generated approximately 49.1 million kWh of electric and thermal power combined, while our consumption for that year amounted to approximately 34.1 million kWh. Similarly, the average price per 1 kWh consumed by us in 2009 amounted to RUB 42.2 while the average price per 1 kWh produced by Kaskad-Energo amounted to RUB 41.6.

Kaskad-Energo primarily uses thermal coal as fuel for power-generation, of which we supplied 100%, utilizing our poorly marketable low quality coal. For the years ended 31 December 2007, 2008 and 2009, we supplied Kaskad-Energo with 0.1 million tonnes, 0.06 million tonnes and 0.1 million tonnes of thermal coal. The price of coal supplied to Kaskad-Energo approximates the price of coal we sell to third parties that has comparable coal characteristics and transportation distance.

Kaskad-Energo supplies heat in the form of hot water and electricity to the public utilities sector, industrial enterprises and other companies in the city of Anzhero-Sudzhensk.

The following table summarizes electricity production for customers of Kaskad-Energo for the years ended 31 December 2007, 2008 and 2009:

	For the year ended 31 December					
	2007		2008		2009	
Entities	Electricity production	Share	Electricity production	Share	Electricity production	Share
	MWh	*%*	*MWh*	*%*	*MWh*	*%*
Intra-company	16.3	40.0	18.2	36.7	19.1	38.7
Kuzbassenergosbyt	10.3	25.2	18.5	37.3	20.4	41.4
Anzheromash	13.8	33.8	12.9	26.0	9.8	19.9
Anzherskaya Beneficiation Plant	0.4	1.0	—	—	—	—
Total	**40.8**	**100**	**49.6**	**100**	**49.3**	**100**

Transportation and storage services

We derive a small portion of our revenue from sales of transportation and storage services to third parties located near the paths of our rail lines, thereby maximizing efficiencies across our own logistics network. Revenue derived from sales of transportation and storage services accounted for 4.5%, 2.5% and 1.9% of our total revenue for the years ended 31 December 2007, 2008 and 2009, respectively.

Personnel

As of 31 December 2009, we had approximately 3,598 employees, including approximately 2,885 industrial workers, 385 engineers and 328 management and technical staff. Our mining engineers, both at a senior and middle level, have extensive industry experience.

The following table sets out the number of employees as of stated periods by function:

	For the year ended 31 December		
Personnel breakdown	2007	2008	2009
Top management	7	7	7
Personnel involved in coal production	1,511	1,771	1,803
specialists	264	310	302
workers	1,247	1,443	1501
Karakansky South mine	704	585	580
Vinogradovsky mine	497	405	256
Cheremshansky mine	46	453	665
Personnel of supporting facilities	1,000	1,534	1,788
distribution network	365	843	1,103
railway infrastructure	336	385	379
power station	299	306	306
Total	**2,518**	**3,312**	**3,598**

As the Kemerovo region is densely populated, we do not believe that we face significant problems in recruiting labor force in the short-term. However, the competition for the qualified personnel in the region is strong, as there are a number of other coal producers operating in the area. To alleviate such shortage, we offer a competitive salary

to retain our qualified personnel and attract new talent. In addition, employees at our coal production facilities are eligible to receive a monthly bonus based on production. We have also instituted an incentive program for our top management, which is based on monthly production figures and other relevant performance benchmarks.

We aim to create a qualified personnel reserve by offering training both to newly hired employees with no relevant work experience as well as to existing employees who desire to improve their professional expertise, skills and abilities in their occupations. For example, in addition to on-site tutoring programs, we arrange for advanced professional development courses at the Kuzbass State Technical University and Belovo vocational school.

We have not experienced any work stoppages in the ten years since our establishment and consider relations with our employees to be good. We believe our good relations with employees reflect our commitment to expanding internal programs for employee development, as well as a steady increase in salaries, improvements in labor conditions, increases in incentive programs and the provision of assistance to employees in obtaining loans for mortgages or educational expenses. Employees of our branch, Vinogradovsky Open Pit, are members of a trade union. There are, however, no collective bargaining agreement between us and our employees.

In response to the Global Economic Crisis, in 2009, we reduced our personnel involved in coal production by 10% in line with our operational requirements, which reflects our consistent focus on and commitment to operating performance and cost management. As we increase our production volumes at the three existing mines to their structural capacity and commission three coal processing and enrichment facilities, we plan to increase our workforce by an additional 500 employees, which takes into account an anticipated increase in labor productivity associated with the use of high-capacity modern mining and transportation equipment.

Health and Safety

Mining is an inherently dangerous activity. As with any construction or excavation work, there is the general risk of accidents involving the heavy equipment, machines, structures and explosives used in the mining industry. See "*Risk Factors — Risks Relating to Our Business and Industry — Our production operations are subject to operational mining risks and conditions*".

We consider the protection of health and safety as an integral part of our business. We strive to create a healthy and safe working environment at each of our facilities through the implementation of certain safety measures. We follow Russian industry safety standards applicable to each of our operations. For instance, all our equipment is certified by the Russian authorities for compliance with work safety requirements under Russian law. We also conduct our own inspections upon installation of any equipment in order to ensure proper installment and safety. We provide special training to our employees both prior to operating new equipment and after they start operating equipment, on a periodic basis, in order to improve safety and the efficiency of their work.

We believe that we are in compliance in all material respects with all safety laws and regulations applicable to our business. According to the IMC Report, our safety record is good especially considering the annual production level and scale of operation. Regrettably, we experienced one fatality in our operations between 2007 and 2009, which was caused, based on our investigation, by the employee's negligence.

The table below summarizes our safety record for the relevant periods:

	For the year ended 31 December		
	2007	2008	2009
Incidents	79	82	127
Accidents	1	1	—
Fatalities	—	1	—

Source: IMC Report.

Although we believe our operations to have sufficient safety measures in place, the nature of our business is such that accidents may occur. Moreover, while we strive to reduce our fatality and injury rates by implementing high safety standards at our facilities, there can be no assurance that accidents in the future will not occur. See *"Risks Factors — Risks Relating to Our Business and Industry — Our insurance may be insufficient*".

Environment

We are committed to achieving high standards of environmental management of our mining operations. We have implemented an environmental management system, which, includes among other components, the assessment of the impact of our operational activities, the assignment of individuals who are responsible for environmental issues, the preparation of annual environmental measures plans and control over their implementation, submission of environmental monitoring reports to the Russian regulatory authorities, and training, certification and professional development of personnel on environmental compliance. According to the IMC Report, in general, our environmental impact

management system operates on a highly professional level. From time to time, we also retain independent environmental consultants to help us assess our environmental activities and identify additional areas for improvement.

We are subject to various environmental laws, which address such matters as protection of the natural environment, the use of natural resources, emissions into the atmosphere and water and waste disposal. We believe that we hold all necessary environmental licenses for operations at our facilities, including licenses for the use of water resources, water discharges, air emission, waste disposal and waste management. The costs of our environmental compliance include (i) payments for air and water discharges as well as wastes which are within the limits set out in our licenses and (ii) payments for discharges and wastes in excess of these limits. We have made requisite emission payments on time and in full and have faced no material fines or penalties during the last three years. In connection with our plans to increase production volumes at our existing mines up to their aggregate structural capacity of 11 million tonnes of ROM coal per annum by 2015, we will need to apply to the regional authorities for new emission quotas.

We believe that we are currently in material compliance with our obligations under applicable environmental laws and regulations. Based on the review conducted by IMC in March 2010, the IMC Report concludes that, in general, our activities comply with the requirements of the environmental laws of the Russian Federation and comply with applicable International Finance Corporation Performance Standards. We currently are not subject to any material environmental claims, lawsuits, penalties or other actions. See "*Risk Factors — Risks Relating to Our Business and Industry — We may be subject to more stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations*".

Our planned increase in production is expected to result in a greater impact on the environment and we are considering various environmental impact minimization measures for implementation during the period from 2010 to 2015, including reconstruction of water treatment facilities at the Vinogradovsky mine site and construction of heavy duty trucks maintenance station. In addition, our capital investment program contemplates commissioning of two coal processing facilities with steeply-inclined separators, which will allows us to extract DRC from the overburden (which is presently dumped into the waste heaps) and, thereby, reduce the amount of waste generated by our coal mining operations.

We are required by the law of the Russian Federation to reclaim and restore mining sites to their prior condition after completion of mining operations. As of 1 January 2010, our mines occupied an area of approximately 1,111 hectares of disturbed land, including approximately 962 hectares of land disturbed in the course of coal deposit development. Our restoration activities in the mines are divided into on-going activities (such as dump formation, reclamation contouring and storage of top soil) and activities conducted at the end of operations (such as open-pit leveling operations, bringing the slopes to long-term stability parameters, restoration of land features in mined-out areas, dumping sites and other mining areas, re-vegetation of disturbed areas, removal of buildings, equipment, machinery and physical remnants of mining). We currently estimate that the total cost associated with land reclamation amount to RUB 237 million.

In the years ended 31 December 2007, 2008 and 2009, our environmental compliance costs amounted to RUB 9.94 million, RUB 14.7 million and RUB 33.9 million, respectively. As of 31 December 2009, the provision for costs associated with land reclamation amounted to RUB 237 million.

Corporate and social responsibility

In addition to health and safety and environmental protection, we are focused on implementing principles of corporate and social responsibilities. We seek to operate our businesses in strict compliance with the existing legal framework and develop our corporate culture and corporate code of conduct in line with best practices. We seek to contribute to the social development of the Kemerovo region in which we operate through participation in charities and foundations, promoting understanding and dialogue in social opinion, and the careful management and protection of the environment.

We make annual charity and welfare donations to the social development of the Kemerovo region, with such donations totaling approximately RUB 56 million, RUB 36 million and RUB 33 million in 2007, 2008 and 2009, respectively. Donations cover areas including social support, childhood and youth support, housing, communal services and municipal improvements, education and cultural offices, sports facilities, public health services, public funds, charity and regional social programs, and holidays. See "*Risk Factors — Risks Relating to Our Business and Industry — We are increasingly required to consider and ensure the sustainable development of, and provide benefits to, the Kemerovo region*".

Insurance

Pursuant to the Federal Law on Industrial Safety of Dangerous Industrial Facilities of 21 July 1997, as amended (the "**Safety Law**"), our facilities for exploration, production, processing and transportation of coal fall under the category of hazardous production sites. In accordance with the Safety Law, we maintain mandatory insurance against civil liability arising from the operation of hazardous facilities. We also maintain all other types of

insurances as required by Russian law. Thus, we participate in the obligatory state insurance program for workplace injuries in accordance with Federal Law on Obligatory Social Insurance of Industrial Accidents and Professional Diseases of 27 July 1998, as amended. We are duly registered with the Social Insurance Fund (the "**SIF**") and make monthly contributions to the SIF. The amount of the monthly contributions depends on the jobs performed by covered employees and varies from 2.9 % to 7.0 % of employees' salaries. Following the occurrence of any covered accident, the state pays compensation to the injured worker. All of our insurance coverage is provided by Russian insurers.

The insurance industry in Russia is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available. We do not have full coverage for our mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on our property or relating to our operations. Moreover, we carry only limited third party liability insurance that is mandatory under Russian law. See also "*Risk Factors — Risks Relating to Our Business and Industry — We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could adversely affect our business and financial condition.*"

Properties

For the year ended 31 December 2009, we owned approximately 6,000 hectares of land. In addition, for the year ended 31 December 2009, we leased approximately 85 hectares of land through operating leases with the local municipalities. Our operating leases of land plots are generally for a period of one year with an exception of one operating lease agreement for land plots underlying water reclamation plants and electric power substations in Yevtinsky rural area with an expiration date of 2024.

Other operating lease agreements exist for the lease of mine equipment, which typically run for an initial period of one year with an option to renew the lease after that date.

See "*Risk Factors — Risks Relating to the Russian Federation — Difficulty in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered may have a material adverse effect on our business, prospects, results of operations or financial condition.*"

Research and Development

We regularly seek to improve the operations at our facilities, principally by improving operating efficiency, reliability and capacity. Most such efforts constitute incremental improvements to current activities, and, as a result, are undertaken in connection with regular operational maintenance and monitoring. Where appropriate, we seek to register any intellectual property that may result from these efforts. We do not believe that our research and development activities are significant to our results of operations.

Legal Proceedings

From time to time, we are a party to litigation and administrative proceedings in the ordinary course of business. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened or of which we are aware), which may have or have in the recent past had significant effects on our financial position and profitability.

In December 2009, Mr. Mingazov filed a claim against us with the district court of the Belovo town district claiming that our construction of a railroad on seven hectares of a 130-hectare land plot belonging to him represented an unauthorized use of land and demanding specific performance for us to disassemble a portion of our railroad located on his land plot and conduct soil reclamation of his land plot underlying the railroad. At the time of construction of the railroad, the land plot was owned by farm enterprises undergoing bankruptcy proceedings, which prevented us from purchasing it. After completion of the bankruptcy proceedings, Mr. Mingazov bought the land plot in question. We filed a counterclaim for establishment of a permanent easement over the land plot owned by Mr. Mingazov for the purposes of placement, exploitation and maintenance (including repair) of our railroad track and transportation of our coal and other goods in exchange for a reasonable one-time payment. In April 2010, the district court stayed the proceedings pending the resolution of a petition filed by Mr. Mingazov with the Arbitrazh Court of the Kemerovo region, contesting registration of our title to the railroad. If the district court or the Arbitrazh Court of the Kemerovo region finds in favor of Mr. Mingazov and the district court denies our counterclaim for an easement, we could be prevented from transporting our coal from the Karakansky South mine to the Russian Railways System via the railroad, which runs across a portion of the Mr. Mingazov's land plot. While we believe that we will be successful in our case, our management cannot rule out that we may incur material losses in connection with this legal proceeding.

The following discussion of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements, the notes thereto and the other information included elsewhere in this Offering Circular. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors," "Business" and "Forward-Looking Statements."

Overview

We are one of the fastest-growing thermal coal producers in Russia. Based on 2009 production volumes, we ranked seventh among the largest thermal coal producers in the country, according to Metall Expert. In the ten years since our establishment in 2000, we have commissioned and launched three open-pit mines, reaching production volume of 6.15 million tonnes of coal for the year ended 31 December 2009. We expect to continue to grow our production volume, in particular as a result of the launch of the Cheremshansky mine in 2008 and ongoing investments into our high performance modern mining equipment, aimed at achieving production levels up to the aggregate structural capacity of our existing mines of 11 million tonnes of thermal coal per annum.

We conduct our mining operations at three open-pit mines located in the Kuzbass area of Russia. The Kuzbass area is located within the Kemerovo region, Russia's largest coal producing region accounting for 60% of Russia's total production in 2009, and home to six of the 10 largest Russian coal-producing companies in terms of production volume. Open-pit mining, our high-performance and large-capacity equipment, which has undergone substantial modernization since 2006, as well as the compact location of our production and administrative facilities, enable us to maintain low production costs and overhead expenses. Our mining operations are supported by well-developed production and transportation infrastructure, able to support the structural capacity of our existing mines and helping to further ensure low operating and administrative costs, as well as efficient production and distribution. One of the principal components of our support infrastructure is our own railway network, which stretches over 70 kilometers and enables us to transport 100% of our coal from our open-pit mines to the main railway hub at the long-distance railway network, operated by Russian Railways. We believe further expansion of production levels up to the aggregate structural capacity of our existing mines will not require significant capital expenditure, other than into additional mining equipment and coal processing and enrichment facilities. See "*Business — Capital Investment Program*." Our domestic sales are supported by one of the largest retail coal distribution networks in Western Siberia comprising 60 points of sale as of 31 December 2009, which, together with our strong regional presence, positions us as one of the principal suppliers of thermal coal to retail consumers in the region.

We enjoy a relatively large base of mineral resources, which, according to the IMC Report, totaled approximately 409.3 million tonnes of ROM coal resources as of 1 January 2010, of which 191.6 million tonnes were proven and probable reserves of ROM coal, recoverable during the period between 2010 and 2029. We produce exclusively sub-bituminous thermal coal, classified as grade "D" under the Russian classification system, with a naturally low sulphur and phosphorus content as well as a relatively high calorific value, which is in demand both in Russia and abroad.

For the year ended 31 December 2009, our total sales, in both domestic and export markets, amounted to 7.41 million tonnes of coal of which 6.03 million tonnes were extracted by us and 1.38 million tonnes were resold after purchasing from other coal producers. We maintain diversified sales capabilities, including a wide retail domestic distribution network and growing export operations, which help us achieve stable and efficient distribution of our coal. For the year ended 31 December 2009, approximately 4.71 million tonnes, or 63.6%, of our thermal coal sales were to domestic consumers in Russia, of which 58.8% was sold through our retail coal distribution network in Western Siberia. Approximately 36.4% of our thermal coal sales in volume terms for the year ended 31 December 2009 were export sales, primarily to Poland, South Korea and China.

For the year ended 31 December 2009, we had total revenue of RUB 10,658 million, EBITDA of RUB 2,177 million and profit for the year of RUB 663 million. Our gross margin and EBITDA margin were 23.3% and 20.4%, respectively. As of 31 December 2009, our net debt was RUB 3,773 million, with net debt to EBITDA ratio of 1.7.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the following factors significantly affected our results of operations for the years ended 31 December 2007, 2008 and 2009 and will have a significant impact on our results of operations in the future: (i) sales volume of our coal; (ii) thermal coal price dynamics; (iii) production costs and efficiency; and (iv) production volume.

Sales volume

Our total sales volume of coal increased by 39.6% from 5.40 million tonnes in 2007 to 7.54 million tonnes in 2008, and slightly decreased by 1.7% to 7.41 million tonnes in 2009. The main factors affecting our coal sales volume include: (i) our coal production capacity; (ii) demand and supply balance of thermal coal on the domestic and world markets; and (iii) availability and allocation of coal transportation capacity on the Russian Railways System and at commercial ports.

Our coal production capacity

Our coal sales volume is affected by our coal production capacity. To meet the market demand, we expanded our production, in part, through the launch of the Cheremshansky mine, reaching production volume of 6.15 million tonnes of coal for the year ended 31 December 2009. In the coming years, we expect to continue to grow our production volume levels up to the aggregate structural capacity of our three mines of 11 million tonnes per annum through ongoing investments into high performance modern mining equipment and enrichment facilities. See *"Business — Capital Investment Program"*.

In the near term, we strategically utilize third-party coal sales as a mechanism that provides us with additional coal volume when export conditions are favorable. In case of export price growth, third-party coal sales give us flexibility to shift sales of the coal produced by us towards more lucrative export markets (due to the fact that our coal is of relatively high quality, and, therefore, meets the specifications of a number of export markets), while satisfying demands of the domestic market with sales of lower quality purchased coal. As we increase our production capacity, however, our reliance on third-party coal will decline.

Demand and supply of thermal coal

We sell our coal mainly to the retail customers, local public utilities and power generation companies in the Russian domestic market and to power generation companies and international traders in the European and Asian markets. Our coal sales volume in a given period is largely dependent on the demand and supply balance for thermal coal in these markets. This balance is strongly influenced by interdependent global economic and industrial cycles as well as supply chain-related constraints such as shipping capacity, availability of rolling stock, terrestrial transportation congestion, production disruptions and natural disasters. Growth in thermal coal demand is also closely related to growth in electricity consumption, with approximately 40% of the energy used for global power generation accounted for by thermal coal in 2007. (Source: the IEA). Electricity demand depends on its consumption by the real economy. Because of the critical role of thermal coal in the Russian power generation industry and overall economic development, the thermal coal industry generally tends to track macroeconomic factors such as GDP and inflation trends.

Export market

The following table sets out key economic indicators worldwide as at and for the years ended 31 December 2007, 2008 and 2009.

	For the year ended 31 December		
World	**2007**	**2008**	**2009**
Real GDP growth/(decline) (%, period-on-period)	3.9	1.7	(2.2)
Inflation (%, period-on-period)[(1)]	5.45	8.06	2.55

Source: World Bank, IMF

(1) Inflation is measured as the percentage change in the consumer price index.

In 2007 and the first three quarters of 2008, the global economy enjoyed relatively favorable economic conditions and healthy growth. According to the IMF, the world economy grew by 3.9% in 2007, led significantly by Asian countries such as China and India, and also by Russia and Brazil. Higher prices for oil and natural gas and economic expansion in Asia significantly increased the worldwide demand for thermal coal. At the same time, infrastructure and regulatory limitations in China contributed to a tightening of worldwide coal supply, affecting global prices of thermal coal. In the fourth quarter of 2008 and during 2009, positive global and domestic economic trends gave way to an effective paralysis of the global financial system accompanied by a rapid decline in the "real" sector of the economy. This slowdown in economic growth and severe constraints in capital spending globally led to a sharp reduction of industrial production, trade and global demand. In the fourth quarter of 2008, global GDP registered a decline of 0.6%. Falling gas prices in 2009, coupled with the deteriorating economic conditions, significantly weakened the demand for thermal coal on our export markets. The direct consequences of the decrease in demand were a decrease in sales, production volumes and prices of thermal coal abroad.

For the years ended 31 December 2007, 2008 and 2009, our export sales revenue accounted for approximately 28.2%, 48.5% and 49.4% of our coal revenue (including compensation from the government). Until the onset of the global financial crisis, strong demand for thermal coal in our export markets had a positive impact on our business and results of operations. Our export sales volume increased by 78.2%, from 1.54 million tonnes of coal for the year ended 31 December 2007 to 2.74 million tonnes of coal for the year ended 31 December 2008. Our largest export destinations in 2007 and 2008 were Poland and Ukraine, representing 74.6% and 65.8% of our total export sales volume, respectively.

In 2009, our export sales volume decreased slightly to 2.69 million tonnes of coal, compared to 2008, while the total revenue derived from export sales increased by 26.9% in 2009 compared to 2008. The increase in export revenue was primarily a result of (i) increased production of higher quality coal at the Cheremshansky mine; and (ii) an increase in the proportion of sales volume made under delivery terms of DAF. In addition, we strategically diverted a significant share of our export sales from our traditional markets in Eastern Europe, experiencing a weakened demand for thermal coal, to growing economies of South Korea and China. In 2009, our exports to South Korea and China, combined, accounted for 47.5% of the total export sales volume, up from 9.3% in 2008 and 2.1% in 2007.

Domestic market

The following table sets out key economic indicators for Russia as at and for the years ended 31 December 2007, 2008 and 2009:

	For the year ended 31 December		
Russia	**2007**	**2008**	**2009**
Real GDP growth/(decline) (%, period-on-period)	8.1	5.6	(7.9)
Inflation (%, period-on-period)[(1)]	9.0	14.1	8.8
Unemployment rate (%)	5.6	6.4	8.2
Disposable income (%, period-on-period)	12.1	2.9	1.9
Nominal appreciation/(depreciation) of the Rouble against the U.S. dollar (%, period-on-period)[(2)]	6.3	3.1	(6.0)
Real appreciation/(depreciation) of the Rouble against the U.S. dollar (%, period-on-period)[(2)]	12.8	13.3	(0.4)

Sources: CBR and Rosstat

(1) Inflation is measured as the percentage change in the consumer price index.

(2) Real appreciation is distinguished from nominal appreciation because the former also takes into account inflation in Russia and the United States, as well as certain other macroeconomic parameters that are calculated by the CBR.

In the period from 1 January 2007 through the first three quarters of 2008, Russia experienced significant economic growth largely driven by high commodity prices, particularly for oil and gas. The country's real GDP growth was 8.1% in 2007 and 8.7%, 7.5% and 6.0% in the first, second and third quarters of 2008, respectively, against the relevant periods in the previous year. In the same period, Russia's foreign currency reserves rose significantly, inflation remained stable at approximately 9-10% while unemployment continued to drop. Russia's stable economic growth led to increased domestic demand for thermal coal, which, in turn, resulted in a 7% increase in the overall domestic production volume of thermal coal in 2008 compared to 2007.

Despite substantial growth in the first nine months of 2008, the effects of the global financial crisis contributed to a slowdown in overall growth in 2008 (5.6%), the slowest rate of growth recorded since 2002. As a result of the global financial crisis, the economy contracted by 7.5% in 2009 compared to 2008. In the fourth quarter of 2008 and during 2009, Russia experienced a decline in real GDP of 1.2% and 7.9%, respectively, against the relevant periods in the previous year, a significant depreciation of the Rouble against the Euro and the U.S. Dollar, due, in part, to the sharp drop in worldwide oil prices, a decrease in investment in Rouble assets and an increase in the unemployment rate. A significant deterioration of economic conditions in Russia weakened domestic demand for thermal coal, with overall production volume decreasing by approximately 10.5% in 2009 compared to 2008.

For the years ended 31 December 2007, 2008 and 2009, our domestic coal sales (including compensation from the government) accounted for approximately 71.8%, 51.5% and 50.6% of our coal revenue. Our domestic coal revenue increased in absolute terms by RUB 1,669 million, or 66.2%, from RUB 2,521 million in 2007 to RUB 4,190 million in 2008. The increase was primarily driven by an approximately 34.1% increase of the average domestic price from RUB 574 per tonne in 2007 to RUB 770 per tonne in 2008 and a 24.2% increase of our domestic sales volume from 3.86 million tonnes for the year ended 31 December 2007 to 4.80 million tonnes for the year ended 31 December 2008, mainly attributable to the launch of the Cheremshansky mine and increased production volume in 2008. As a result of the deteriorating economic conditions and weakened demand for thermal coal on the domestic market, our domestic sales volume amounted to 4.71 million tonnes in 2009, which represented a 1.9% decrease from 2008. Despite the decrease in domestic sales volume, our domestic coal revenue increased in absolute terms by RUB

935 million, or 22.3%, from RUB 4,190 million in 2008 to RUB 5,125 million in 2009. The increase resulted mainly from an approximately 10.1% rise of the average domestic price from RUB 770 per tonne in 2008 to RUB 848 per tonne in 2009.

The following table summarizes our revenue from the sales of coal for the periods provided.

Revenue from sales of coal

	2007		2008		2009	
	mln RUB	*%*	*mln RUB*	*%*	*mln RUB*	*%*
Domestic coal sales revenue[(1)]	2,521	71.8	4,190	51.5	5,124	50.6
Sale of coal produced	1,581	45.0	2,182	26.8	3,624	35.8
Re-sale of coal purchased	940	26.8	2,008	24.7	1,500	14.8
Export coal sales revenue	990	28.2	3,944	48.5	5,004	49.4
Sale of coal produced	977	27.8	3,944	48.5	5,004	49.4
Re-sale of coal purchased	13	0.4	—	—	—	—
Total coal sales	**3,511**	**100.0**	**8,134**	**100.0**	**10,128**	**100.0**

(1) Revenue derived from the domestic coal sales includes compensation from the government. For an additional discussion on the compensation from the government, see *"— Price Dynamics — Regional pricing regulations."*

In 2009, the global demand for thermal coal gradually recovered. The Russian economy, aided by higher oil prices and stronger global demand, also began to recover. The timing and extent of global and domestic demand, however, cannot be predicted. An eventual rebound in demand will likely depend on an increasing demand from China and India and on a broad recovery from the Global Economic Crisis.

The state of the global and Russian economies will continue to affect our results of operations. For this reason, a further deterioration of the world and domestic economic markets would likely have a negative impact on our business.

Transportation capacity

We use our proprietary transportation network, which consists of six railway stations and rail lines with a total operating length of approximately 70 kilometers, to transport 100% of our coal from open-pit mines to the federal railway station, Meret. From Meret station to final domestic destinations, sea port or boundary transfer points for export destinations, we utilize the Russian Railways System. We also ship a substantial portion of our exports to end customers through a number of Russian ports.

We expect that increases in our coal sales volume will continue to be the main driver for our revenue growth in the future. Such increases, however, may be affected by the allocation to us of sufficient transportation capacity. To meet our growing coal transportation needs, we intend to continue to expand our transportation capacity by acquiring a significant, but non-controlling stake in a company owning and operating a rail car fleet followed by conclusion of long-term lease contracts for railway cars. See *"Risk Factors — Risks Relating to Our Business and Industry — We rely on Russia's railway transportation system to deliver our coal"* and *"Business — Infrastructure and mining equipment — Railroad and railway stations"*.

Price dynamics

Fluctuations in both domestic and global prices for thermal coal have a material impact on our revenues. The main factors affecting the price of our thermal coal include (i) the demand for thermal coal in the Russian domestic market and in the global market; (ii) regulation of power and gas tariffs by Russian federal and regional authorities; (iii) geographical destinations of coal shipments and terms of delivery and changes in rail tariffs in Russia; (v) regional pricing regulations; and (iv) coal characteristics and quality.

Demand dynamics

Our domestic and export prices are significantly dependent upon the demand for thermal coal in the Russian domestic market and export markets, which, in turn, is closely linked to macroeconomic and other economic factors in these markets. See *"— Sales volume — Demand and supply of thermal coal"* above.

In the period of 2007 and the first three quarters of 2008, the major driving force of high thermal coal prices was the strong demand for thermal coal worldwide, against a relatively constrained supply with coal price reaching a high of U.S.$209 per tonne (CIF Amsterdam/Rotterdam/Antwerp) in July 2008. Our average export price increased by approximately 78% from U.S.$23 per tonne in 2007 to U.S.$41 per tonne in 2008. In Rouble terms, our average export price similarly increased by approximately 70% from RUB 595 per tonne in 2007 to RUB 1,009 per tonne in

2008. Our average domestic price increased by approximately 70% from RUB 574 per tonne in 2007 to RUB 1,009 per tonne in 2008, which was consistent with the average Russian market price for thermal coal in the same period.

With the onset of the Global Economic Crisis, demand for thermal coal fell and spot prices declined accordingly to $80 per tonne (CIF Amsterdam/Rotterdam/Antwerp) by the end of 2008. Thermal coal price decreased further in the first quarter of 2009, when the price fell to $60 per tonne.

Our average export price recorded approximately 24% decrease from U.S.$41 per tonne in 2008 to U.S.$31 per tonne in 2009 due principally to the decreased demand on our export markets and the depreciation of the Rouble against the U.S. Dollar from an Average Exchange Rate of RUB 24.86 per U.S.$1.00 in 2008 to an average exchange rate of RUB 31.72 per U.S.$1.00 in 2009. In Rouble terms, our average export price recorded an approximately 4% decrease from RUB 1,009 per tonne in 2008 to RUB 970 per tonne in 2009. Nevertheless, our export revenue increased in absolute terms by 27% from RUB 3,944 in 2008 to RUB 5,004 in 2009 primarily as a result of the increased proportion of export sales made under CPT terms, leading to higher prices charged to our customers.

Our average domestic price increased by approximately 10% from RUB 770 per tonne in 2008 to RUB 848 per tonne in 2009.

Regulation of gas prices and power tariffs

Thermal coal prices on our domestic market have been traditionally lower compared to the thermal coal prices on our export markets. The price differential is primarily explained by the restriction on domestic pricing of electricity and gas.

The alternative fuel consumed by the Russian power generation companies is gas. Therefore, the domestic thermal coal prices show a strong correlation to the price of gas in Russia. Domestic gas prices, which are regulated by the Russian government, are substantially below European gas prices. In November 2006, the Russian government adopted plans to liberalize the Russian gas market through gradual increases of domestic gas prices by over 25% in the years 2009-2011 in order to achieve a declared level of equal profitability of gas sales on both domestic and export markets by 2011, after adjusting for export taxes, transportation costs, and transit tariffs (the process commonly referred to as "netback pricing"). These plans have been amended in the current economic climate and, while the ultimate objective of price convergence remains intact, there is no certainty in respect of a specific schedule of such convergence. Such increases in gas prices could lead to an increase in demand for thermal coal as a relatively inexpensive alternative source of energy, and a subsequent increase in the domestic prices of thermal coal. There can be no assurance, however, the gas price liberalization policy will be maintained or that it will result in a positive effect on the domestic demand of coal. See *"Risk Factors — Risks Relating to Our Business and Industry — The price of coal on the domestic market is affected by the regulation of domestic gas and electricity markets*".

In 2009, the thermal coal produced in Russia was consumed mostly for power generation with nearly 63% of thermal coal sold to power generation companies, while approximately 11% was used by public utilities. (Source: Metall Expert). Consequently, the domestic market price for thermal coal is largely subject to negotiation with key power generation companies, in particular in Siberia and the Far East where the demand for thermal coal has been stronger in recent years compared to other regions in Russia. This reflects the historical development of coal-fired electrical generation facilities in close proximity to significant coal deposits, which are located in these regions. The price negotiated by these power-generating companies for thermal coal is linked to electricity tariff levels set each year by Russian federal and regional authorities. As these authorities have sought to cap charges to retail customers for electricity, the maximum price payable for coal by these power generation companies is effectively limited. The Russian power generation industry has been undergoing substantial reform and restructuring since 2001. This reform and restructuring aims to achieve, among other things, changes in the regulatory framework of the power industry, the development of competitive electricity and electricity capacity markets, and the gradual expansion of those competitive markets, with the goal of reducing the percentage of output subject to regulated prices, or tariffs. The current regulatory regime contemplates that there will be a gradual expansion of the competitive segment of the electric power sector, and consequently, a reduction in the portion of the market that is subject to tariff regulation. The sector reform provides for the development of a fully liberalized market for electricity generation, retail and related services by 2011, in which electricity prices will be established on the basis of supply and demand. The timing of the stages of the reform process and the scope of these stages have changed several times since the formal launch of the reform program in July 2001, and it is possible that the current plan of the government to fully liberalize the non-residential electricity and capacity markets by 2011 may not be implemented within this timeframe or achieve all of its objectives. As a result of the reform process and the uncertainty associated with its completion and ultimate scope, the Russian power market has changed significantly and continues to operate in conditions of relative uncertainty. There can be no assurance, however, that the electricity price liberalization will actually continue. Moreover, no assurances can be made that the existing regulations will remain in place or that

price liberalization will not be suspended or reversed in the future or that it will result in a positive effect on the domestic demand of coal.

Geographical destinations, terms of delivery and changes in rail tariffs in Russia

Railway transportation costs are a significant concern for Russian mining companies, as distances in Russia are vast and major coal mining areas tend to be located far from developed year-round port facilities.

Approximately 70.1% of our domestic sales and 54.7% of our export sales in 2009 were made on a CPT basis, which requires us to transport our coal to the delivery terminal of the customer, such delivery terminal being a point of sale or a warehouse in case of domestic sales or a port in case of export sales, and for which we factor into the price the costs of transportation and warehousing. In 2009, our coal supply agreements to Asian markets with Glencore International AG provided for a delivery on a CPT basis, which required us to transport our coal to the Vostochny port in the city of Nakhodka. An additional 44.8% of our export sales in the same period were made on a DAF basis, which requires us to transport coal to the delivery terminal near the Russian border. In 2009, our coal supply agreements to Poland with Kort Enterprises provided for a delivery on a DAF basis, which required us to transport our coal to the delivery terminal near the Russian border with Belarus. In 2010, our supply agreements with Kort Enterprises provided for a delivery terminal near the Russian border with Poland. Under both CPT and DAF arrangements, we incur the loaded car tariff charged for transporting the coal to the respective train terminal as specified in the contract and the railway tariff for transporting the empty rail car back from the train terminal to the railway station Meret. Changes in rail tariffs in Russia affect the pricing of those sales. While rail tariffs in Russia are generally set by the Federal Service on Tariffs (the "**FST**") on an annual basis, with increases set to take effect in January of each year, the FST have in the past introduced additional increases in tariffs in other months of the year. While we attempt to take into account transportation costs when negotiating contracts, we are not always able to correctly predict future increases, or, alternatively, are not able to negotiate the inclusion of price review clauses in our sales contracts. See *"— Production Cost and Efficiency — Railway tariff and transportation costs"* below for further description of our transportation costs and how they affect our results of operations.

Approximately 29.9% of our domestic sales (including sales conducted through our retail distribution network) and 0.5% of our export sales in 2009 were made on a FCA Meret under which title to coal transfers when coal is loaded on the customers' rail cars at Meret. The prices charged to customers for these deliveries are generally lower than prices charged to customers with deliveries under CPT and DAF terms, reflecting the fact that delivery is taken so close to the production facilities without additional charges having to be made for onward deliveries utilizing federal railway system. Railway related costs do not, therefore, affect the price we receive for our coal sold domestically.

The table below shows an approximate percentage of various delivery methods in terms of sales volume for the years ended 31 December 2007, 2008 and 2009:

	For the year ended 31 December		
Terms	**2007**	**2008**	**2009**
		%	
Domestic sales	**100**	**100**	**100**
CPT	46.8	53.9	70.1
FCA Meret	53.2	46.1	29.9
Export sales	**100**	**100**	**100**
DAF	61.8	49.0	44.8
CPT	—	27.0	54.7
FCA Meret	38.2	24.0	0.5

Regional pricing regulations

Approximately 41.7%, 50.8 % and 58.8% of our domestic sales by volume were made to retail customers in the Kemerovo, Novosibirsk, Altay and Omsk regions of Western Siberia for the years ended 31 December 2007, 2008 and 2009, respectively. Retail prices for coal sold to retail customers in these regions are regulated by their respective local administration.

In the case of our coal sales to retail customers in the Novosibirsk, Altay and Omsk regions, local administration of each respective region issues an annual notice setting forth a ceiling guidance price for coal sold to retail customers in its respective territory. The ceiling guidance price has been historically set at the same or higher than the prevailing market price level as demonstrated in the table below.

In the Kemerovo region, the price of coal sold to retail consumers is subsidized by the local administration, which, on an annual basis, establishes a fixed retail price of coal sold to its general population. The fixed retail price is substantially lower than the market price. The administration of the Kemerovo region compensates us for the market

price deferential, the amount of which is determined though a bidding process. Such compensation is due to us in accordance with Russian legislation (Resolution of the Administration of the Kemerovo region, No. 357 and 498 as of 26 December 2007 and 17 December 2008, respectively).

The table below summarizes the pricing structure in the Kemerovo, Novosibirsk, Omsk and Altay regions of Western Siberia for the year ended 31 December 2009:

Region	Government regulated price for retail customers (incl. VAT)	Government subsidy for the price differential	Average realized price (incl. VAT)
		RUB per tonne	
Kemerovo	570	477	1,025
Novosibirsk	1,530	—	1,318
Omsk	2,050	—	1,603
Altay	1,650	—	1,282

For the years ended 31 December 2007, 2008 and 2009, compensation from the government amounted to 9.0%, 7.1% and 8.5% of the total revenue, respectively.

Coal characteristics and quality

Generally, higher quality of coal commands a higher market price and is more widely used in the power generation abroad. Calorific value, sulphur, ash and moisture content are the most important means for assessing the quality of coal. We produce exclusively sub-bituminous thermal coal, classified as grade "D" under the Russian classification system with naturally low sulphur and phosphorus content and a relatively high calorific value, which we believe, is in high demand both in Russia and abroad. Commissioning of the Cheremshansky mine in 2008 allowed us to mine coal with a calorific value of up to 6,000 kcal/kg, which, in turn, was one of the drivers for the increased export revenue in 2009. We intend to further improve quality of our coal by commissioning three coal processing and enrichment facilities with an aggregate capacity of 8.5 million tonnes of coal per annum during the period of 2010-1012 with a goal to produce coal with high calorific value in excess of 6,000 kcal/kg and a range of products with lowered ash content. We believe that such expansion into enrichment will allow us to command higher prices, diversify our sales mix and reduce our transportation costs. Furthermore, such expansion into enrichment would allow us to efficiently penetrate entirely new geographic markets, which are currently not available to us due to the more onerous requirements for the coal quality in such markets. See *"Business — Capital Investment Program"*.

Production Costs and Efficiency

As with other coal producers, we are unable to directly influence the price of coal, and our competitiveness and long-term profitability are, to a significant degree, dependent on our ability to maintain low-cost and efficient operations. The largest components of our cost of sales, distribution and administrative expenses are discussed below. See *"Risk Factors — Risks Relating to Our Business and Industry — We rely on Russia's railway transportation system to deliver our coal."*

Railway tariff and transportation costs

Our transportation costs represented 17.6%, 30.4% and 43.4% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively, which generally is substantially higher than those of many of our international competitors. Transportation costs primarily consist of tariffs paid to Russian Railways for use of the rail network, from a specified entry point to a specified destination, and for use of the Russian Railways cars. To a lesser extent, transportation costs include fees paid to use third party railcar fleets. The increases in cost of railway tariff and transportation services in absolute terms have been primarily driven by increases in (i) coal production and sales volumes; (ii) export sales volumes with higher transportation costs due to more distant destinations; and (iii) average Russian Railway transportation tariffs. Currently, the Russian government sets railway tariffs based upon requests from Russian Railways. In recent years, annual tariff increases have been in line with inflation, and in 2006 and 2007 the increases were in fact less than inflation. In 2008, however, tariffs were indexed three times, which resulted in a 23% average increase, exceeding inflation. In 2009, tariffs have been increased by an additional 9%. While the availability of our own railway infrastructure significantly reduces the aggregate cost of our coal production and distribution cycle, we remain exposed to fluctuations in railway tariffs and expect further increases to have a significant effect on our results of operations. See *"Business — Infrastructure and mining equipment — Railroad and railway stations."*

Coal for resale costs

A significant portion of our revenue is derived from retail of thermal coal purchased from third-party coal producers, such as SUEK and SDS-Ugol. Coal for resale represented 23.3%, 23.6% and 11.5% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. We believe that third-party coal sales provide

us with additional flexibility to our domestic and export sales structure. In case of export price growth, we are in a position to shift sales of the coal produced by us towards more lucrative export markets, while satisfying demands of the domestic market with sales of lower quality purchased coal. If the export market conditions deteriorate, we can decrease purchases of coal from third parties and focus on sales of our own coal. In addition, third-party coal sales allow us to maximize utilization of our existing selling capacity. In 2008, our cost of coal for resale in absolute terms increased by 95.1% compared to 2007, which is mainly attributable to the increase in volumes of coal for resale purchased resulting from demand growth for thermal coal as well as an approximately 30% increase in prices of coal for resale. In 2009, our cost of coal for resale in absolute terms decreased by 34.6% compared to 2008, in part, as a result of the increased production volume of our own coal accompanied by the decreased demand for thermal coal on our domestic and export markets. We, nevertheless, believe that coal for resale costs will continue to comprise a significant portion of our cost of sales in the future.

Wages, salaries and social charges

Wages, salaries and social charges represented 16.3%, 10.9% and 9.2% of our total cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively, which primarily consisted of wages and salaries paid to employees at our mining, administrative and distribution facilities as well as social and pension contributions attributable to these salaries. The increases in wages, salaries and social charges in absolute terms have been driven in large part by increased number of employees as a result of increased production volume, expansion of our retail distribution network through an acquisition of Novosibirsk Fuel Corporation in 2008 and indexation of the salary rates to the inflation. At the same time, we partially offset the impact of increases in underlying wage levels by temporarily reducing headcount as part of the cost-cutting measures in response to the Global Economic Crisis. We expect that upward pressure on wages, salaries and social charges will continue to have a significant effect on the results of our operations.

Extraction, processing and sorting of coal

Extraction, processing and sorting of coal expenses represented 2.3%, 4.2% and 8.1% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively, which primarily consisted of the drilling, blasting, overburden removal and coal processing and sorting services provided by contractors. The increases in extraction, processing and sorting of coal expenses are primarily attributable to the increased production volume as well as to changes in our machinery fleet and a resulting need for increased use of contractors during such periods. In addition, costs associated with extraction are affected by the strip ratios of the areas mined during the relevant year. A strip ratio is the number of cubic meters of overburden (rock and soil) that must be removed to access and extract one tone of coal. Higher strip ratios require higher amounts of overburden removed to access coal for mining, resulting in higher production costs. As we mine new areas, our strip ratios will vary depending on the geological characteristics of the coal seams mined. Our business development strategy in the coming years is to increase our production levels to a structural capacity of our existing mines; we, therefore, expect that extraction, processing and sorting of coal expenses will continue to have a significant effect on the results of our operations.

Fuel costs

The cost of fuel represented 9.8%, 9.8% and 6.7% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively, which primarily consisted of diesel fuel, gasoline and lubricants. The increases in fuel costs in absolute terms in the years ended 31 December 2007 and 2008 resulted primarily from the increased fuel consumption related to the increased production volume of coal as well as higher oil prices, which affect diesel and gasoline prices. An approximately 8.1% decrease in fuel costs in absolute terms in the year ended 31 December 2009 compared to the previous period resulted from the decreased fuel prices. As the Russian economy recovers, we expect our cost of fuel to increase as a result of the increase of production and inflation in Russia.

Depreciation

Depreciation expenses represented 10.1%, 7.4% and 7.5% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively, which primarily consisted of depreciation of our machinery, equipment and vehicles, and production structures associated with expanded production capacity. The increases in depreciation in absolute terms resulted from transfer into use assets constructed in line with our capital investment program, which increased the cost of assets in use, and the corresponding depreciation charge. We expect that our depreciation costs will continue to increase as we plan to increase investments in our mining operations.

Spare parts costs

The cost of spare parts for mining equipment and transport represented 4.7%, 3.3% and 4.0% of our cost of sales for the years ended 31 December 2007, 2008 and 2009, respectively. The increases in spare parts costs in absolute terms resulted primarily from the increased consumption related to the increased production volume of coal as well as expansion of our equipment fleet in line with our capital investment program.

Cash cost of coal production

In line with the coal mining industry generally, we use cash costs of ROM coal production per tonne as a key performance indicator. For the years ended 31 December 2007, 2008 and 2009, our cash coal production costs per tonne were RUB 334, RUB 377 and RUB 439, respectively, which compared favorably to industry averages in Russia and abroad.

The table below sets out the breakdown of cash costs of coal production by major categories for the years ended 31 December 2007, 2008 and 2009:

	For the year ended 31 December					
	2007		2008		2009	
Total cash costs of coal production	**Cash cost**	**Share**	**Cash cost**	**Share**	**Cash cost**	**Share**
	mln RUB	*%*	*mln RUB unless otherwise indicated*	*%*	*mln RUB*	*%*
Consolidated cost of sales	**3,166.76**	**100**	**6,090.17**	**100**	**8,170.86**	**100**
Less:						
Cost of sales of subsidiaries and intercompany eliminations	(719.65)	23	(2,196.19)	36	(3,745.91)	46
Cost of sales of KTK	**2,447.11**	77	**3,893.98**	64	**4,424.95**	54
Less:						
Depreciation allocated to cost of sales	(264.09)		(391.77)		(547.63)	
Cost of coal for resale	(417.78)		(528.99)		(337.84)	
Change in inventories	2.33		33.83		36.96	
Railway tariff and transportation services	(416.58)		(972.75)		(886.88)	
Total cash cost of production allocated to cost of sales, including:	**1,350.99**		**2,034.30**		**2,689.57**	
Cash costs allocated to cost of sales						
Extraction, processing and sorting of coal	72.23	5	259.30	13	659.06	25
Repair and maintenance	51.82	4	49.76	2	114.31	4
Salary and UST	408.63	30	551.95	27	607.72	22
Mining and environment taxes	96.45	7	203.00	10	203.87	8
Fuel	271.26	20	539.11	27	484.95	18
Spare parts	148.72	11	202.39	10	312.13	12
Other expenses	301.87	23	228.80	11	307.53	11
Total cash costs of production allocated to cost of sales	**1,350.99**	**100**	**2,034.30**	**100**	**2,689.57**	**100**
Consolidated distribution expenses	**174.02**		**242.60**		**311.53**	
Less:						
Distribution expenses of subsidiaries	(144.95)		(235.04)		(302.92)	
Distribution expenses of KTK	**29.07**		**7.56**		**8.61**	
Less depreciation allocated to distribution expenses	(28.30)		(5.41)		—	
Add services provided by TEKM	18.18		25.42		—	
Cash costs allocated to distribution expenses	**18.95**		**27.57**		**8.61**	
Total cash costs of coal production	**1,370**		**2,062**		**2,698**	
Production of ROM coal (*mln tonnes*)	4.10		5.48		6.15	
Total cash cost of coal production per tonne[1] *(RUB)*	**334**		**377**		**439**	
Average Exchange Rate	25.58		24.86		31.72	
Total cash cost of coal production per tonne[2] *(U.S.$)*	13.1		15.2		13.8	

(1) Total cash cost of coal production is calculated as cost of sales plus distribution expenses, net of (a) the costs of our subsidiaries, related to retail distribution, power generation, transportation and other business activities not directly related to coal production, except for costs incurred by our subsidiaries directly in connection with the operations of our mining facilities, (b) depreciation and amortization, (c) cost of coal for resale, (d) change in inventories, and (e) railway tariff and transportation services. We present total cash cost of coal production and other measures calculated using total cash cost of coal production because we consider them important supplemental measures of our operating performance and believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in coal industry. Total cash cost of coal production and other measures calculated using total cash cost of coal production have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our operating results as reported under IFRS. We compensate for these limitations by relying primarily on our IFRS operating results and using total cash cost measures only as supplemental. Total cash cost of coal production and other measures calculated using total cash cost of coal production are measures of our operating performance that is not required by, or presented in accordance with, IFRS. Total cash cost of coal production and other measures calculated using total cash cost of coal production are not measurement of our operating performance under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS.

(2) Total cash costs of coal production per tonne represents total cash cost of coal production divided by the production volume of ROM coal for the respective year.

We intend to maintain our position as a low-cost producer of coal, in part, by further upgrading our mining equipment, launching new enrichment facilities in order to minimize coal losses in the extraction and transportation processes as well as taking additional cost-cutting measures, such as further headcount optimization, use of more

cost-effective suppliers and strict control over administrative and overhead expenses. Nevertheless, we expect our production costs to continue to trend upwards as a result of inflationary pressures and time lags associated with realizing the benefits of improvements. In addition, our mining operations, and, therefore, our productivity levels, are subject to conditions beyond our control, including weather related and other natural disasters, unexpected maintenance problems, key equipment failures, as well as variations in coal seam thickness, coal strip ratios and other geological conditions.

Production Volumes

Our production costs and costs per unit are significantly affected by changes in production volume. A portion of our costs can be classified as fixed costs and, therefore, our production level is one of the key factors in determining our overall competitiveness.

Based on production volume, we are one the fastest-growing thermal coal producers in Russia, recording a 95.7% growth in production volume from 3.14 million tonnes of coal for the year ended 31 December 2004 to 6.15 million tonnes for the year ended 31 December 2009. To support our production growth, we have undertaken substantial capital investments to establish our core mining facilities, purchase requisite equipment and construct supportive railway and other infrastructure at our mines. In April 2008, we launched the Cheremshansky mine, which further boosted our production volume. We estimate that our total capital investments since establishment were in excess of RUB 9 billion (exclusive of VAT). The significant increase in the volume of coal production was one of the principal reasons for the increase in our revenue during the periods under review. See *"— Results of operations"* below.

The table below sets forth our production volume at each mine for the periods indicated:

	For the year ended 31 December		
Mine	**2007**	**2008**	**2009**
		mln tonnes	
Karakansky South	2.74	2.59	2.65
Vinogradovsky	1.36	1.91	1.44
Cheremshansky	—	0.98	2.06
Total	**4.10**	**5.48**	**6.15**

We expect our production growth to continue. The cornerstone of our business development strategy in the coming years is to increase our production levels to the structural capacity of our existing mines. We expect to grow production volumes through continued acquisition of high performance state-of-the-art mining equipment with larger capacities, advanced automation features and increased reliability in order to increase output of the mines and achieve greater efficiency. In addition, we plan to commission two new coal processing facilities utilizing steeply inclined separators with a design capacity of 2.0 million tonnes of thermal coal per annum each and a dense-medium processing plant with a design capacity to produce 4.5 million tonnes of enriched thermal coal per annum. These processing facilities are expected to allow us to significantly decrease the losses of coal during the extraction and make it possible to extract coal from coalfields with more complicated geological structures and achieve other operational improvements ultimately leading to a growth in our production volumes. To implement these objectives, we plant to make capital expenditures of approximately RUB 9.5 billion (exclusive of VAT) in the period of 2010-2015.

We expect that production volume will have a significant effect on our cash flows and future results of operations.

RESULTS OF OPERATIONS

The following table sets out selected financial information as of and for the years ended 31 December, 2007, 2008 and 2009 derived from our Consolidated Financial Statements (included elsewhere in this Offering Circular) and shows our results of operations as a percentage of revenue for the applicable period:

	For the year ended 31 December					
	2007[2]		2008 (Restated)[1]		2009	
	mln RUB	*%*	*mln RUB*	*%*	*mln RUB*	*%*
Consolidated statement of comprehensive income						
Revenue	**3,864**	**100.0**	**8,557**	**100.0**	**10,658**	**100.0**
Cost of sales	(3,168)	(82.0)	(6,090)	(71.2)	(8,171)	(76.7)
Gross profit	**696**	**18.0**	**2,467**	**28.8**	**2,487**	**23.3**
Distribution expenses	(174)	(4.5)	(242)	(2.8)	(312)	(2.9)
Administrative expenses	(422)	(10.9)	(565)	(6.6)	(687)	(6.4)
Other operating expenses	(16)	(0.4)	(22)	(0.3)	(19)	(0.2)
Results from operating activities	**84**	**2.2**	**1,638**	**19.1**	**1,469**	**13.8**
Finance income	27	0.7	66	0.8	65	0.6
Finance costs	(209)	(5.4)	(402)	(4.7)	(656)	(6.2)
(Loss)/profit before income tax	**(98)**	**(2.5)**	**1,302**	**15.2**	**878**	**8.2**
Income tax expense	(8)	(0.2)	(200)	(2.3)	(215)	(2.0)
(Loss)/profit and total comprehensive income for the year	**(106)**	**(2.7)**	**1,102**	**12.9**	**663**	**6.2**

(1) Some of the data from the Consolidated Financial Statements presented herein, when shown in tabular format, is identified as "restated". For an explanation of the restatement, see Note 4(a) of the Consolidated Financial Statements on page F-19 of this offering circular.

(2) The independent auditors' report on the 2009 Consolidated Financial Statements was modified in respect of certain corresponding figures for 2007. For an explanation of the modification, see the independent auditors' report on page F-2 of this Offering Circular.

EXPLANATION OF KEY INCOME STATEMENT ITEMS

Revenues

We break down our revenues into the following categories:

Sales of coal

Substantially all of our revenue is derived from sales of coal. Revenue from the sale of coal in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The transfer of risks and rewards varies depending on the individual terms of the contract of sale and usually occurs when the coal is received at the customer's warehouse or is collected from our warehouse in case of retail sales. However, for some international shipments the transfer of risks and rewards occurs upon passing the products to the relevant carrier or at the frontier. For DAF transactions, title to goods transfers only when goods cross the Russian border. For FCA terms, title transfers when goods are loaded on the first carrier (railway cars). For CPT terms, title transfers when goods reach the delivery terminal of the customer, such delivery terminal being a point of sale or a warehouse in case of domestic sales and a port in case of export sales. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Compensation from government

Compensation from government relates to retail sales of coal to the general public at fixed prices regulated by the local government of the Kemerovo region. We receive compensation from the local government for the difference between the regulated price and an average market price determined annually through a bidding process. Compensation from government is accrued when respective sales are made to the end customer. Such compensation is due to the company in accordance with Russian legislation (Resolution of the Administration of the Kemerovo region, No. 367 and 498 as of 26 December 2007 and 17 December 2009, respectively).

Sales of electrical heat and power

Kaskad-Energo, our wholly-owned power generation facility, sells power and heat energy in the form of hot water and electricity to the housing and utility sector, industrial enterprises and other companies in the city of Anzhero-Sudzhensk. Revenue from sales of power and heat energy is recognized on the delivery of electricity and heat and is based on the quantities actually measured or estimated on the basis of the output less expected grid losses, and authorized tariffs for electricity and heat as approved by the Regional Energy Commission (the "**REC**").

Provision of transportation services

Revenue from the transportation services primarily consists of railway transportation services provided by TEKM to local coal producers and preparation plants. Revenue from transportation services rendered is recognized in the income statement in proportion to the stage of completion of a respective voyage at the reporting date.

Provision of storage services

Revenues from provision of storage services consist of services for storage, loading and unloading of the third party coal provided by Kuzbasstoplivosbyt and subsidiaries of Novosibirsk Fuel Corporation.

Other revenue

Other revenue consists primarily of hot water supply services, equipment rental, agency services and construction services.

Costs of sales and gross profit

Cost of sales

Cost of sales includes:

- railway tariffs and transportation services, which primarily consist of expenses associated with transportation of coal from our mines to customers by rail;
- coal for resale, which is purchased from third-party coal producers in Russia and resold as a way of utilizing our high distribution capacity relative to our own coal production levels;
- wages, salaries and social charges, which primarily consist of wages and salaries paid to employees at our mining facilities, performance-based bonuses to mine managers and miners and social and pension contributions attributable to these salaries. We make these social and pension contributions to Russian Federal government funds at the statutory unified social tax rate in force (a rate of 26% in 2007, 2008 and 2009, applied on a regressive basis);
- cost of extraction, processing and sorting of coal, which primarily relates to costs associated with processing and sorting of our coal at our sorting facilities as well as cost associated with blasting and stripping operations;
- fuel expenses, which primarily consist of expenses related to consumption of diesel fuel, gas, oils and lubricants utilized during the production operations;
- depreciation of properties, plants and equipment. We calculate depreciation costs on a straight line basis with respect to our property, plant and equipment, except mining assets and mining structures, and allocate it to the income statement through cost of sales and distribution and administrative expenses. Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method. Depletion of mining assets commences from the date when saleable materials begin to be extracted from the mine;
- expenses in relation to spare parts, which primarily consist of spare parts for the repair and maintenance of our mining and transport equipment, which are mainly utilized in excavation and transportation of rock mass (coal, overburden, bulk) during the mining process;
- mining and environmental taxes costs, which primarily consist of the mineral extraction tax;
- expenses in relation to repair and maintenance, which primarily consist of services associated with repair and maintenance of mining and transport equipment, provided by third parties;
- expenses in relation to operating leases, which primarily consist of expenses associated with rent of railway locomotives, as well as the cost of rented mining equipment and machinery;
- electricity related expenses, which primarily include (i) a lump sum payment to the local supplier based on the expected electrical capacity requirement; and (ii) a tariff for each unit of electricity actually consumed;

- expenses in relation to security services, which primarily consist of security services associated with protection of our production sites, provided by third parties;
- land rent expenses, which primarily consist of the costs of renting storage facilities, access railway paths and associated equipment at various federal railway stations;
- expenses in relation to storage, which primarily includes expenses associated with storage of coal and fuel utilized in the mining process;
- changes in provision for site restoration, which primarily include changes in accounting estimates relating to expected costs of leveling, clean up and re-vegetation of soil at open-pit mines and related overburden banks by us and changes resulting from increases in damaged land areas. The discounted future costs of site restoration prior to are initially included within the mining assets of property, plant and equipment at the time when the land plots are disturbed, except where there is no evidence that any future benefits will be received by the asset, in which case the costs are expenses as incurred;
- other materials, which primarily consist of electrical equipment utilized in connection with mining and transport equipment, metal (including pipes and hardware) used in the production process as well as drilling rigs and other tools not included in other categories;
- expenses in relation to other services, which primarily consist of geodetic survey services, laboratory services, insurance services related to our production facilities and other miscellaneous services;
- other costs, which primarily consist of other insignificant costs, such as travel expenses and transportation fees; and
- change in coal stock, which is a reconciliation between the cost of production and cost of sales of coal.

Gross Profit is equal to total revenues less cost of sales.

Distribution expenses

Our distribution expenses in the periods under review consisted primarily of expenses related to:

- Services in relation to distribution expenses include agent fees, custom duties, quality control, operating leases, storage, electricity, repair and maintenance and other marketing services, which are not directly related to or stem from our coal production.
- Wages, salaries and social charges with respect to distribution expenses.
- Materials used in distribution, which include fuel, spare parts, employee protective gear and construction materials.
- Depreciation costs with respect to distribution expenses, which are depreciation costs associated with fixed assets of the distribution companies and units not directly involved in coal production.
- Other distribution expenses, which include taxes and mandatory payments that are not directly associated with coal production activities, travel expenses, information, consultancy and communication services.

Administrative expenses

Our administrative expenses in the periods under review consisted primarily of expenses related to:

- Wages, salaries and social charges, which mainly consist of payments made to administrative staff, in particular those that work for OJSC "Kuzbasskaya Toplivnaya Company."
- Services in relation to administrative expenses, which mainly consist of operating leases, repair and maintenance services of administrative office buildings, facilities and other fixed assets, auditing services, cost of compulsory and voluntary insurance and security services.
- Taxes other than income taxes, which mainly consist of property taxes.
- Charity and welfare expenses mainly consist of expenses associated with charitable donations to various organizations in the areas where we operate, as well as with social support and recreational services offered to employees and their families.
- Fees and penalties, which mainly consist of various penalties imposed by Russian Railways in utilizing its rail infrastructure.
- Materials in relation to administrative expenses mainly consist of fuel and spare parts used for administrative equipment and transportation.

- Depreciation in relation to administrative expenses mainly consists of depreciation charges with respect to property used in relation to business administration.

Other operating expenses

Our other operating expenses in the periods under review consisted primarily of expenses related to impairment loss and loss on disposal of property, plant and equipment.

Finance income

Finance income in the periods under review consisted primarily of:

- interest income on funds invested,
- discount recorded at initial recognition of low-interest and interest-free loans received from third parties,
- foreign currency gains.

Finance costs

Finance expenses in the periods under review consisted primarily of:

- interest expense on borrowings,
- unwinding of the discount on provisions and promissory notes,
- foreign currency losses,
- allowance for doubtful debts and write-offs.

All borrowing costs, which are not directly attributable to the acquisition, construction or production of qualifying assets are recognized in the income statement using the effective interest method.

Profit before income tax

Profit before tax is equal to the sum of gross profit and financial income less the sum of distribution expenses, administrative expenses, financial expenses and other operating expenses.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Profit for the Year

Profit for year is profit before tax reduced by income tax expense.

YEAR ENDED 31 DECEMBER 2009 COMPARED TO YEAR ENDED 31 DECEMBER 2008

The following table sets our selected financial information as of and for the years ended 31 December 2008 and 2009 derived from our Consolidated Financial Statement (included elsewhere in this Offering Circular) and shows our results of operations as a percentage of revenue for the applicable period:

	For the year ended 31 December			
	2008		2009	
	(Restated)[1]			
	mln RUB	*%*	*mln RUB*	*%*
Consolidated statement of comprehensive income				
Revenue	**8,557**	**100**	**10,658**	**100**
Cost of sales	(6,090)	(71.2)	(8,171)	(76.7)
Gross profit	**2,467**	**28.8**	**2,487**	**23.3**
Distribution expenses	(242)	(2.8)	(312)	(2.9)
Administrative expenses	(565)	(6.6)	(687)	(6.4)
Other operating expenses	(22)	(0.3)	(19)	(0.2)
Results from operating activities	**1,638**	**19.1**	**1,469**	**13.8**
Finance income	66	0.8	65	0.6
Finance costs	(402)	(4.7)	(656)	(6.2)
(Loss)/profit before income tax	**1,302**	**15.2**	**878**	**8.2**
Income tax expense	(200)	(2.3)	(215)	(2.0)
(Loss)/profit and total comprehensive income for the year	**1,102**	12.9	**663**	**6.2**

(1) Some of the data from the Consolidated Financial Statements presented herein, when shown in tabular format, is identified as "restated." For an explanation of the restatement, see Note 4(a) of the Consolidated Financial Statements on page F-19 of this Offering Circular.

Revenues

Our total revenues increased by RUB 2,101 million, or 24.6%, from RUB 8,557 million for the year ended 31 December 2008 to RUB 10,658 million for the year ended 31 December 2009 principally due to an increase in revenue from sales of coal.

The following table set forth a breakdown of our total revenue by type for the years ended 31 December 2008 and 2009:

	For the years ended 31 December				
	2008		2009		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Sales of coal	7,528	88.0	9,225	86.6	22.5
Compensation from government	606	7.1	904	8.5	49.2
Sales of electrical and heat power	168	2.0	202	1.9	20.2
Provision of transportation services	143	1.7	137	1.3	(4.2)
Provision of storage services	75	0.9	67	0.6	(10.7)
Other revenue	37	0.4	123	1.2	232.4
Total Revenue	**8,557**	**100**	**10,658**	**100**	24.6

Sales of coal

In the year ended 31 December 2009, approximately 86.6% of our revenue was derived from sales of coal. Revenue from sales of coal increased by RUB 1,697 million, or 22.5%, from RUB 7,528 million in the year ended 31 December 2008 to RUB 9,225 million in the year ended 31 December 2009.

The following table sets forth a breakdown of our total revenue from sales of coal by geographic location of our customers for the years ended 31 December 2008 and 2009:

Revenue

	For the years ended 31 December				
	2008		2009		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Domestic sales of coal	3,584	48	4,221	46	17.8
Export sales of coal	3,944	52	5,004	54	26.9
Total sales of coal	**7,528**	**100**	**9,225**	**100**	22.5

Domestic sales

Our revenue from domestic sales (exclusive of government compensation) represented 48% and 46% of coal revenue generated in the years ended 31 December 2008 and 2009, respectively. The decrease in domestic sales as a share of coal revenue in 2009 resulted primarily from a 1.8% decrease in the domestic sales volume in 2009 compared to 2008 due to the deteriorating economic conditions and weakened demand for thermal coal on the domestic market. Despite the decrease in domestic sales as a share of coal revenue in 2009, our domestic coal revenue increased in absolute terms by RUB 637 million, or 17.8%, from RUB 3,584 million in 2008 to RUB 4,221 million in 2009. The increase resulted mainly from an approximately 10% rise of the average domestic price from RUB 770 per tonne in 2008 to RUB 848 per tonne in 2009.

Export sales

Revenues from export sales represented 52% and 54% of coal revenue generated in the years ended 31 December 2008 and 2009, respectively. Our average export price recorded approximately 24% decrease from U.S.$41 per tonne in 2008 to U.S.$31 per tonne in 2009 due principally to the decreased demand in our export markets and the depreciation of the Rouble against the U.S. Dollar from an Average Exchange Rate of RUB 24.86 per U.S.$1.00 in 2008 to an Average Exchange Rate of RUB 31.72 per U.S.$1.00 in 2009. In Rouble terms, our average export price recorded an approximately 4% decrease from RUB 1,009 per tonne in 2008 to RUB 970 per tonne in 2009. Nevertheless, our export revenue increased in absolute terms by RUB 1,060 million, or 27% from RUB 3,994 million in 2008 to RUB 5,004 million in 2009 primarily as a result of the increased proportion of export sales made under CPT terms, leading to higher prices charged to our customers. Our export sales volume was slightly below the 2008 level at 2.69 million of coal in 2009 compared to 2.74 million in 2008.

Compensation from government

Compensation from the local administration of the Kemerovo region, which relates to payments received as the difference between the regulated retail price of coal set by the local administration on an annual basis and an average market price, determined through a bidding process, increased by RUB 298 million, or 49.2% from RUB 606 million for the year ended 31 December 2008 to RUB 904 million for the year ended 31 December 2009. The increase is mainly attributable to a greater margin between the regulated retail price, which increased by approximately 18% in 2009 compared to 2008, and an average market price, which increased by more than 30% in the same period.

Sales of electrical and heat power

Revenue from sales of electrical and heat power by Kaskad-Energo to the housing and utility sector, industrial enterprises and other companies in the city of Anzhero-Sudzhensk increased by RUB 34 million, or 20.2%, from RUB 168 million for the year ended 31 December 2008 to RUB 202 million for the year ended 31 December 2009, mainly as a result of an increase in the average on-grid tariff paid by our customers. The average tariff for electricity power increased by 13.3% from RUB 1.1617 per kWh in 2008 to RUB 1.3158 per kWh in 2009 and the average tariff for heat power increased by 20.0% from RUB 621 per Gcal in 2008 to RUB 744.9 Gcal in 2009 primarily due to increases in tariffs for electricity and heat approved by the REC.

Provision of transportation services

Revenue from sales of transportation services decreased by RUB 6 million, or 4.2%, from RUB 143 million for the year ended 31 December 2008 to RUB 137 million for the year ended 31 December 2009, mainly as a result of the decreased demand of the delivery services provided by us to our retail customers. Decrease in disposable income and household expenditures as well as rising unemployment in Russia as a result of the Global Economic Crisis led

our retail customers to seek alternative lower-cost delivery methods to transport coal from our points of sale to their households.

Provision of storage services

Revenue from sales of storage services decreased by RUB 8 million, or 10.7%, from RUB 75 million for the year ended 31 December 2008 to RUB 67 million for the year ended 31 December 2009. The decreased revenue primarily resulted from the reduction in volume of such services during the period.

Other revenue

Other revenues, which consisted primarily of hot water supply services, agency services, equipment rental services and construction services, increased by RUB 86 million, or 232.4%, from RUB 37 million for the year ended 31 December 2008 to RUB 123 million for the year ended 31 December 2009, mainly as a result of increase in the volume and sales price of our services in the year ended 31 December 2009 compared to the year ended 31 December 2008.

Cost of sales

Our cost of sales increased by RUB 2,081 million, or 34.2%, from RUB 6,090 million for the year ended 31 December 2008 to RUB 8,171 million for the year ended 31 December 2009 largely due to increases in the coal production volume and stripping ratios at our mines as well as changes in our export delivery terms from FCA to CPT and DAF.

The following table presents our cost of sales, by category, for the corresponding periods:

	For the years ended 31 December				
	2008		2009		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Railway tariff and transportation services	1,853	30.4	3,543	43.4	91.2
Coal purchased	1,440	23.6	942	11.5	(34.6)
Wages, salaries and social charges	663	10.9	750	9.2	13.1
Extraction, processing and sorting of coal	257	4.2	659	8.1	156.4
Fuel	594	9.8	546	6.7	(8.1)
Depreciation	451	7.4	615	7.5	36.4
Spare parts	198	3.3	323	4.0	63.1
Mining and environmental taxes	192	3.2	204	2.5	6.3
Repair and maintenance	55	0.9	144	1.8	161.8
Operating lease	82	1.3	57	0.7	(30.5)
Electricity	36	0.6	33	0.4	(8.3)
Security services	21	0.3	32	0.4	52.4
Land rent	25	0.4	31	0.4	24.0
Storage services	23	0.4	4	0	(82.6)
Change in provision for site restoration	13	0.2	(1)	0	(107.7)
Other materials	99	1.6	106	1.3	7.1
Other services	55	0.9	153	1.9	178.2
Other costs	11	0.2	28	0.3	154.5
Change in coal stock	22	0.4	2	0	(90.9)
Total cost of sales	**6,090**	**100**	**8,171**	**100**	**34.2**

Railway tariff and transportation services

The cost of transportation services increased by RUB 1,690 million, or 91.2%, from RUB 1,853 million for the year ended 31 December 2008 to RUB 3,543 million for the year ended 31 December 2009. The increase in the cost of transportation services resulted mainly from an increase in our export sales volumes with higher transportation costs due to more distant destinations and a 6.6% increase of the average Russian Railway transportation tariffs in 2009 compared to 2008.

Coal for resale

The cost of third-party coal for resale decreased by RUB 498 million, or 34.6%, from RUB 1,440 million for the year ended 31 December 2008 to RUB 942 million for the year ended 31 December 2009. The decrease in coal for resale resulted mainly from an approximately 40.0% decrease in purchased third-party coal for resale and an

approximately 9.0% increase in prices of the third-party coal for the year ended 31 December 2009 compared to the year ended 31 December 2008.

Wages, salaries and social charges

The cost of our wages, salaries and other social charges costs increased by RUB 87 million, or 13.1%, from RUB 663 million for the year ended 31 December 2008 to RUB 750 million for the year ended 31 December 2009. This increase is primarily attributable to an approximately 8.6% increase in the average number of employees reflecting increased growth in production and scale of operations, and approximately 9.0% increase in the average annual payroll per employee.

The table below sets our overall payroll costs for the years ended 31 December 2008 and 2009:

	For the year ended 31 December		
	2008	2009	Change
			%
Average total number of employees	3,312	3,598	8.6
Total net payroll *(mln RUB)*	844	1,002	18.7
Total payroll taxes *(mln RUB)*	180	223	23.9
Average annual payroll per employee, net, *(thousand RUB)*	255	278	9.0
Effective payroll tax rate *(%)*	21.3	22.3	4.7

Extraction, processing and sorting coal

The cost of extraction, processing and sorting of coal increased by RUB 402 million, or 156.4%, from RUB 257 million for the year ended 31 December 2008 to RUB 659 million for the year ended 31 December 2009. This increase was mainly attributable to increases in the volume of blasting operations and consumption of explosives, reflecting the increased growth in production volume and increased outsourcing of overburden removal operations in 2009 compared to 2008, which was slightly offset by a decrease in sales price of explosives in the same period.

Fuel

The cost of fuel, which primarily consisted of diesel fuel, gasoline, and lubricants, decreased by RUB 48 million, or 8.1%, from RUB 594 million for the year ended 31 December 2008 to RUB 546 million for the year ended 31 December 2009. The decrease in the cost of fuel resulted mainly from the decrease in fuel prices in 2009.

Depreciation

Our depreciation charge increased by RUB 164 million, or 36.4%, from RUB 451 million for the year ended 31 December 2008 to RUB 615 million for the year ended 31 December 2009. This increase was primarily the result of the acquisition of mining machinery and equipment as a result of the implementation of the equipment upgrading program as well as our decision to transfer into use assets constructed in line with our capital investment program, which increased the cost of assets in use, and corresponding depreciation charge.

Spare parts

The cost of spare parts for mining equipment and transport increased by RUB 125 million, or 63.1%, from RUB 198 million, for the year ended 31 December 2008 to RUB 323 million for the year ended 31 December 2009 primarily as a result of an increase in the production volume of coal and expansion and upgrade of our equipment fleet.

Mining and environmental taxes

Our mining and other environmental taxes increased by RUB 12 million, or 6.3%, from RUB 192 million for the year ended 31 December 2008 to RUB 204 million for the year ended 31 December 2009. Taxes included in production costs consist primarily of the mineral extraction tax. The increase in our mineral extraction tax was primarily a result of the increased volume of production and the price of coal.

Repair and maintenance

The cost of repair and maintenance increased by RUB 89 million, or 161.8%, from RUB 55 million, for the year ended 31 December 2008 to RUB 144 million for the year ended 31 December 2009. The increase was primarily a result of the increased production volume of coal, expansion of our equipment fleet and corresponding increased use of services associated with repair and maintenance of mining and transport equipment, provided by third parties.

Operating leases

The cost of operating leases decreased by RUB 25 million, or 30.5%, from RUB 82 million, for the year ended 31 December 2008 to RUB 57 million for the year ended 31 December 2009 primarily as a result of a decrease in the quantity of machinery and equipment leased under operating leases in 2009.

Electricity

The cost of electricity decreased by RUB 3 million, or 8.3%, from RUB 36 million for the year ended 31 December 2008 to RUB 33 million for the year ended 31 December 2009. The decrease was primarily as a result of a 47.60% decrease in electricity tariffs for electric energy consumed in 2008 offset by a 45.15% increase in capacity payments in the same period.

The trend in tariffs for electricity during the periods under review is shown in the table below:

	For the year ended 31 December		
	2008	2009	Change
			%
Capacity payment *(RUB/MW per month)*	354,406	514,410	45.15
Electricity tariff *(RUB/MWh)*	1,001	524	(47.65)

Security services

The cost of security services increased by RUB 11 million, or 52.4%, from RUB 21 million in the year ended 31 December 2008 to RUB 32 million in the year ended 31 December 2009 primarily as a result of the increased mining facilities, including the newly launched Cheremshansky mine, requiring additional security services provided by third parties.

Land rent

Our land rent expenses increased by RUB 6 million, or 24.0%, from RUB 25 million for the year ended 31 December 2008 to RUB 31 million for the year ended 31 December 2009. This increase was primarily as a result of the increased production volume of coal and corresponding increase in the number of rented storage facilities, access railway paths and associated equipment at various federal railway stations in 2009 compared to 2008. In addition, the increase in land rent expenses is attributable to increased aggregate size of land plots where production sites are located, leased from various municipal bodies and increased per hectare rent rate charged by these municipal bodies in 2009 compared to 2008.

Storage services

The cost of storage services decreased by RUB 19 million, or 82.6%, from RUB 23 million for the year ended 31 December 2008 to RUB 4 million for the year ended 31 December 2009. This decrease was primarily as a result of the decreased use of storage services, provided by third parties.

Change in provision for site restoration

The change in provision for site restoration decreased by RUB 14 million, or 107.7%, from an increase of RUB 13 million for the year ended 31 December 2008 to a decrease of RUB 1 million for the year ended 31 December 2009, primarily as a result of further increase in damaged land area, offset by effects of changes in accounting estimates.

Other materials

The cost of other materials, increased by RUB 7 million, or 7.1%, from RUB 99 million for the year ended 31 December 2008 to RUB 106 million for the year ended 31 December 2009. This increase was primarily as a result of the increased production volume of coal and corresponding increased utilization of electrical equipment, metal products, drilling rigs and other tools in the production process.

Other services

The cost of other services increased by RUB 98 million, or 178.2%, from RUB 55 million for the year ended 31 December 2008 to RUB 153 million for the year ended 31 December 2009. This increase was primarily driven by increased mining operations, which, in turn, led to increases in geodetic survey services, laboratory services and other miscellaneous services, provided by third parties in 2009 compared to 2008.

Other costs

Other costs increased by RUB 17 million, or 154.5%, from RUB 11 million for the year ended 31 December 2008 to RUB 28 million for the year ended 31 December 2009. This increase was primarily as a result of increased travel expenses, transportation fees and other insignificant costs.

Change in coal stock

Change in coal stock decreased by RUB 20 million, or 90.9%, from RUB 22 million for the year ended 31 December 2008 to RUB 2 million for the year ended 31 December 2009. This decrease was primarily as a result of a less significant change in coal volume at stock for the year ended 31 December 2009.

Gross Profit

As a result of the foregoing factors, gross profit for the year ended 31 December 2009 increased by RUB 20 million, or 0.8%, from RUB 2,467 million for the year ended 31 December 2008 to RUB 2,487 million for the year ended 31 December 2009. Gross profit represented 28.8% and 23.3% of our revenue in 2008 and 2009, respectively.

Distribution Expenses

The table below details our distribution expenses for the periods under review by major components:

	For the years ended 31 December				
	2008		2009		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Services	107	44.2	110	35.3	2.8
Wages, salaries and social charges	82	33.9	124	39.7	51.2
Materials	14	5.8	28	9.0	100
Depreciation	32	13.2	42	13.5	31.3
Other distribution expenses	7	2.9	8	2.6	14.3
Total distribution expenses	**242**	**100**	**312**	**100**	**28.9**

Our distribution expenses increased by RUB 70 million, or 28.9%, from RUB 242 million for the year ended 31 December 2008 to RUB 312 million for the year ended 31 December 2009. The increase in the distribution expenses in the period under review was mainly due to increases in wages, salaries and social charges relating to distribution expenses, largely as a result of (i) the increased size and utilization of our retail distribution network and (ii) an increase in the average number of employees engaged in our distribution operations.

Administrative expenses

The table below details our administrative expenses for the periods under review by major components:

	For the years ended 31 December				
	2008		2009		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Wages, salaries and social charges	266	47.1	332	48.3	24.8
Services	92	16.3	111	16.2	20.7
Taxes other than income tax	61	10.8	92	13.4	50.8
Charity and welfare	36	6.4	33	4.8	(8.3)
Fees and penalties	22	3.9	25	3.6	13.6
Materials	18	3.2	21	3.1	16.7
Depreciation	29	5.1	31	4.5	6.9
Sundry payments to personnel	13	2.3	18	2.6	38.5
Other administrative expenses	28	5.0	24	3.5	(14.3)
Total administrative expenses	**565**	**100**	**687**	**100**	**21.6**

Our administrative expenses increased by RUB 122 million, or 21.6%, from RUB 565 million for the year ended 31 December 2008 to RUB 687 million for the year ended 31 December 2009. The increase in administrative expenses for the period under review was mainly due to increases in expenses associated with wages, salaries and social charge, fees and penalties, cost of services and taxes other than income tax.

Wages, salaries and social charges for our administrative personnel increased by RUB 66 million, or 24.8%, from RUB 266 million for the year ended 31 December 2008 to RUB 332 million for the year ended 31 December 2009,

mainly as a result of an increase in the average number of employees due to increased mining, processing and distribution operations.

Our cost of services associated with administrative expenses, which primarily consisted of operating leases, repair and maintenance of fixed assets, office buildings and facilities as well as auditing, insurance and security services increased by RUB 19 million, or 20.7%, from RUB 92 million for the year ended 31 December 2008 to RUB 111 million for the year ended 31 December 2009, mainly as a result of increased scale of operations.

Taxes other than income for our administrative personnel increased by RUB 31 million, or 50.8%, from RUB 61 million for the year ended 31 December 2008 to RUB 92 million for the year ended 31 December 2009, mainly as a result of the increased property tax, which was mainly due to property additions in line with the capital expenditure program.

Charity and welfare expenses, which primarily included charitable donations and assistance to social sphere objects, including to the Kemerovo region, financial assistance to our employees and their families and expenses associated with corporate events, decreased by RUB 3 million, or 8.3%, from RUB 36 million for the year ended 31 December 2008 to RUB 33 million for the year ended 31 December 2009, mainly as a result of our cost optimization and profitability improvement measures implemented in 2009 in response to the Global Economic Crisis.

Our fees and penalties increased by RUB 3 million, or 13.6%, from RUB 22 million in the year ended 31 December 2008 to RUB 25 million in the year ended 31 December 2009, mainly as a result of a significant increase in the amount of coal transported by Russian Railways to sea ports for export, and, as a result, an increase in fines imposed by Russian Railways associated with utilization of its infrastructure.

Cost of materials, which primarily consisted of cost of fuel and spare parts for equipment and vehicles used for administrative purposes, increased by RUB 3 million, or 16.7%, from RUB 18 million for the year ended 31 December 2008 to RUB 21 million for the year ended 31 December 2009, mainly as a result of an increased number of personnel employed in 2009 compared to 2008.

Our other administrative expenses decreased by RUB 4 million, or 14.3%, from RUB 28 million for the year ended 31 December 2008 to RUB 24 million for the year ended 31 December 2009.

Other operating expenses

Our other expenses decreased by RUB 3 million, or 13.6%, from RUB 22 million for the year ended 31 December 2008 to RUB 19 million for the year ended 31 December 2009. Other operating expenses consisted of impairment loss, loss on disposal of property, plant and equipment. The decrease in other operating expenses was mainly due to decrease in impairment loss of property, plant and equipment in 2009 compared to 2008.

Results from operating activities

As a result of the foregoing factors, results from operating activities decreased by RUB 169 million, or 10.3% from RUB 1,638 million for the year ended 31 December 2008 to RUB 1,469 million for the year ended 31 December 2009.

Finance income

Our finance income decreased by RUB 1 million, or 1.5%, from RUB 66 million for the year ended 31 December 2008 to RUB 65 million for the year ended 31 December 2009. Our financial income is comprised of any foreign exchange gain, interest income and discount recorded at initial recognition of interest-free loans received. The decrease in our finance income resulted primarily from the decreased discount recorded at the initial recognition of interest-free loans received.

Finance expense

For year ended 31 December 2009, our financial expenses increased by RUB 254 million, or 63.2%, from RUB 402 million for the year ended 31 December 2008 to RUB 656 million for the year ended 31 December 2009. The increase in our finance expense was primarily attributable to more debt being owed by us, an increase in interest expenses arising from unwinding of discounts on provision for site restoration and on long-term promissory notes for the year ended 31 December 2009 compared to the year ended 31 December 2008.

Profit/(Loss) before Income Tax

For the reasons set forth above, our profit before income tax decreased by RUB 424 million, or 32.6%, to RUB 878 million for the year ended 31 December 2009 from a profit before income tax of RUB 1,302 million for the year ended 31 December 2008.

Income tax expense

The following table sets out our income tax expense for the years ended 31 December 2008 and 2009:

	For the year ended 31 December		
	2008	**2009**	**Change**
	mln RUB		*%*
Current tax expense	288	151	(47.6)
Deferred tax expense	(88)	64	—
Total income tax expense	**200**	**215**	**7.5**

The current income tax expense decreased by RUB 137 million, or 47.6% from the year ended 31 December 2009 compared with the year ended 31 December 2008 as a result of lower profit from continuing operations (before tax) and a reduction in the income tax rate from 24% to 20% with effect from 1 January 2009. However, the total income tax increased by RUB 15 million, or 7.5%, from RUB 200 million for the year ended 31 December 2008 to RUB 215 million for the year ended 31 December 2009 as a result of adjustments to the provision for deferred tax.

Our effective tax rates, defined as income tax expense as a percentage of profit before tax, were 15% and 24% for the years ended 31 December 2008 and 2009, respectively. The effective income tax rate of 24% as compared to the Russian statutory income tax rate of 20% for the year ended 31 December 2009 was primarily the result of:

- adjustments for non-deductible expenses in the amount of RUB 41 million, which resulted in an increase of the effective income tax rate of 4%;
- adjustments for changes in unrecognized temporary differences in the amount of RUB 9 million, which resulted in a decrease of the effective income tax rate of 1%; and
- adjustments for underprovided tax in prior years in the amount of RUB 7 million, which resulted in an increase of the effective income tax rate of 1%.

Profit for the Year

As a result of the foregoing factors, our profit for the year decreased by RUB 439 million, or 39.8% from a profit of RUB 1,102 million in the year ended 31 December 2008 to a profit of RUB 663 million in the year ended 31 December 2009.

YEAR ENDED 31 DECEMBER 2008 COMPARED TO YEAR ENDED 31 DECEMBER 2007

The following table sets out selected financial information as of and for the years ended 31 December 2007 and 2008 derived from our Consolidated Financial Statements (included elsewhere in this Offering Circular) and shows our results of operations as a percentage of revenue for the applicable period:

	For the year ended 31 December			
	2007[2] (Restated)[1]		2008	
	mln RUB	*%*	*mln RUB*	*%*
Consolidated statement of comprehensive income				
Revenue	**3,864**	**100.0**	**8,557**	**100.0**
Cost of sales	(3,168)	(82.0)	(6,090)	(71.2)
Gross profit	**696**	**18.0**	**2,467**	**28.8**
Distribution expenses	(174)	(4.5)	(242)	(2.8)
Administrative expenses	(422)	(10.9)	(565)	(6.6)
Other operating expenses	(16)	(0.4)	(22)	(0.3)
Results from operating activities	**84**	**2.2**	**1,638**	**19.1**
Finance income	27	0.7	66	0.8
Finance costs	(209)	(5.4)	(402)	(4.7)
(Loss) /profit before income tax	**(98)**	**(2.5)**	**1,302**	**15.2**
Income tax expense	(8)	(0.2)	(200)	(2.3)
(Loss)/profit and total comprehensive income for the year	**(106)**	**(2.7)**	**1,102**	**12.9**

(1) Some of the data from the Consolidated Financial Statements presented herein, when shown in tabular format, is identified as "restated." For an explanation of the restatement, see Note 4(a) of the Consolidated Financial Statements on page F-19 of this Offering Circular.

(2) The independent auditors' report on the 2009 Consolidated Financial Statements was modified in respect of certain corresponding figures for 2007. For an explanation of the modification, see the independent auditors' report on page F-2 of this Offering Circular.

Revenues

Our total revenues increased by RUB 4,693 million, or 121.5%, from RUB 3,864 million for the year ended 31 December 2007 to RUB 8,557 million for the year ended 31 December 2008 principally due to an increase in the volume of sales and sale prices. The following table sets forth a breakdown of our total revenue by type for the years ended 31 December 2007 and 2008:

	For the years ended 31 December				
	2007		2008		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Sales of coal	3,162	81.8	7,528	88.0	138.1
Compensation from government	349	9.0	606	7.1	73.6
Sales of electrical and heat power	160	4.1	168	2.0	5.0
Provision of transportation services	137	3.5	143	1.7	4.4
Provision of storage services	36	0.9	75	0.9	108.3
Other revenue	20	0.5	37	0.4	85.0
Total Revenue	**3,864**	**100**	**8,557**	**100**	**121.5**

Sales of coal

In the year ended 31 December 2008, approximately 88% of our revenue was derived from sales of coal. Revenue from sales of coal increased by RUB 4,366 million, or 138.1%, from RUB 3,162 million in the year ended 31 December 2007 to RUB 7,528 million in the year ended 31 December 2008.

The following table sets forth a breakdown of our total revenue from sales of coal by geographic location of our customers for the years ended 31 December 2008 and 2009:

	For the years ended 31 December				
	2007		2008		
Revenue	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Domestic sales of coal	2,172	69	3,584	48	65.0
Export sales of coal	990	31	3,944	52	298.4
Total sales of coal	**3,162**	**100**	**7,528**	**100**	138.1

Domestic sales

Our revenue from domestic sales (excluding compensation from the government) represented 69% and 48% of coal revenue generated in the years ended 31 December 2007 and 2008, respectively. Despite the decrease in domestic sales as a share of coal revenue in 2008, in absolute terms, our domestic coal revenue increased in absolute terms by RUB 1,412 million, or 65.0%, from RUB 2,172 million in 2007 to RUB 3,584 million in 2008. The increase resulted mainly from (i) an approximately 34% increase of the average domestic price basis from RUB 574 per tonne in 2007 to RUB 979 per tonne in 2008 and (ii) approximately 24% increase of our domestic sales volume from 3.86 million tonnes for the year ended 31 December 2007 to 4.80 million tonnes for the year ended 31 December 2008, driven by the launch of the Cheremshansky mine and increased production volume in 2008.

Export sales

Revenues from export sales represented 31% and 52% of coal revenue generated in the years ended 31 December 2007 and 2008, respectively. The major drivers of our export revenue growth were (i) an approximately 78% increase in our export sales volume from 1.54 million tonnes of coal for the year ended 31 December 2007 to 2.74 million tonnes of coal for the year ended 31 December 2008, in part, due to the increased production volume at the Cheremshansky mine; (ii) approximately 78% increase of our average export price from U.S.$23 per tonne in 2007 to U.S.$41 per tonne in 2008. In Rouble terms, our average export price similarly increased by approximately 70%, from RUB 595 per tonne in 2007 to RUB 1,009 per tonne in 2008; and (iii) an increase in the portion of export sales made under CPT terms, leading to higher prices charged to our customers.

Compensation from government

Compensation from the local administration of the Kemerovo region, which relates to payments received as the difference between the regulated retail price of coal set by the local administration on an annual basis and an average market price, increased by RUB 257 million, or 73.6% from RUB 349 million for the year ended 31 December 2007 to RUB 606 million for the year ended 31 December 2008. The increase is mainly attributable to a greater margin between the regulated retail price, which increased by approximately 18% in 2008 compared to 2007, and an average market price, which increased by more than 30.6% in the same period.

Sales of electrical and heat power

Revenue from sales of electrical and heat power by Kaskad-Eenergo to the housing and utility sector, industrial enterprises and other companies in the city of Anzhero-Sudzhensk increased by RUB 8 million, or 5%, from RUB 160 million for the year ended 31 December 2007 to RUB 168 million for the year ended 31 December 2008, mainly as a result of an increase in our average on-grid tariff paid by our customers. Our average tariff for electricity power increased by 3.8% from RUB 1.12 per kWh in 2007 to RUB 1.16 per kWh in 2008 and our average tariff for heat power increased by 7.5% from RUB 577.6 per Gcal in 2007 to RUB 621.0 Gcal in 2008 primarily due to increases in tariffs for electricity and heat approved by the REC.

Provision of transportation services

Sales of transportation services increased by RUB 6 million, or 4.4%, from RUB 137 million for the year ended 31 December 2007 to RUB 143 million for the year ended 31 December 2008, mainly as a result of an approximately 11.8% increase in the volume of transportation services provided by TEKM.

Provision of storage services

Sales of storage services increased by RUB 39 million, or 108.3%, from RUB 36 million for the year ended 31 December 2007 to RUB 75 million for the year ended 31 December 2008. The increase resulted primarily from an approximately 81% increase of the volume of stored coal and approximately 15% increase in the sales price of our services for the year ended 31 December 2008 compared to the year ended 31 December 2007.

Other revenue

Other revenues, which consisted primarily of hot water supply services, agency services, equipment rental services and construction services, increased by RUB 17 million, or 85% from RUB 20 million for the year ended 31 December 2007 to RUB 37 million for the year ended 31 December 2008, mainly as a result of an increase in the sales price of our services in the year ended 31 December 2008 compared to the year ended 31 December 2007.

Cost of sales

Our cost of sales increased by RUB 2,922 million, or 92.2%, from RUB 3,168 million for the year ended 31 December 2007 to RUB 6,090 million for the year ended 31 December 2008 largely due to an increase in the proportion of sales volume made under delivery terms of CPT and DAF, and, to a lesser extent, as a result of

increases in production volumes, prices of fuel, spare parts and extraction, processing and sorting of coal services as well as increases in wages, salaries and social charges.

The following table presents our cost of sales, by category, for the corresponding periods:

	For the years ended 31 December				
	2007		2008		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Railway tariff and transportation services	559	17.6	1,853	30.4	231.5
Coal purchased	738	23.3	1,440	23.6	95.1
Wages, salaries and social charges	515	16.3	663	10.9	28.7
Extraction, processing and sorting of coal	73	2.3	257	4.2	252.1
Fuel	310	9.8	594	9.8	91.6
Depreciation	321	10.1	451	7.4	40.5
Spare parts	150	4.7	198	3.3	32.0
Mining and environmental taxes	90	2.8	192	3.2	113.3
Repair and maintenance	54	1.7	55	0.9	1.9
Operating lease	34	1.1	82	1.3	141.2
Electricity	27	0.9	36	0.6	33.3
Security services	13	0.4	21	0.3	61.5
Land rent	103	3.3	25	0.4	(75.7)
Storage services	2	0.1	23	0.4	1050.0
Change in provision for site restoration	61	1.9	13	0.2	(78.7)
Other materials	108	3.4	99	1.6	(8.3)
Other services	35	1.1	55	0.9	57.1
Other costs	20	0.6	11	0.2	(45.0)
Change in coal stock	(45)	(1.4)	22	0.4	(148.9)
Total cost of sales	**3,168**	**100**	**6,090**	**100**	**92.2**

Railway tariff and transportation services

Our transportation expenses represent a significant portion of the services expenses. The cost of transportation services increased by RUB 1,294 million, or 231.5%, from RUB 559 million for the year ended 31 December 2007 to RUB 1,853 million for the year ended 31 December 2008. The increase in the cost of transportation services resulted mainly from an increase in the proportion of sales volume made under delivery terms of CPT and DAF, and to a lesser extent, from increases in our total sales volume and the average Russian Railway transportation tariff by 9%.

Coal for resale

The cost of third-party coal for resale increased by RUB 702 million, or 95.1%, from RUB 738 million for the year ended 31 December 2007 to RUB 1,440 million for the year ended 31 December 2008. The increase in coal for resale resulted mainly from an approximately 53.3% increase in purchased third-party coal for resale and an approximately 30% increase in prices of the third-party coal for resale for the year ended 31 December 2008 compared to the year ended 31 December 2007.

Wages, salaries and social charges

Our cost of our wages, salaries and social charges increased by RUB 148 million, or 28.7%, from RUB 515 million for the year ended 31 December 2007 to RUB 663 million for the year ended 31 December 2008. This increase is primarily attributable to an approximately 31.5% increase in the average number of employees due to increased scale of operations offset by an approximately 0.4% decrease of the average monthly salary of employees.

The table below sets our overall payroll costs for the years ended 31 December 2007 and 2008:

	For the year ended 31 December		
	2007	2008	Change
			%
Average total number of employees	2,518	3,312	31.5
Total net payroll *(mln RUB)*	644	844	31.0
Total payroll taxes *(mln RUB)*	143	180	25.9
Average annual payroll per employee, net, *(thousand RUB)*	256	255	(0.4)
Effective payroll tax rate *(%)*	22.2	21.3	0.9

Extraction, processing and sorting coal

The cost of extraction, processing and sorting of coal increased by RUB 184 million, or 252.1%, from RUB 73 million for the year ended 31 December 2007 to RUB 257 million for the year ended 31 December 2008. This increase was mainly attributable to an increase of nearly 200% in the volume of blasting operations and an approximately 75% increase in the cost of explosives used in blasting operations in 2008 compared to 2007.

Fuel

The cost of fuel, which primarily consists of diesel fuel, gasoline and lubricants, increased by RUB 284 million, or 91.6%, from RUB 310 million for the year ended 31 December 2007 to RUB 594 million for the year ended 31 December 2008. The increase in the cost of fuel resulted mainly from (i) increased production and sales volumes of coal and related increases in fuel consumption; (ii) increased mining operations and utilization of diesel-powered equipment; and (iii) market-driven increases in fuel prices.

Depreciation

Our depreciation costs increased by RUB 130 million, or 40.5%, from RUB 321 million for the year ended 31 December 2007 to RUB 451 million for the year ended 31 December 2008. This increase was primarily the result of the acquisition of machinery and equipment and the decision to transfer into use assets constructed in line with our capital investment program, which increased the cost of assets in use, and corresponding depreciation charge.

Spare parts

The cost of spare parts for mining equipment and transport increased by RUB 48 million, or 32.0%, from RUB 150 million, for the year ended 31 December 2007 to RUB 198 million for the year ended 31 December 2008. The increase was primarily a result of the increased production and sales volumes of coal and expansion and upgrade of our equipment fleet. The unit cost of spare parts increased by RUB 1 per tonne, or 2.7%, from RUB 36 per tonne to RUB 37 per tonne in 2008.

Mining and environmental taxes

Our mining and other environmental taxes increased by RUB 102 million, or 113.3%, from RUB 90 million for the year ended 31 December 2007 to RUB 192 million for the year ended 31 December 2008. Taxes included in production costs consist primarily of the mineral extraction tax. The increase in our mineral extraction tax was primarily a result of the increased volume of production and price of coal.

Repair and maintenance

The cost of repair and maintenance increased by RUB 1 million, or 1.9%, from RUB 54 million, for the year ended 31 December 2008 to RUB 55 million for the year ended 31 December 2009. The increase was primarily a result of an increase in the production volumes of coal, expansion of our equipment fleet and corresponding increased utilization of services associated with repair and maintenance of mining and transport equipment, provided by third parties.

Operating leases

The cost of operating leases increased by RUB 48 million, or 141.2%, from RUB 34 million, for the year ended 31 December 2007 to RUB 82 million for the year ended 31 December 2008 primarily as a result of an increase in the quantity of machinery and equipment leased under operating leases in 2008.

Electricity

The cost of electricity increased by RUB 9 million, or 33.3%, from RUB 27 million for the year ended 31 December 2007 to RUB 36 million for the year ended 31 December 2008. The increase was primarily as a result of a 22.3% increase in capacity payments and a 46.2% increase in electricity tariffs for electric energy consumed in 2008.

The trend in tariffs for electricity during the periods under review is shown in the table below.

	For the year ended 31 December		
	2007	2008	Change
			%
Capacity payment *(RUB/MW per month)*	289,876	354,406	22.3
Electricity tariff per *(RUB/MWh)*	684.74	1,001.33	46.2

Land rent

Our land rent expenses decreased by RUB 78 million, or 75.7%, from RUB 103 million for the year ended 31 December 2007 to RUB 25 million for the year ended 31 December 2008. This decrease was primarily due to an acquisition of 1.2 thousand hectares of previously leased land.

Storage services

The cost of storage services increased by RUB 21 million, or 1,050.0%, from RUB 2 million for the year ended 31 December 2007 to RUB 23 million for the year ended 31 December 2008. This increase was primarily as a result of the increased production and sales volumes of coal and related increase in the volume of stored coal.

Change in provision for site restoration

The change in provision for site restoration decreased by RUB 48 million, or 78.7%, from RUB 61 million for the year ended 31 December 2007 to RUB 13 million for the year ended 31 December 2008, and was primarily caused by a lesser volume of disturbed land subject to restoration and changes in accounting estimates.

Other materials

The cost of other materials decreased by RUB 9 million, or 8.3%, from RUB 108 million for the year ended 31 December 2007 to RUB 99 million for the year ended 31 December 2008. This increase was primarily as a result of the increased production volume of coal and corresponding increased utilization of electrical equipment, metal products, drilling rigs and other tools in the production process.

Other services

The cost of other services increased by RUB 20 million, or 57.1%, from RUB 35 million for the year ended 31 December 2007 to RUB 55 million for the year ended 31 December 2008. This increase was primarily driven by increased mining operations, which, in turn, led to increases in geodetic survey services, laboratory services and other miscellaneous services, provided by third parties in 2008 compared to 2007.

Change in coal stock

Change in coal stock increased year on year by RUB 67 million, or 148.9%, from an increase of RUB 45 million for the year ended 31 December 2007 to a decrease of RUB 22 million for the year ended 31 December 2008. This increase was primarily as a result of a decrease in coal stock as at 31 December 2008 as opposed to 31 December 2007.

Gross Profit

As a result of the foregoing factors, gross profit for the year ended 31 December 2008 increased by RUB 1,771 million, or 254.5%, from RUB 696 million for the year ended 31 December 2007 to RUB 2,467 million for the year ended 31 December 2008. Gross profit represented 18.0% and 28.8% of our revenue in 2007 and 2008, respectively. The increase in our gross profit margin resulted principally from the increased sales volume and prices in 2008.

Distribution Expenses

The table below details our distribution expenses for the periods under review by major components:

	For the years ended 31 December				
	2007		2008		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Services	65	37.4	107	44.2	64.6
Wages, salaries and social charges	62	35.6	82	33.9	32.3
Materials	7	4.0	14	5.8	100.0
Depreciation	38	21.8	32	13.2	(15.8)
Other distribution expenses	2	1.1	7	2.9	250.0
Total distribution expenses	**174**	**100**	**242**	**100**	**39.1**

Our distribution expenses increased by RUB 68 million, or 39.1%, from RUB 174 million for the year ended 31 December 2007 to RUB 242 million for the year ended 31 December 2008. The increase in the distribution expenses in the period under review was mainly due to an approximately 78% increase in the export sales volume and associated increase in the customs duties as well as increases in the prices of other services for the year ended

31 December 2008 compared to the year ended 31 December 2007. The increase was also driven by a rise in wages and salaries relating to distribution expenses, largely as a result of wage inflation.

Administrative expenses

The table below details our administrative expenses for the periods under review by major components:

	For the years ended 31 December				
	2007		2008		
	Amount	Share	Amount	Share	Change
	mln RUB	*%*	*mln RUB*	*%*	*%*
Wages, salaries and social charges	206	48.8	266	47.1	29.1
Services	57	13.5	92	16.3	61.4
Taxes other than income tax	44	10.4	61	10.8	38.6
Charity and welfare	56	13.3	36	6.4	(35.7)
Fees and penalties	4	0.9	22	3.9	450.0
Materials	12	2.8	18	3.2	50.0
Depreciation	16	3.8	29	5.1	81.3
Sundry payments to personnel	5	1.2	13	2.3	160.0
Other administrative expenses	22	5.2	28	5.0	27.3
Total administrative expenses	**422**	**100**	**565**	**100**	33.9

Our administrative expenses increased by RUB 143 million, or 33.9%, from RUB 422 million for the year ended 31 December 2007 to RUB 565 million for the year ended 31 December 2008. The increase in administrative expenses for the period under review was mainly due to increases in expenses associated with wages, salaries and social charges, cost of services and materials, fees and penalties as well as taxes, other than income taxes.

Wages, salaries and social charges for the personnel at our companies increased by RUB 60 million, or 29.1%, from RUB 206 million for the year ended 31 December 2007 to RUB 266 million for the year ended 31 December 2008, mainly as a result of the expansion of our retail distribution network and indexation of the salary rates to the inflation.

Our cost of services associated with administrative expenses, which primarily consisted of operating leases, repair and maintenance of fixed assets, office buildings and facilities as well as auditing, insurance and security services increased by RUB 35 million, or 61.4%, from RUB 57 million for the year ended 31 December 2007 to RUB 92 million for the year ended 31 December 2008, mainly as a result of the expansion of our retail distribution network and increases in service prices.

Our cost of taxes other than income tax increased by RUB 17 million, or 38.6%, from RUB 44 million for the year ended 31 December 2007 to RUB 61 million for the year ended 31 December 2008, mainly as a result of the increased property tax, which was mainly due to property additions in line with the capital expenditure program.

Charity and welfare expenses, which include charitable donations, financial assistance to our employees and their families and expenses associated with corporate events decreased by RUB 20 million, or 35.7%, from RUB 56 million for the year ended 31 December 2007 to RUB 36 million for the year ended 31 December 2008, mainly as a result of the onset of the Global Economic Crisis in the fourth quarter of 2008, which caused us to cut down on charity.

Our fees and penalties increased by RUB 18 million, or 450.0%, from RUB 4 million in the year ended 31 December 2007 to RUB 22 million in the year ended 31 December 2008, mainly as a result of a significant increase in the amount of coal transported by Russian Railways to sea ports for export, and, as a result, a proportionate increase in fees imposed by Russian Railways associated with utilization of its infrastructure.

Cost of materials, which primarily consisted of cost of fuel and spare parts for equipment and vehicles used for administrative purposes, increased by RUB 6 million, or 50.0%, from RUB 12 million for the year ended 31 December 2007 to RUB 18 million for the year ended 31 December 2008, mainly as a result of the expansion of our retail distribution network and increased cost of fuel in 2008 compared to 2007.

Sundry payments to personnel increased by RUB 8 million, or 160.0%, from RUB 5 million for the year ended 31 December 2007 to RUB 13 million for the year ended 31 December 2008, mainly as a result of the expansion of our retail distribution network and commissioning of the Cheremshansky mine.

Our other administrative expenses increased by RUB 6 million, or 27.3%, from RUB 22 million for the year ended 31 December 2007 to RUB 28 million for the year ended 31 December 2008, mainly as a result of the expansion of our retail distribution network and commissioning of the Cheremshansky mine.

Other operating expenses

Our other operating expenses increased by RUB 6 million, or 37.5%, from RUB 16 million for the year ended 31 December 2007 to RUB 22 million for the year ended 31 December 2008. Other operating expenses primarily consist of impairment loss and loss on disposal of property, plant and equipment. The increase in other operating expenses in the period under review was mainly due to impairment loss on some assets of Kaskad-Energo in the amount of RUB 17 million due to lack of evidence of any future benefits to be derived from these assets, offset by a decrease in loss on disposal of property, plant and equipment in the amount of RUB 11 million.

Results from operating activities

As a result of the foregoing factors, results from operating activities in 2008 increased significantly by RUB 1,554 million, or 1,850.0%, from RUB 84 million for the year ended 31 December 2007 to RUB 1,638 million for the year ended 31 December 2008. The increase in our operating profit margin was primarily attributable to (i) approximately 39.6% increase in the sales volume of our coal; (ii) 57.4% increase in coal volume purchased for resale from third parties; (iii) approximately 34.1% and 69.6% increases in the domestic and export sale prices of coal and (iv) a 17.3% decrease in the cost of sales as a proportion of the gross profit for the year ended 31 December 2008 (which primarily resulted from an increase in our revenue).

Finance income

Our finance income increased by RUB 39 million, or 144.4%, from RUB 27 million for the year ended 31 December 2007 to RUB 66 million for the year ended 31 December 2008. We recorded a foreign exchange gain for the year ended 31 December 2007 of RUB 8 million and a foreign exchange loss for the year ended 31 December 2008 (see *"— Financial costs"* below). The increase in our finance income between such periods was primarily due to discount recorded at the initial recognition of long-term interest-free loans received in 2008.

Finance costs

For the year ended 31 December 2008, our financial expenses increased by RUB 193 million, or 92.3% from RUB 209 million for the year ended 31 December 2007 to RUB 402 million for the year ended 31 December 2008. The increase in our finance expense was primarily attributable to an increase in (i) interest expenses arising from more debt financing, (ii) an allowance for doubtful debts and write-offs, (iii) interest expenses due to unwinding of discounts on provision for site restoration, and (iv) foreign exchange losses and unwinding of discounts on provisions for the year ended 31 December 2008 compared to the year ended 31 December 2007.

Profit/(Loss) before Income Tax

For the reasons set forth above, our profit before income tax increased by RUB 1,400 million to RUB 1,302 million for the year ended 31 December 2008 from a loss before income tax of RUB 98 million for the year ended 31 December 2007.

Income tax expense

The following table sets out our income tax expense for the years ended 31 December 2007 and 2008:

	For the year ended 31 December		
	2007	2008	Change
	mln RUB		*%*
Current tax expense	34	288	747.1
Deferred tax expense	(26)	(88)	238.5
Total income tax expense	**8**	**200**	**2,400.0**

Our total income tax expense increased by RUB 192 million, or 2,400.0% from RUB 8 million for the year ended 31 December 2007 to RUB 200 million for the year ended 2008. In the year ended 31 December 2007, we incurred a loss from continuing operations (before tax) in the amount of RUB 98 million, the tax charge resulting primarily from adjustments for non-deductible expenses, and adjustments to provisions for deferred tax. The increase in the total tax expense is primarily attributable to an increase in income received from continuing operations in the amount of RUB 1,302 million for the year ended 31 December 2008.

Our effective tax rate, defined as income tax expense as a percentage of profit before tax was 15% for the year ended 31 December 2008 (we recorded a loss before income tax for the year ended 31 December 2007). The effective

income tax rate of 15% as compared to the Russian statutory income tax rate of 24% for the year ended 31 December 2008 was primarily due to the following factors:

- an adjustment for an over provision of income tax in years prior to 2008 in the amount of RUB 64 million, which resulted in a reduction of the effective income tax rate of 5%;
- adjustments to the provision for deferred tax as a result of the decrease in the Russian statutory income tax rate from 24% to 20% with effect from 1 January 2009 in the amount of RUB 58 million, which resulted in a reduction of the effective income tax rate by 5%; and
- adjustments for non-deductible expenses in the amount of RUB 9 million, which resulted in an increase of the effective income tax rate of 1%

Profit for the Year

As a result of the foregoing factors, our profit for the year increased by RUB 1,208 million from a loss of RUB 106 million in the year ended 31 December 2007 to a profit of RUB 1,102 million in the year ended 31 December 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of working capital and longer-term funding have been cash flows from operations and short-term and long-term borrowings. Our primary use of funds has been capital expenditures and repayments of short-term and long-term borrowings. We expect that net cash generated from operations and short-term loans will continue to be important sources of cash in the future.

Cash Flows

Set forth below is a summary of our cash flows for the years ended 31 December 2007, 2008 and 2009:

	Year ended 31 December		
	2007	2008	2009
		(mln RUB)	
Net cash generated from operating activities	70	1,732	626
Net cash used in investing activities	(1,168)	(1,946)	(1,030)
Net cash generated from financing activities	1,003	436	221
Net (decrease) / increase in cash and cash equivalents	**(95)**	**222**	**(183)**

Cash flows from operating activities

Year ended 31 December 2009 compared to the year ended 31 December 2008

Net cash generated by operating activities decreased by RUB 1,106 million, or 63.9%, from RUB 1,732 million in the year ended 31 December 2008 to RUB 626 million in the year ended 31 December 2009. This decrease was the result of: (i) a RUB 439 million decrease in profit for the year (from RUB 1,102 million for the year ended 31 December 2008 to RUB 663 million for the year ended 31 December 2009) for the reasons described above; (ii) a RUB 797 million change due to movements in working capital (from a RUB 168 million decrease in working capital in the year ended 31 December 2008 to a RUB 629 million increase in working capital in the year ended 31 December 2009) for the reasons described below; (iii) a RUB 73 million increase in income tax paid (from RUB 208 million in the year ended 31 December 2008 to RUB 281 million in the year ended 31 December 2009) for the reasons described above; and (iv) a RUB 227 million increase in interest paid (from RUB 413 million in the year ended 31 December 2008 to RUB 640 million in the year ended 31 December 2009) for the reasons described above; which were partially offset by a RUB 430 million increase in adjustments to profits before income tax (from RUB 1,083 million in the year ended 31 December 2008 to RUB 1,513 million in the year ended 31 December 2009) for the reasons described above.

The increase in adjustments to profit before income tax in 2009 in comparison with 2008 was principally the result of the increase in depreciation (from RUB 512 million in the year ended 31 December 2008 to RUB 689 million in the year ended 31 December 2009), which accounted for 41.2% of the net increase in adjustments, reflecting significant additions of depreciable property, plant and equipment made in 2008 as part of our equipment upgrading program, and the increase in net finance expense (from RUB 336 million in the year ended 31 December 2008 to RUB 591 million in the year ended 31 December 2009), which accounted for 59.3% of the net increase in adjustments, reflecting an increase in interest payments on loans.

Movements in working capital consist of changes in inventories, trade and other receivables, prepayments for current assets and trade and other payables.

The most significant differences between the years ended 31 December 2008 and 2009 in the changes in working capital were the following:

- a RUB 107 million decrease in inventories in the year ended 31 December 2009 compared to an increase of RUB 265 million in the year ended 31 December 2008. The decrease in 2009 was due to a large quantity of coal, sold at the end of 2008, still being held as inventory as 'coal in transit' as the right of ownership had not been transferred. The right of ownership of this coal was transferred in 2009, leading to a decrease in inventory.
- a RUB 126 million increase in trade and other receivables in the year ended 31 December 2009 compared to a much larger increase of RUB 387 million in the year ended 31 December 2008. This change was primarily driven by increases in revenue, leading to a higher value of trade and other receivables. The trade debtor days increased to 28.5 days in 2009 compared to 20 days in 2008 primarily as a result of changes in the terms of agreements;
- a RUB 27 million increase in prepayments for current assets in the year ended 31 December 2009 compared to a much larger increase of RUB 146 million in the year ended 31 December 2008. This change was primarily caused by an increase in prepaid customs duties and advances given as a result of the large quantity of coal in transit at 31 December 2008. An increase in advances given in 2009 resulted from changes in the terms of agreements; and
- a RUB 583 million decrease in trade and other payables in the year ended 31 December 2009 compared to a increase of RUB 966 million in the year ended 31 December 2008. This change was primarily caused by changes in the terms of agreements.

The income tax and penalties paid increased by RUB 73 million, or 35.1%, from RUB 208 million in the year ended 31 December 2008 to RUB 281 million in the year ended 31 December 2009. This increase was the result of more tax paid in 2009 in respect of the increased tax charge for 2008.

The interest paid increased by RUB 227 million, or 55%, from RUB 413 million in the year ended 31 December 2008 to RUB 640 million in the year ended 31 December 2009. This increase was the result of increased cost of borrowing as a result of the Global Economic Crisis and subsequent increase in interest rates in 2009.

Year ended 31 December 2008 compared to the year ended 31 December 2007

Net cash generated by operating activities increased by RUB 1,662 million, or 2,374.3%, from RUB 70 million in the year ended 31 December 2007 to RUB 1,732 million in the year ended 31 December 2008. This increase was the result of: (i) a RUB 1,208 million increase in profit for the year (from a RUB 106 million loss for the year ended 31 December 2007 to a RUB 1,102 million profit for the year ended 31 December 2008) as described above; (ii) a RUB 310 million change due to movements in working capital (from a RUB 142 million increase in working capital in the year ended 31 December 2007 to a RUB 168 million decrease in working capital in the year ended 31 December 2008) as described below; and (iii) a RUB 441 million increase in adjustments to profits before income tax (from RUB 642 million in the year ended 31 December 2007 to RUB 1,083 million in the year ended 31 December 2008) as described above; which were partially offset by (x) a RUB 130 million increase in income tax paid (from RUB 78 million in the year ended 31 December 2007 to RUB 208 million in the year ended 31 December 2008) as described above; and (y) a RUB 167 million increase in interest paid (from RUB 246 million in the year ended 31 December 2007 to RUB 413 million in the year ended 31 December 2008) as described above.

The increase in adjustments to profit before income tax in 2008 in comparison with 2007 was principally the result of the increase in depreciation (from RUB 375 million in the year ended 31 December 2007 to RUB 512 million in the year ended 31 December 2008), which accounted for 31.1% of the net increase in adjustments, reflecting (i) significant additions of depreciable property, plant and equipment made in 2008, including launch of the Cheremshansky mine and an acquisition of equipment and machinery in line with our developmental plans for our existing mines; (ii) the increase in net finance expense (from RUB 182 million in the year ended 31 December 2007 to RUB 336 million in the year ended 31 December 2008), which accounted for 34.9% of the net increase in adjustments, reflecting an increase in interest payments on loans and an allowance for doubtful debts and write-offs, foreign exchange losses and other movements in provisions; and (iii) an increase of RUB 192 million in adjustments for income tax expense (from RUB 8 million for the year ended 31 December 2007 to RUB 200 million for the year ended 31 December 2008), which accounted for 43.5% of the net increase in adjustments and was primarily due to increased taxable profits for the year ended 31 December 2008 compared to the year ended 31 December 2007.

The most significant differences between the years ended 31 December 2007 and 2008 in the changes in working capital were the following:

- a RUB 265 million increase in inventories in the year ended 31 December 2008 compared to an increase of RUB 82 million in the year ended 31 December 2007. This change in inventories was primarily caused by an approximately 218.4% increase in the amount of coal held in transit and stock and an approximately 16.5% increase in raw materials held in stock compared to the year ended 31 December 2007. These increases

primarily resulted from rising export coal prices and consequential increases in production and delivery volumes as well as increases in spare parts and materials requirements in the periods under review;

- a RUB 387 million increase in trade and other receivables in the year ended 31 December 2008 compared to an increase of RUB 179 million in the year ended 31 December 2007. This change was primarily caused by increased trade receivables due to increased revenues as well as from a refund of the VAT on exports and an overpayment of VAT and increase in input VAT;
- a RUB 146 million increase in prepayments for current assets in the year ended 31 December 2008 compared to a decrease of RUB 13 million in the year ended 31 December 2007. This change was primarily caused by an increase in prepaid customs duties as export operations increased as well as from an increase in advances given for inventories as purchases of coal for resale increased for the year ended 31 December 2008 compared to the year ended 31 December 2007; and
- a RUB 966 million increase in trade and other payables in the year ended 31 December 2008 compared to an increase of RUB 106 million in the year ended 31 December 2007. This change was primarily caused by an increase in trade payables, advances received and taxes (other than income taxes).

Income tax and penalties paid increased by RUB 130 million, or 166.7%, from RUB 78 million in the year ended 31 December 2007 to RUB 208 million in the year ended 31 December 2008. This increase was the result of an increase in taxable income.

Interest paid increased by RUB 167 million, or 67.9%, from RUB 246 million in the year ended 31 December 2007 to RUB 413 million in the year ended 31 December 2008. This increase was the result of an increase in the credit portfolio.

Cash flows utilized by investing activities

Year ended 31 December 2009 compared to the year ended 31 December 2008

Net cash used in investing activities decreased by RUB 916 million, or 47.1%, from RUB 1,946 million in the year ended 31 December 2008 to RUB 1,030 million in the year ended 31 December 2009. Cash used in investing activities was principally used for purchases of property, plant and equipment in both the year ended 31 December 2008 and the year ended 31 December 2009. Such purchases accounted for RUB 2,007 million of net cash used in investing activities in the year ended 31 December 2008 and for RUB 1,084 million of net cash used in investing activities in the year ended December 31, 2009, which reflected our extensive equipment modernization program. In the years ended 31 December 2008 and 2009, we also issued loans in the amount of RUB 199 million and RUB 217 million, respectively. At the same time, in the years ended 31 December 2008 and 2009, we received proceeds from loans previously issued including interest received in the amount of RUB 352 million and RUB 233 million, respectively.

Year ended 31 December 2008 compared to the year ended 31 December 2007

Net cash used in investing activities increased by RUB 778 million, or 66.6%, from RUB 1,168 million in the year ended 31 December 2007 to RUB 1,946 million in the year ended 31 December 2008. Cash used in investing activities was principally used for purchases of property, plant and equipment in both the year ended 31 December 2007 and the year ended 31 December 2008. Such purchases accounted for RUB 1,105 million of net cash used in investing activities in the year ended December 31, 2007 and for RUB 2,007 million of net cash used in investing activities in the year ended 31 December 2008, which reflected our extensive equipment modernization program and launch of the Cheremshansky mine. In the years ended 31 December 2007 and 2008, we also issued loans in the amount of RUB 310 million and RUB 199 million, respectively. At the same time, in the years ended 31 December 2007 and 2008, we received proceeds from loans previously issued including interest received in the amount of RUB 232 million and RUB 352 million, respectively. In the year ended 31 December 2008, RUB 111 million of the net cash used in investing activities was attributable to the acquisition of a retail distribution of 21 points of sales in the Novosibirsk region by Novosibirsk Fuel Corporation.

Cash flows from financing activities

Year ended 31 December 2007

Net cash generated by financing activities in the year ended 31 December 2007 was equal to RUB 1,003 million. This principally reflected a net cash inflow of RUB 1,141 million resulting from new borrowings in the amount of RUB 5,455 million, partially offset by the repayment of existing borrowings in the amount of RUB 4,314 million. We also used RUB 138 million in the year ended 31 December 2007 on the payment of dividends in respect of the year ended 31 December 2006 and the first quarter of the year ended 31 December 2007.

Year ended 31 December 2008

Net cash generated by financing activities in the year ended 31 December 2008 was equal to RUB 436 million. This principally reflected a net cash inflow of RUB 516 million resulting from new borrowings in the amount of RUB 8,010 million, partially offset by the repayment of existing borrowings in the amount of RUB 7,494 million. We also used RUB 80 million in the year ended 31 December 2008 on the payment of dividends in respect the first quarter of the year ended 31 December 2008.

Year ended 31 December 2009

Net cash generated by financing activities in the year ended 31 December 2009 was equal to RUB 221 million. This principally reflected a net cash inflow of RUB 215 million resulting from new borrowings in the amount of RUB 7,119 million, partially offset by the repayment of existing borrowings in the amount of RUB 6,904 million.

Working Capital

Our working capital (defined as current assets minus current liabilities) was a deficit of RUB 1,642 million, RUB 962 million and RUB 1,094 million in the years ended 31 December 2007, 2008 and 2009, respectively.

Our working capital deficit decreased by RUB 680 million, or 41.4%, from RUB 1,642 million in the year ended 31 December 2007 to RUB 962 million in the year ended 31 December 2008 primarily as a result of the increased production in 2008 and related increases in supplies, raw materials and coal inventories.

Our working capital deficit increased by RUB 132 million, or 13.7%, from RUB 962 million in the year ended 31 December 2008 to RUB 1,094 million in the year ended 31 December 2009 primarily as a result of the decreased inventories, decreased cash and cash equivalents offset by increased receivables and prepayments, decreased current payables and increased short-term loans and borrowings.

Indebtedness

The following table sets out our total debt as at the dates indicated. As of the years ended 31 December 2007, 2008 and 2009, 100%, 98% and 45%, respectively, of our debt was denominated in Roubles, with the remainder denominated in U.S. dollars.

The following table illustrates our total indebtedness as of the end of the periods below:

	As of 31 December		
	2007	2008	2009
		mln RUB	
Bank overdrafts	—	60	—
Long-term borrowings	1,272	2,453	2,204
Short-term borrowings	1,846	1,172	1,655
Total debt	**3,118**	**3,685**	**3,859**

We consider the ratio of net debt to EBITDA as the principal statistic for evaluating the impact of the total size of our borrowings on our operations. As of 31 December 2007, 2008 and 2009, our net debt to EBITDA ratio was 6.5, 1.6 and 1.7, respectively. Net debt to EBITDA represents a non-IFRS measure and may not be comparable to similarly titled measures disclosed by other companies, and investors should not use this non-IFRS measure as a substitute for figures provided in our Consolidated Financial Statements. See "*Summary Consolidated Historical Financial Information*" for a discussion of our calculation of EBITDA and net debt.

Description of Material Loan Agreements

Set out below is a description of our most significant borrowings as of 31 December 2009:

Credit line agreements with Sberbank

At the beginning of 2009, we entered into a non-revolving credit line agreement with the Kemerovo branch of Sberbank, allowing borrowings of up to approximately RUB 200 million. As of 31 December 2009, the total amount outstanding under this agreement was RUB 200.4 million. As of the same date, we granted security over certain real estate and equipment to the lender and TEKM was a guarantor under this facility. This agreement has expired subsequent to 29 January 2010.

In March and July 2009, we entered into two non-revolving credit line agreements with the Kemerovo branch of Sberbank, allowing borrowing of up to U.S.$30.2 million and U.S.$34.8 million, accordingly, for financing of the equipment upgrading program of the Vinogradovsky and Karakansky South mines and procurement of modern mining equipment for the Cheremshansky mine. The agreements are secured by the pledge of 100% participatory

interest in the charter capital of TEKM, coal-mining equipment as well as certain real estate owned both by us and TEKM. In addition, Karakan Farm granted security over part of its real estate under the agreement of July 2009. TEKM, Karakan Farm, Kaskad-Energo and Management Company Kaskad act as guarantors under these credit line agreements. These two agreements contain debt covenants, providing that, with effect from 1 January 2010, (i) at the end of each quarter, our debt (defined as our non-current liabilities and short-term loans and borrowings less cash) cannot exceed four times our EBITDA for the last four quarters; and (ii) our net assets at the end of each quarter should not be negative. The agreements have maturity dates of March and July 2014, respectively. As of 31 December 2009, the total amount outstanding under these credit line agreements was RUB 1.97 billion (including accrued interest). In February 2010, we renegotiated the terms of these two credit line agreements with Sberbank, substantially decreasing the interest rate in U.S. dollars (i) from 9.1% to 7.5% per annum in the event that we book more than 40% of our gross cash receipts through Sberbank; or (ii) from 13.1% to 11.5% per annum in the event that we book less than 40% of our gross cash receipts through Sberbank, primarily due to the depreciation of the U.S. dollar against the Rouble.

In May 2009, we received RUB 30 million pursuant to the credit agreement with the Kemerovo branch of Sberbank. As of 31 December 2009, Kaskad Geo granted security over part of its real estate. TEKM and Kaskad Geo are the guarantors under this agreement and we provided additional security over goods for sale. As of 31 December 2009, RUB 30.1 million remained outstanding under this agreement. In June 2009, we entered into a non-revolving credit line agreement with the Kemerovo branch of Sberbank, allowing borrowings of up to RUB 106 million. We granted security over vehicles to the lender. TEKM is the guarantor under this agreement. These agreements have maturity dates in May and June 2010, respectively.

In September 2009, our subsidiary Altay Fuel Company entered into a credit agreement with Sberbank, allowing borrowing of RUB 19.8 million. The credit agreement has a maturity date of September 2010. As of 31 December 2009, obligations under this agreement were secured by the pledge of goods for sale and certain real estate owned by Altay Fuel Company. Mr. Frantsen, a general director of Altay Fuel Company, gave a personal guarantee under this credit agreement. See *"Related Party Transactions."*

In March 2007, our subsidiary Kaskad-Energo received RUB 60 million pursuant to the non-revolving credit line agreement entered into with the Anzhero-Sudzhensk branch of Sberbank. The agreement has a maturity date of December 2011 and is secured by the real estate owned by Kaskad-Energo and our guarantee. In November 2009, Kaskad-Energo entered into a revolving credit line agreement with the Anzhero-Sudzhensk branch of Sberbank, allowing borrowing of up to RUB 25 million until May 2011. Kaskad-Energo and we granted security over the real estate of Kaskad-Energo.

In June 2007, our subsidiary TEKM entered into a non-revolving credit line agreement with the Kemerovo branch of Sberbank, allowing borrowing of up to RUB 145.9 million. As of 31 December 2009, the total amount outstanding under this credit line agreement was RUB 29.2 million (including accrued interest). This agreement was secured by the pledge of certain real estate of TEKM. We are the guarantor under this agreement. This facility has expired subsequent to March 2010.

Credit line agreements with Gazprombank

As of 31 December 2009, we had three current credit line agreements with Gazprombank with maturity dates of June 2011, November 2011 and July 2013, respectively. The agreement of June 2008 allowed borrowings of up to RUB 500 million and we granted security under this agreement over certain equipment and real estate. As of 31 December 2009, the total amount outstanding under this credit agreement was RUB 267.1 million (including accrued interest). The agreement of November 2009 allowed borrowings of up to RUB 300 million and secured by the pledge of coal mining equipment. As of 31 December 2009, the total amount outstanding under this credit agreement was RUB 300.7 million (including accrued interest). The facility of December 2009 allowed borrowings of up to RUB 280 million and was secured by the pledge of coal mining equipment. As of 31 December 2009, the total amount outstanding under this credit agreement was RUB 52.7 million (including accrued interest). In February 2010, we renegotiated the terms of these credit line agreements, substantially decreasing the interest rate in Roubles from 15% and 13.5% to 11.8% per annum under the agreements entered into in June 2008 and December 2009 and the floating interest rate from 13%-13.5% to 10%-11.75% under the credit line agreement of November 2009.

Credit agreement with GLOBEX

In December 2009, we received RUB 200 million pursuant to the credit line agreement with GLOBEX, which has a maturity date of June 2010. As of 31 December 2009, the total amount outstanding under this credit agreement was RUB 200 million. As of 31 December 2009, obligations under this agreement were secured by our land plots.

Credit line agreement with VTB

In February 2007, we entered into a credit agreement with Bank VTB North-West (former OJSC Industry & Construction Bank), allowing borrowings of up to RUB 500 million. As of 31 December 2009, we granted security under this agreement over certain real estate. This facility has expired subsequent to 8 February 2010 and been repaid in full.

Credit line agreement with Bank of Moscow

As of 31 December 2009, our subsidiary Kuzbasstoplivosbyt had two credit line agreements with Bank of Moscow, which have maturity dates of September 2010 and November 2010, respectively. The credit line agreement of September 2007 allows borrowings of up to RUB 5.7 million and, as of 31 December 2009, the total amount outstanding under this credit agreement was RUB 3 million. In November 2009, Kuzbasstoplivosbyt entered into a credit line agreement with Bank of Moscow, allowing borrowings of up to RUB 42 million until November 2010. As of 31 December 2009, RUB 42 million remained outstanding under this agreement. As of 31 December 2009, obligations under this agreement were secured by the pledge of locomotives owned by TEKM. TEKM and we are the guarantors under this facility.

Credit line agreements with ARESBANK

In December 2009, our subsidiary Management Company Kaskad entered into five credit line agreements with ARESBANK. The credit lines were denominated in U.S. dollars and allowed borrowings of up to U.S.$5 million. As of 31 December 2009, the total amount outstanding under these agreements was RUB 136.1 million. As of the same date, obligations under this agreement were secured by the pledge of receivables owned by Management Company Kaskad. These agreements have maturity dates in December 2010.

Credit agreement with UniCredit Bank

In December 2009, we entered into a credit agreement with UniCredit Bank, allowing borrowings of RUB 350 million. As of 31 December 2009, the total amount outstanding under this agreement was RUB 351.5 million. As of 31 December 2009, obligations under this agreement were unsecured. This agreement has a maturity date in December 2010.

Recently Incurred Indebtedness

In addition to the proposed issuance of equity, we actively look for attractive opportunities to refinance our long-term and short-term bank borrowings and to obtain access to additional borrowing facilities to meet our liquidity needs. To this end, since 31 December 2009, we have entered into the following material loan agreements:

- In February 2010, we entered into a credit facility agreement with the Kemerovo branch of Sberbank, allowing borrowing of up to RUB 293 million. The facility is secured by the pledge of our equipment. As of 1 April 2010, the total amount outstanding under this agreement was RUB 139.6 million. The facility matures in August 2010.
- In January 2010, we entered into a credit agreement with Raiffeisenbank, allowing borrowing of RUB 300 million. The facility is secured by the pledge of receivables and surety granted by Management Company Kaskad. As of 1 April 2010, the total amount outstanding under this agreement was RUB 299.9 million. The facility matures in January 2012.

As of 31 December 2009, the loans were secured by property, plant and equipment with a carrying value of RUB 3,421 million and inventory with a carrying value of RUB 45 million.

Contractual Obligations and Commercial Commitments

The table below summarizes the principal categories of our contractual obligations as of 31 December 2009 (unless indicated otherwise):

	As of 31 December 2009				
	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
			mln RUB		
Long-term and short-term loans[(1)]	3,859	1,655	1,176	998	30
Capital expenditure commitments[(2)]	970	970	—	—	—
Total contractual obligations and commercial commitments	**4,829**	**2,625**	**1,176**	**998**	**30**

(1) This amount includes principal debt in the amount of RUB 3,855 million and accrued interest of RUB 4 million.

(2) Capital expenditure commitments represent payments expected to be made under contracts in existence as of 31 December 2009 for the acquisition of property, plant and equipment.

Capital Expenditures

We spent RUB 1,105 million, RUB 2,007 million and RUB 1,084 million of cash on acquisition of property, plant and equipment in the years ended 31 December 2007, 2008 and 2009, respectively, which were funded in part from cash from operations and in part through the bank borrowings.

The following table summarizes our historical and planned capital expenditures for the periods indicated:

	For the year ended/ ending 31 December			
	2007	2008	2009	2010-2015
	mln RUB, excluding VAT			
Machinery and equipment	744	1178	688	4,494
Construction and land	271	689	395	4,922
Other	90	140	1	91
Total capital expenditures	**1,105**	**2,007**	**1,084**	**9,507**

Our total capital expenditures (exclusive of VAT) increased by 81.6%, from RUB 1,105 million in 2007 to RUB 2,007 million in 2008, and decreased by 46.0% to RUB 1,084 million in 2009. We used our capital expenditures primarily to expand our coal production and coal transportation and distribution capacities, including, among others, the launch of the Cheremshansky mine, acquisition of the modern mining technology and construction of the processing and enrichment facility.

In 2010-2015, we currently plan to make capital expenditures of approximately RUB 9.5 billion (exclusive of VAT), of which approximately RUB 298 million (exclusive of VAT) was already spent by 30 March 2010. Such expenditures are principally designed for the following projects: (i) construction of a coal enrichment plant with an estimated design capacity of approximately 4.5 million tonnes per annum; (ii) construction of two coal processing facilities with steeply inclined separators with an estimated annual design capacity of approximately 2.0 million tonnes per installation; and (iii) acquisition of high performance modern mining equipment with larger capacity, advanced automation features and increased reliability. See *"Business — Capital Investment Program."*

The amount ultimately spent on capital expenditures in 2010-2015 will be highly dependent on market conditions, our cash flow from operations and available financing at the time of the proposed expenditures. There can be no assurances that we will have sufficient cash flows to successfully execute this strategy. We currently expect to fund these capital expenditures from the net proceeds from the sale of the Subscribed Shares, the proceeds of additional borrowings and from cash from operations. See *"Risk Factors — Risks Relating to Our Business and Industry — If we are unable to obtain adequate finance, we may have to limit our operations substantially and cut back or suspend our capital expenditure and expansion plans"*.

Inflation

While our coal export, which accounted for 36.4% of our total sales volume of coal, is substantially depended on international prices for coal, its costs are closely linked to domestic cost factors. Inflation moderated in Russia during the past years; however, it reached 13.3% in 2008 compared with 11.9% in 2007. In 2007 and in the first three quarters of 2008, overall price trends were generally positive, with thermal coal prices growing faster than many relevant cost factors. The fourth quarter of 2008 brought the most significant drop in prices and demand for thermal coal in Russian and global markets caused by deepened recession and weakening international trade.

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our business condition, revenues, expenses, results of operations, liquidity, capital expenditures, or capital resources, other than operating leases and commitments, which are detailed in Note 32 and 33 of the financial statements at page F-41.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview

We are exposed in the ordinary course of our business to risks related to changes in demand for thermal coal and coal prices, exchange rates and interest rates.

Commodity Price Risk

We are exposed to changes in demand for thermal coal and fluctuations in coal prices as the substantial majority of our revenue and profit for the year are generated from sales of thermal coal in the Russian domestic market and the

European and Asian coal export market. For additional information, regarding the average domestic price and the average export price of thermal coal in 2007, 2008 and 2009, see *"— Key Factors Affecting Our Results of Operations — Price dynamics"*. Currently, we do not hedge against, and are exposed to, any decline in coal prices. A change in prices would significantly influence our financial performance. The coal mining business generally is a high cost business. Consequently, a significant decline in the price of coal would have a material adverse effect on our results of operations.

Foreign Exchange Risk

Our presentation and functional currency is the Russian Rouble. The Rouble is not a fully convertible currency outside the territory of Russia. Within Russia, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. See *"Exchange rate information."*

The following table sets out the Average Exchange Rate for the periods under review.

	For the year ended December 31		
	2007	**2008**	**2009**
Average Exchange Rate (RUB per U.S.$1.00)	25.58	24.86	31.72

See *"Presentation of Financial and Other Information — Presentation of Financial Information."*

According to the CBR, the Rouble appreciated against the U.S. dollar by 4.0% in 2006, 6.3% in 2007 and 2.9% in 2008. The Rouble depreciated against the U.S. dollar by 21.6% in the year ended 31 December 2009 as compared to the year ended 31 December 2008, in large part due to the impact of the global financial and economic crisis on the Russian economy. Approximately 0.4%, 2.4% and 54.5% of our total borrowings are denominated in the U.S. dollar. The depreciation of the Rouble against the U.S. dollar results in a negative effect on our financial indices, which demonstrated itself through an increase of the Rouble equivalent of our borrowings and associated costs denominated in the U.S. dollars. A hypothetical, instantaneous and simultaneous 10% depreciation of the Rouble against the U.S. dollar as of 31 December 2009 would have resulted in an increase of approximately RUB 200 million on borrowings denominated in Roubles held as at 31 December 2009.

On the other hand, while all of our domestic coal revenue and the majority of our costs and expenses are incurred in Roubles, our export coal revenues are denominated in U.S. dollars. The appreciation of the Rouble against the U.S. dollar has a negative effect on our financial indicators, which can demonstrate itself through a decrease of the Rouble-denominated revenues.

Our policy is not to use foreign exchange hedges to manage our foreign exchange risk. We perform foreign currency exchange rate sensitivity analysis on a yearly basis. For an analysis of such results, see Note 30(e) to our Financial Statements, included in this Offering Circular.

Interest Rate Risk

We finance a significant portion of our business operations and capital projects with long-term borrowings. As of 31 December 2009, our outstanding short-term and long-term borrowings amounted to RUB 2,204 million and RUB 1,655 million respectively. See *"— Indebtedness."*

Our interest rate risk arises from our loans and borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk. Borrowings issued at fixed rates expose us to fair value interest rate risk. We do not have a formal policy of determining how much of our exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings, we use our judgment to decide whether we believe that a fixed or variable rate would be more favorable to us over the expected period until maturity.

The following table summarizes our fixed and variable rate instruments by interest rate method as at 31 December 2007, 2008 and 2009:

	For the year ended 31 December		
	2007	2008	2009
		Restated	
		mln RUB	
Fixed rate interest bearing instruments:			
Financial assets	207	71	74
Financial liabilities	(3,118)	(3,685)	(3,509)
	(2,911)	**(3,614)**	**(3,435)**
Variable rate interest-bearing instruments*:*			
Financial liabilities	—	—	(350)
Net amount	**(2,911)**	**(3,614)**	**(3,785)**

Liquidity Risk

Liquidity risk is the risk that we will not be able to settle all liabilities as they become due. Our liquidity in the future will primarily depend on our ability to maintain adequate cash flows from operations to meet our debt obligations as they become due and on our ability to obtain adequate external financing to meet our committed future capital expenditures. Our operating cash flows could be adversely affected by numerous factors beyond our control, including but not limited to fluctuations in the price of coal, decreased demand for coal and coal-generated power or increased competition. Our ability to obtain external financing depends on numerous factors, including but not limited to our financial performance and creditworthiness as well as our relationships with lenders. As of 31 December 2009, we had RUB 248 million in credit facilities immediately available for the management of our day-to-day liquidity requirements.

Credit Risk

Our principal risk is the risk that a customer defaults or otherwise fails to timely fulfill its payment obligations under a sales contract. We manage our exposure in this respect by ensuring that credit risk is spread across a number of counterparties. Trade receivables comprise larger Russian and international customers, municipalities and state-owned companies, and credit is only extended to these customers after rigid credit approval procedures with a substantial portion of our sales being made on a prepayment basis.

CRITICAL ACCOUNTING POLICIES

The preparation of the financial information included in this Offering Circular requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate these estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Property, plant and equipment

Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other

operating expenses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Exploration and evaluation expenditure

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

Mine development costs

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on development of mineral resources is capitalised and classified within the "Construction in progress" category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labor and an appropriate proportion of overheads related to works on mine development which are inseparable from the mine's landscape, as well as costs of development stripping as described in note 3(d)(iv) of the Consolidated Financial Statements. Other development costs are recognised in the income statement as an expense as incurred.

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to "Mining assets and mining structures" category, which is classified within property, plant and equipment.

Stripping costs

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

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

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

Subsequent costs

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

Depreciation

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

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

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

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

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

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

Based on projected extraction volumes, the remaining useful life of the existing mining assets and mining structures is estimated to exceed 20 years.

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

Provisions

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

Site restoration

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

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

DIVIDEND POLICY

In the foreseeable future, we expect to reinvest a majority of our cash flow from operations into further development of our production, including construction of enrichment plants and purchase of mining and transportation equipment. In the near term, our policy is to make dividend payments at least once per year of not less than 25% of our net profits in the previous year, calculated under RAS.

The amount of dividend payments, if any, for any particular period will depend, among other things, on our financial position, results of operations, cash flows, future prospects and any statutory restrictions.

Dividend payments, if any, must be recommended by our directors and approved by a general shareholders' meeting, neither of whom is under any obligation to recommend or approve any dividend payments. In particular, dividends may be declared only out of net profits for the first quarter, six months, nine months and/or annual results calculated under RAS, provided that the following conditions have been met:

- our share capital has been paid in full;
- the value of our net assets, calculated under RAS, is not less, and would not, as a result of the proposed dividend payment, become less than the sum of our share capital, its reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares, if any;
- we have repurchased all shares from shareholders having the right to demand repurchase; and
- we are not, and would not become as the result of the proposed dividend payment, insolvent.

Dividends, if declared, are payable to our shareholders within 60 days of the declaration unless a shorter time period is set forth by the shareholders' decision declaring the dividends. For a further description, please refer to "*Description of Share Capital and Certain Requirements of Russian Legislation — Dividends.*"

We did not declare or pay dividends in respect of the year ended 31 December 2008. In 2007, our parent company, KTK, declared dividends to its shareholders of approximately RUB 64.988 million (U.S.$2.5 million), or RUB 38.5 (U.S.$1.51) per Share, in respect of the year ended 31 December 2006, and of approximately RUB 8.44 million (U.S.$329,945), or RUB 5 (U.S.$0.2) per Share, in respect of the first quarter of 2007 (using the Average Exchange Rate of RUB 25.58 per U.S.$1.00). In 2008, KTK declared dividends of approximately RUB 80.179 million (U.S.$3.2 million), or RUB 47.5 (U.S.$1.91) per Share, in respect of the first quarter of 2008 (using the Average Exchange Rate of RUB 24.86 per U.S.$1.00). In 2010, KTK declared dividends to its shareholders of approximately RUB 253.198 million (U.S.$8.75 million), or RUB 3 (U.S.$0.1) per Share, in respect of the year ended 31 December 2009 (using the exchange rate of RUB 28.93 per U.S.$1.00, quoted by the CBR on 16 April 2010). Amounts above do not include dividends declared to minority shareholders of our subsidiaries.

CAPITALIZATION

The following table sets out our consolidated cash and cash equivalents, short-term loans, including current portion of long-term loans, and capitalization, as of 31 December 2009, on an historical basis and as adjusted to give effect to the issuance of the New Shares and the receipt of the net proceeds there from as if such issuance of the New Shares occurred on 31 December 2009. The following table should be read in conjunction with "*Summary Consolidated Historical Financial Information,*" "*Use of Proceeds,*" "*Management's Discussion and Analysis of Financial Condition and Results of Operations,*" "*Business*" and the Consolidated Financial Statements, including the notes thereto, included elsewhere in this Offering Circular.

	As of 31 December 2009	
	Historical	**As adjusted[1]**
	mln RUB	
Cash and cash equivalents	86	2,717
Short-term borrowings	1,655	1,655
Long-term borrowing	2,204	2,204
Equity		
Share capital	17	2,648
Retained earnings	3,409	3,409
Total equity attributable to equity holders of KTK	3,426	6,057
Minority interest	41	41
Total equity	3,467	6,098
Total capitalization[2]	**5,671**	**8,302**

(1) Adjusted to give effect to the receipt of the net proceeds (after deducting aggregate fees and expenses relating to the Offering of approximately RUB 206 million as described in *"Use of Proceeds"*) from the issuance of the New Shares as part of the Offering, but not adjusted for any other changes subsequent to 31 December, 2009. We used the 30 April 2010 exchange rate between the Rouble and the U.S. dollar (RUB 29.29 per U.S.$1.00) to convert the amount of the net proceeds from the issuance of the New Shares as part of the Offering of the New Shares to be received by us in Roubles into U.S. dollars.

(2) Total of long-term borrowings and total shareholders' equity.

Subsequent to 31 December, 2009, we have entered into a number of additional borrowing arrangements as described in *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Recently incurred indebtedness"*.

Except as described in *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Recently incurred indebtedness,"* there have been no other material changes in capitalization since 31 December 2009.

DILUTION

As of 31 December 2009, our net tangible book value was approximately RUB 3,453 million. Net tangible book value is the equity attributable to equity holders of a company less intangible assets.

As of 31 December 2009, our net tangible book value per ordinary share was approximately RUB 40.91. Net tangible book value per ordinary share is our net tangible book value, divided by the number of shares in issue, fully paid at the relevant date.

Interests of investors investing in the Shares will be diluted to the extent of the difference between the offering price per Share and the net tangible book value per ordinary share, respectively, following the completion of the Offering.

After giving effect to the issuance by us of 14,900,000 New Shares as if such New Shares were issued on 31 December 2009 at an Open Subscription price per New Share of RUB 190.38, our net tangible book value as of 31 December 2009 would have been RUB 6,084 million, and our net tangible book value per ordinary share would have been RUB 61.27. Accordingly, upon the completion of the Offering, investors who purchase Shares will suffer an immediate and substantial dilution of RUB 129.11, or 68%.

The following table illustrates this dilution as if the Offering of the New Shares occurred on 31 December 2009.

	RUB
Offering price per Share	190.38
Net tangible book value per ordinary share as of 31 December 2009	40.91
Increase in net tangible book value per ordinary share attributable to the Offering of the New Shares, as if such Offering of the New Shares occurred on 31 December 2009	20.36
Net tangible book value per ordinary share immediately after the Offering of the New Shares, as if such Offering of the New Shares occurred on 31 December 2009	61.27
Dilution per ordinary share to new investors	**129.11**

RELATED PARTY TRANSACTIONS

The following is a summary of the Company's transactions with related parties for the years ended 31 December 2007, 2008 and 2009. For further details, see Note 35 ("Related party transactions") of the Consolidated Financial Statements.

We are party to various agreements and other arrangements with our related parties, including our shareholders and their related parties.

Related party transactions for the years ended 31 December 2007, 2008 and 2009 consisted of the following:

	As of 31 December		
	2007	2008	2009
	mln RUB		
Salaries and bonuses	115	112	127
Contribution to State pension fund	8	8	8
Sale of coal	427	314	21
Other revenue	1	4	2
Purchase of goods	88	182	4
Acquisition under common control	50	—	—
Services rendered to the Company	37	103	44
Loans received	17	346	—
Loans given	200	—	60
Interest expense on loans received	7	20	—
Interest income on loans given	15	16	13

Set out below is a short description of our most significant related party dealings for the years ended 31 December 2007, 2008 and 2009:

During 2007 and 2008, we sold coal to related parties controlled by one of our major shareholders, Mr. Vadim Danilov, in the amount of RUB 427 million and RUB 314 million, respectively. Additionally, we purchased coal from the same related parties during 2007 and 2008 in the amount of RUB 88 million and RUB 182 million, respectively, and also paid transportation costs, reflected within "Services rendered to the Company" line above, to these parties in 2008 in the amount of RUB 60 million.

In 2007, we provided a RUB 200 million loan to Mr. Vadim Danilov, with an interest rate of 10.5% per annum. During 2008, this loan was partially repaid by the borrower, resulting in the outstanding balance of the loan of RUB 69 million as of 31 December 2008.

In 2009, the balance of the previously issued loan was fully repaid, and TEKM provided another loan to Mr. Vadim Danilov in the amount of RUB 60 million, which bears an interest rate of 18% per annum. The loan has a maturity date of 16 January 2011. As of 31 December 2009, the total amount outstanding under this loan was RUB 60 million and obligations of the borrower were secured by 16,880 of our shares owned by Mr. Vadim Danilov.

Before 2007, our controlling shareholder, Mr. Prokudin, provided a loan to us in the amount of RUB 63 million, bearing an interest rate of 12% per annum. Additionally, in 2008, we borrowed RUB 202 million from Mr. Igor Prokudin, which accrued interest at a rate of 13% to 15% per annum, and also received loans from related parties under his control in the amount of RUB 144 million with interest rates varying from 11% to 15% per annum. All such loans were repaid by us by 31 December 2008.

In 2009, our subsidiary Altay Fuel Company entered into a credit agreement with Sberbank, allowing borrowing of RUB 19.8 million. The credit agreement has a maturity date of 23 September 2010. As of 31 December 2009, obligations under this agreement were secured, *inter alia,* by a personal guarantee of Mr. Frantsen, a general director of Altay Fuel Company.

We, TEKM, Kaskad-Energo and Kuzbasstoplivosbyt entered into agreements on security services with LLC Private Security Enterprise Kaskad Okhrana Service, which is fully owned by Mr. Prokudin, one of our major shareholders. The security company is obliged to safeguard production facilities of us, TEKM and Kaskad-Energo and warehouses of Kuzbasstoplivosbyt. Related costs are included within "Services rendered to the Company" line above. We believe that there is no negative impact of these transactions on our operations as they are completed on an arm's length basis and market conditions.

In 2008 and 2009, Novosibirsk Fuel Corporation entered into two supply agreements and two services agreements with OJSC Suzunsky Raytop, where Novosibirsk Fuel Corporation owns a 49% share. Under supply agreements, Novosibirsk Fuel Corporation supplied coal to OJSC Suzunsky Raytop, while, under services agreements, OJSC

Suzunsky Raytop was obliged to render services to Novosibirsk Fuel Company such as loading, storage, transportation and realization of coal. Under one of the supply agreements, Novosibirsk Fuel Company was entitled to adjust the price unilaterally depending on market conditions. Under these agreements, OJSC Suzunsky Raytop is obliged to pay for coal within 30 days upon signing an invoice. The validity period of such supply and services agreements is one year. We also believe that there is no negative impact of these transactions on our operations as they are completed on an arm's length basis and market conditions.

Board of Directors

Our Board of Directors is responsible for general management matters, with the exception of those matters that are designated by the Joint Stock Companies Law and our charter as being the exclusive responsibility of the general shareholders' meeting. For more detailed discussion of the authority of the Board of Directors, see *"Description of Share Capital and Certain Requirements of Russian Legislation — Board of Directors."*

Our Board of Directors currently consists of five directors. Two directors are independent directors under the criteria set out by Russian law in the Joint Stock Companies Law.

The following table sets out the name, year of birth and position on the Board of Directors for each member of the Board of Directors:

Name	Year of Birth	Position[(1)]
Vadim Danilov	1968	Chairman of the Board of Directors
Igor Prokudin	1955	Director
Eduard Alekseenko	1976	Director
Yuri Fridman	1944	Independent Director
David Stewart	1965	Independent Director

(1) Principal senior management positions of the members of the Board of Directors are listed below.

All of our directors were elected or re-elected on 16 April 2010 by the annual general shareholders' meeting. The terms of appointment for all directors expire on the date of the next annual general shareholders' meeting. The business address of each of our directors is 50-let Oktyabrya Street 4, 650000 Kemerovo, Russian Federation.

Vadim Danilov — Chairman of the Board of Directors, Deputy Director of KTK

Mr. Vadim Vladimirovich Danilov was born in 1968. He graduated from Novosibirsk Humanitarian Institute in 2000 with a degree in economics. From 1993 to 1998, Mr. Danilov occupied various management positions, including the posts of deputy commercial director and commercial vice-president at CTJSC TPD RATM. From 1998 to 1999, he served as general director and later as vice-president at CJSC RATM-Group. From 1999 to 2001, Mr. Danilov served as the general director of CJSC RATM-Energo and then as the first vice-president of the same company. Since the end of 2002, Mr. Danilov has been the deputy general director of KTK.

Igor Prokudin — Director, General Director (Chief Executive Officer) of KTK

Mr. Igor Yurjevich Prokudin was born in 1955. He graduated from Kuzbass Polytechnical Institute in 1982 with a degree in technology and complex mechanization of open-pit development of mineral resources. Mr. Prokudin was awarded a candidate of economics degree in 2006 by the resolution of the Dissertation Council of Novosibirsk State University. From 1982 to 1991, he worked first as a mining specialist of the Chernigovsky mine, then held various management positions for the same entity, including chief technologist, chief of the mining field, deputy operational director and chief engineer. From 1991 to 1995, Mr. Prokudin served as the first deputy head of the Administration of the Kemerovo region. From 1997 to 2000, he served as the deputy general director and vice-president of OJSC Holding Company Kuzbassrazrezugol. Since 2000, Mr. Prokudin has served as the General Director of Federal State Unitary Enterprise Kuzbasskaya Toplivnaya Company and then, after its privatization and reorganization in December 2001, as the General Director of KTK.

Eduard Alekseenko — Director, First Deputy General Director of KTK

Mr. Eduard Vladimirovich Alekseenko was born in 1976. He graduated from Kuzbass State Technical University in 1998 with a degree in engineering and economics. From 1997 to 2000, Mr. Alekseenko held various management positions, including positions of leading engineer of financial and economic activity division of the Financial and Economic Activity Department, chief economist of financial planning and analysis division and head of the financial planning and analysis division in OJSC Holding Company Kuzbassrazrezugol. From 2000 to 2006, he served as the head of the Financial and Economic Activity Department, deputy general director for finance in KeNoTEK. In 2006, after KeNoTEK merged with KTK, Mr. Alekseenko was appointed as the deputy general director of KTK for economics and finance and, since 2009, he has been occupying the position of the first deputy general director of KTK.

Yuri Fridman — Independent Director of KTK

Mr. Yuri Abramovich Fridman was born in 1944. He graduated from Kuzbass Polytechnic Institute in 1968 with a degree in mining engineering. He was awarded Doctor of Economics degree in 1987 and the Professor of Economics status in 1989. Mr. Fridman completed an internship in economic planning (Stanford University, USA, 1990), an advanced vocational training course in corporate governance and organization (Penn State University, USA, 1992) and an advanced vocational training course in business consulting (Sema-Group Company, Belgium, 1993). Since 1968, he has been employed by the Siberian Branch of the Institute of Economics and Industrial Production of the Russian Academy of Science; his scientific works include over 200 publications. From 1987 to 1989, he was in charge of the development and implementation of regional self-support models in the Kuzbass region. From 1989 to 1991, he was in charge of the development and creation of a Free Economic Zone in the Kuzbass region. From 1991 to 1995, he provided advisory support with respect to the implementation of a coal industry restructuring program; in particular, he dealt with the implementation of self-support programs and lease relations in coal industry (the Raspadskaya and the Chernigovsky mines). From 1996 to 2000, he dealt with regional industrial policy issues. From 2000 to 2008, he was involved in the development and implementation of the procedures for balancing economic interests of the coal business with those of the regional authorities. Since 2008, he has served as KTK's independent director.

David Stewart — Independent Director of KTK

Mr. David Stewart was born in 1965. In 1987, he received a Bachelor of Business Administration degree from the University of Melbourne and is an associate of the Institute of Chartered Accountants in Australia since 1990. From 1988 to 1996, Mr. Stewart served as a senior manager in Ernst & Young (Moscow branch). From 1996 to 2009, he held several management positions in private companies, including positions of financial director in LLC Teleross from 1996 to 2001, vice president, chief financial officer in Golden Telecom from 1996 to 2004, financial director in the resources sector of Basic Element from 2005 to 2007, and chief financial officer of LLC PK Borets from 2007 to 2009. Since 2010, he has served as KTK's independent director.

Senior Management

The following table sets out the name, year of birth and position of each member of our senior management:

Name	Year of Birth	Position
Igor Prokudin	1955	General Director of KTK
Vadim Danilov	1968	Deputy General Director of KTK
Ivan Gepting	1976	Deputy General Director of KTK for Commercial Activity
Alexandr Artemenko	1954	Technical Director of KTK
Eduard Alekseenko	1976	First Deputy General Director of KTK
Sergey Kovalenko	1954	Deputy General Director of KTK for Production
Andrey Magaev	1958	Deputy General Director of KTK for Finance

Igor Prokudin — General Director of the Company

See *"— Board of Directors"* for a brief biography of Mr. Prokudin.

Vadim Danilov — Deputy General Director of KTK

See *"— Board of Directors"* for a brief biography of Mr. Danilov.

Ivan Gepting — Deputy General Director for Commercial Activity of KTK

Mr. Ivan Vladimirovich Gepting was born in 1976. He graduated from the Kemerovo State University in 1998 with a degree in finance and credit. From 1996 to 2000, Mr. Gepting occupied various management positions with the administration of the Kemerovo region, including chief economist, advisor to the deputy head of the regional administration for economics and advisor to the deputy head of the regional administration for external economic relations and entrepreneurship. Since 2000, he has served as the deputy general director of KTK for commercial activity.

Alexandr Artemenko — Technical Director of KTK

Mr. Alexandr Viktorovich Artemenko was born in 1954. He graduated from the Kuzbass Polytechnical Institute in 1986 with a degree in technology and complex mechanization of open-pit development of mineral resources. From 1973 to 1978, Mr. Artemenko worked as a chainman of surveying works at the Industrial Association Severovostokzoloto and, from 1978 to 2003, he occupied various positions, including those of site surveyor and chief surveyor at the Chernigovsky mine of the Industrial Association Kemerovougol. In 1986, Mr. Artemenko

was appointed to the position of technical director of JSC Chernigovets. Since 2003, he has been serving as the technical director of KTK.

Eduard Alekseenko — First Deputy General Director of KTK

See *"— Board of Directors"* for a brief biography of Mr. Alekseenko.

Sergey Kovalenko — Deputy General Director of KTK for Production

Mr. Sergey Konstantinovich Kovalenko was born in 1954. He graduated from the Kuzbass Polytechnical Institute in 1982 with a degree in technology and complex mechanization of open-pit development of mineral resources. From 1972 to 1982, Mr. Kovalenko worked as a mine worker. From 1982 to 1986, Mr. Kovalenko worked first as a mining foreman, and then as a deputy head of the Mokhovsky coal mine. In 1986, he worked as a mining foreman at the Listvyansky coal mine. From 1986 to 2001, Mr. Kovalenko worked as a mining foreman, deputy head of the mining site and director of the Taldinsky coal mine. From 2001 to 2004, he worked as the general director of the Kamyshansky coal mine. In 2005, Mr. Kovalenko was employed as the general director of the Tagaryshsky coal mine and, from August 2005, was the director of the Karakansky South mine. In 2009, he was transferred to the position of KTK's deputy general director for production.

Andrey Magaev — Deputy General Director of KTK for Finance

Mr. Andrey Nikolaevich Magaev was born in 1958. He graduated from the Novosibirsk Electrotechnical Institute in 1981 with a degree in hydropower engineering. Mr. Magaev was awarded a candidate of technological sciences degree in 1987 by the resolution of the Council of Novosibirsk Electrotechnical Institute. From 1981 to 1986, he worked as a laboratory engineer and researcher at the Novosibirsk Electrotechnical Institute. In 1992, he occupied the position of the head of the Information Analysis Department of the Novosibirsk Property Fund and, from 1993 to 1997, he held various management positions with Siberian Territorial Bank, Incombank, ROS Bank and Russian People's Bank. From 1997 to 2004, he served as the deputy director for investments, director and general director of the RATM Group. From 2004 to 2005, he worked in the Administration of the Novosibirsk Region as a head of finance and tax policy department. From 2005, he held the position as KTK's deputy general director for regional development and, since 2009, he has been KTK's deputy general director for finance.

Corporate Governance

Our Shares are listed on the "V" lists of RTS and MICEX. As a result, we are required to comply with the corporate governance regime established for companies whose shares are listed on the "V" list of a Russian stock exchange. Such corporate governance regime includes, among other things, the following:

- at least one independent director (in accordance with the requirements for independence as set out by Russian law) on our Board of Directors at all times;
- establishment of the audit committee of the Board of Directors, which is headed by an independent director and includes only directors who do not comprise our sole executive body;
- the provision to the shareholders of a report from the audit committee summarizing any findings from the audit of the financial statements;
- adoption of internal regulations on the use of insider information and on internal control over financial and business activities;
- a provision in our internal regulations requiring our general director (chief executive officer) as well as the members of our Board of Directors to disclose information on their ownership, sale and purchase of our securities; and
- a provision in our charter that shareholders must be given at least 30 days' notice of the annual general shareholders' meeting.

As of the date of this Offering Circular, we have complied with all corporate governance standards established for companies whose shares are listed on the "V" list of a Russian stock exchange.

In order to comply, we have adopted a number of internal regulations governing the activities of our management bodies. As of the date of this Offering Circular, according to our internal regulations, the chairman of the Board of Directors may not serve as the general director (chief executive officer) and at least one member of the Board of Directors should be independent, meeting the following requirements:

- he/she should not be our manager or employee nor should he/she have been a manager or employee during the previous three years;

- he/she should not be a manager of another company if any manager of such a company is a member of the nomination and remuneration committee of the Board of Directors;
- he/she should not be a spouse, parent, child, brother or sister of any of our managers;
- he/she should not be our affiliate or an affiliate of our affiliates;
- he/she should not be a party to any transactions with us under which transactions he/she may be entitled to acquire property with a value of 10% or more of his/her total annual income, excluding compensation for carrying out the functions associated with being a member of the Board of Directors; and
- he/she should not be a representative of the state.

In addition, the internal regulations provide for the creation of committees of the Board of Directors. The Board of Directors established the audit committee and formally delegated certain duties and responsibilities to such committee. From time to time, separate committees may be set up by the Board of Directors to consider specific issues when the need arises.

To further bring us in compliance with the required corporate governance standards, we have also adopted internal regulations on use of insider information and internal control.

Audit Committee

The audit committee assists the Board of Directors in the evaluation of (i) candidates to the position of our auditor, (ii) the opinions of our auditor and (iii) effectiveness of our internal control systems. Currently, the audit committee consists of David Stewart (chairman), Tamara Muravyova and Dmitry Filyakov.

Remuneration

The aggregate amount of remuneration the Group paid to the members of our Board of Directors for services in all capacities provided to us during the year ended 31 December 2009 was RUB 92.1 million, which represents a 19.3% increase from aggregate amount of remuneration in the amount of RUB 77.2 million for the year ended 31 December 2008.

The aggregate amount of remuneration the Group paid to the managers comprising our senior management for services in all capacities provided to us during the year ended 31 December 2009 was RUB 102.3 million, which represents a 13.7% increase from aggregate amount of remuneration to the managers in the amount of RUB 90.0 million for the year ended 31 December 2008.

Interests of Directors and Senior Management

The table below sets out the interests of the directors and senior management in our share capital as of 29 April 2010, unless stated otherwise, and as adjusted to reflect the completion of the Offering and assuming that all New Shares subscribed for by our existing shareholders in the exercise of their pre-emptive rights (if any) are purchased and paid for.

	Immediately preceding the Offering		After the Offering	
Names of directors and senior managers	*Number of shares beneficially held*	*% of the share capital*	*Number of shares beneficially held*	*% of the share capital*
Igor Prokudin[(1)]	51,400,600	60.90	48,061,162	48.40
Vadim Danilov[(2)]	23,631,800	28.00	16,149,184	16.26
Ivan Gepting	—	—	—	—
Alexandr Artemenko	—	—	—	—
Eduard Alekseenko	—	—	—	—
Andrey Magaev	—	—	—	—
Sergey Kovalenko	—	—	—	—
Yuri Fridman	—	—	—	—
David Stewart	—	—	—	—

(1) Igor Prokudin holds 48,061,162 ordinary shares through Mizar.

(2) Vadim Danilov holds 23,631,750 ordinary shares through Laycraft. After the Offering, Mr. Danilov will hold 16,149,184 ordinary shares through Laycraft.

Under Russian legislation, certain transactions defined as "interested party transactions" require approval by our disinterested directors or shareholders. See *"Description of Share Capital and Certain Requirements of Russian Legislation — Interested Party Transactions."*

We are not aware of any current or potential conflicts between the private interests and duties of the directors and senior management of the Group and the duties of those persons to the Group.

Litigation Statement about Directors and Senior Management

None of the directors or senior management:

- have any convictions in relation to fraudulent offenses;
- have been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- have received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or have been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company,

in each case within the five years preceding the date of this Offering Circular.

There are no family relationships between and among directors and senior management.

PRINCIPAL AND SELLING SHAREHOLDERS

The table below sets out certain information regarding the ownership of our ordinary shares as of 29 April 2010, unless stated otherwise, and after the completion of the Offering and the Open Subscription assuming that all New Shares and Sale Shares are subscribed for/purchased and paid for.

Shareholder	Number and percentage of share capital			
	Prior to the Offering and the Open Subscription		After the completion of the Offering and the Open Subscription	
	Number of shares	*% of share capital*	*Number of shares*	*% of share capital*
Mizar[1]	48,061,162	56.94	48,061,162	48.40
Igor Prokudin	3,339,438	3.96	0	0.0
Laycraft[2]	23,631,750	28.0	16,149,184[3]	16.26
Vadim Danilov	50	0.0	50	0.0
Other shareholders	9,367,000	11.1	35,089,004	35.34
Total	**84,399,400**	**100**	**99,299,400**	**100**

(1) The shares held by Mizar are beneficially owned by Mr. Prokudin.

(2) The shares held by Laycraft are beneficially owned by Mr. Danilov.

(3) The total number of shares held by Laycraft reflects a purchase of 46,154 New Shares by Laycraft through the Open Subscription.

We are not aware of any shareholder, other than Mr. Prokudin, who, after the completion of the Offering and the Open Subscription, directly or indirectly, will exercise significance influence over us. Following the completion of the Offering, Mr. Prokudin, who is also our general director (chief executive officer), will beneficially own approximately 48.40% of our share capital. Although there is currently no shareholder agreement between Mr. Prokudin and Mr. Danilov (our deputy general director and Chairman of the Board of Directors, who will beneficially own approximately 16.26% of our share capital following the completion of the Offering), they plan to join their interests together into one company. In such case, such company will become our controlling shareholder exercising a much greater degree of influence over our operations. The interests of Mr. Prokudin could conflict with those of other holders of our Shares and, other than the protections offered to minority shareholders outlined below, no additional measures have been put in place by us to prevent an abuse of the rights of minority shareholders resulting from the exercise of control over us by the principal beneficial shareholders. See also *"Risk Factors — Risks Relating to Our Business and Industry— We have, and following the Offering will be, significantly influenced by our principal shareholder, whose interests may conflict with the interests of other holders of the Shares."*

Russian laws such as the Joint Stock Companies Law (as defined below) and corporate governance requirements applicable to companies listed on Russian stock exchanges provide certain protections to minority shareholders. For instance, there are supermajority shareholder approval requirements for certain corporate actions, a shareholder is able to demand that the company purchases the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions, companies are required to obtain the approval of disinterested shareholders for certain transactions with interested parties and the shareholders owning not less than 1% of the company's stock may bring an action for damages caused by the company's managers or directors. In addition, considering listing of our shares on RTS and MICEX, we currently comply with a number of corporate governance standards, which provide additional protection to our shareholders, including minority shareholders. See *"Management and Corporate Governance — Corporate Governance."* However, no assurance can be given that the applicable Russian laws and the corporate governance standards with which we have to comply will be able to fully protect the interests of our minority shareholders if such interests are in conflict with the interests of our controlling shareholder. See also *"Risk Factors — Legislative and Legal Risks Relating to Russia" and "Description of Share Capital and Certain Requirements of Russian Legislation."*

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered ordinary shares, the material provisions of our charter in effect on the date of this Offering Circular and applicable Russian legislation. This description of the applicable Russian legislation, however, does not purport to be a complete description of all applicable laws and should not be read as such. Prospective investors may obtain a copy of our charter upon request.

Our Purpose

Under Article 2 of our charter, we may conduct open-cut coal mining, wholesale trade in solid fuel, retail sale of household boiler fuel, coal or bottled gas, coal exploration, wholesale operations with respect to coal, its conversion products, other energy carriers and to carry out other activities that are not prohibited by Russian legislation.

Description of Share Capital

General

We were founded as a state enterprise on 4 April 2000, which was converted into open joint stock company in 2001. Our share capital is divided into shares each with an equal nominal value and the amount of the aggregate nominal value of all such shares constitutes our share capital. Absent specific contractual undertakings of shareholders, our shares may be sold by their holders to any third parties without triggering any rights of first refusal or requiring any approvals on the part of other shareholders or KTK itself.

Pursuant to the Joint Stock Companies Law, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. According to the resolution of our extraordinary general shareholders' meeting dated 1 December 2009, 1,687,988 ordinary shares, each with a nominal value of RUB 10, comprising our share capital were split into 84,399,400 ordinary shares, each with a nominal value of RUB 0.2. All shares of our share capital are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 14,900,000 ordinary shares, each with a nominal value of RUB 0.2.

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our share capital. Such shares are referred to as treasury shares for purposes hereof. Russian legislation does not allow for the voting of or payment of dividends in respect of such treasury shares. Currently, we do not have any treasury shares.

No preferred shares are authorized or outstanding. Preferred shares may only be issued if amendments are made to our charter pursuant to a resolution of the general shareholders' meeting. The Joint Stock Companies Law provides for a right to issue preferred shares subject to the nominal value of all outstanding preferred shares not exceeding 25% of the share capital.

History of share issuances

Since our incorporation and prior to the issuance of the Subscribed Shares, we completed two issuances of ordinary shares. In November 2005, we completed the only additional issuance of ordinary shares, in which our share capital was increased from RUB 13,581,520 to RUB 16,879,880 through the issuance of 329,836 ordinary shares. All shares of this issue were placed to Mr. Danilov under closed subscription and were paid for these shares in cash. In January 2010, we completed the issuance of ordinary shares in the course of a share split, in which the ordinary shares, comprising our share capital, were converted into 84,399,400 ordinary shares, each with a nominal value of RUB 0.2.

The following table sets out the changes in our share capital that have occurred from the date of our incorporation up to the date of this Offering Circular, excluding the issuance of the New Shares.

Year of issue	Type of shares	Number of shares issued	Nominal value of each share issued	Total number of ordinary shares after the issue	Total share capital after the issue
			RUB		*RUB*
2002	Ordinary shares	1,358,152	10.0	1,358,152	13,581,520
2005	Ordinary shares	329,836	10.0	1,687,988	16,879,880
2010	Ordinary shares	84,399,400	0.2	84,399,400	16,879,880

Rights of Shareholders

Holders of our ordinary shares have the right to vote at all general shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all our ordinary shares have the same nominal value and grant identical

rights to their holders. Absent specific contractual undertakings by shareholders, each fully paid ordinary share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without the consent of other shareholders;
- receive dividends in accordance with the Joint Stock Companies Law and our charter if the general shareholders' meeting approves payment of such dividends (always subject to the Board of Directors' recommendation);
- acquire our shares by exercising pre-emptive rights on a pro rata basis in relation to their existing holdings of our shares as provided for by the Joint Stock Companies Law and our charter;
- participate in general shareholders' meetings and vote on all matters within the shareholders' competence;
- participate in the election and dismissal of members of the Board of Directors and the internal audit commission;
- transfer voting rights to a representative on the basis of a power of attorney;
- if holding, alone or with other shareholders, 2% or more of the voting shares, within 30 days of the end of our fiscal year, make proposals for inclusion of the items to the agenda of an annual general shareholders' meeting and nominate the general director (chief executive officer) and candidates to the Board of Directors and the internal audit commission;
- if holding, alone or with other shareholders, 10% or more of the voting shares, demand that the Board of Directors convene an extraordinary general shareholders' meeting or an unscheduled audit by the internal audit commission;
- subject to certain limitations described below, demand repurchase by us of all or some of the shares owned by it, as long as such shareholder voted against or did not participate in the voting on the decision approving certain corporate events as described in "— *Share Buy-Back*" below;
- upon our liquidation, receive a proportionate amount of our property after our obligations are paid off;
- have access to certain of our documents, receive copies for a reasonable fee and, if holding, alone or with other shareholders, 25% or more of the voting shares, have free access to accounting documents; and
- if holding, alone or with other shareholders, 1% or more of the ordinary shares:
    - access the list of persons entitled to participate in the general shareholders' meeting;
    - sue, on our behalf, in court members of the Board of Directors or the general director (chief executive officer) for damages incurred by us as a result of their faulty actions or omissions to act;
    - obtain information on our shareholders' register as provided by Russian legislation; and
    - exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of general shareholders' meetings approved in accordance with its competence.

Holders of our ordinary shares must also fulfill certain obligations such as compliance with our charter, decisions made by the general shareholders' meeting, and certain other requirements in accordance with Russian legislation.

Pre-emptive Rights

The Joint Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such closed subscription. This pre-emptive right does not apply to the closed subscription for shares by the existing shareholders, provided that in the course of such closed subscription each such shareholder may acquire a whole number of shares or securities convertible into shares being placed, in proportion to its existing shareholding. We must provide shareholders with written notice at least 45 days prior to the commencement of the offering (by way of closed or open subscription), during which time shareholders may exercise their pre-emptive rights. If the price of the offered shares or securities convertible into shares is determined after expiration of the pre-emptive right exercise period, we must provide shareholders with written notice at least 20 days prior to the commencement of such offering, during which time shareholders may exercise their pre-emptive rights.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may declare dividends based on our three-month, six-month, nine-month and/or annual results. Dividends shall be recommended to the general shareholders' meeting by a majority vote of the Board of Directors and shall be approved by the majority vote of the general shareholders' meeting. A decision on three-month, six-month and nine-month dividends must be made at the general shareholders' meeting within three months of the end of the respective quarter, and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividends approved at the general shareholders' meeting may not be more than the amount recommended by the Board of Directors. Dividend payable on shares is distributed to our shareholders as at the record date for the general shareholders' meeting approving the dividends. According to our charter, the dividend should be paid in cash, unless the general shareholders' meeting takes a decision to pay dividends in kind, which is determined by the general shareholders' meeting on the basis of the Board of Directors' recommendation. No dividend is paid on treasury shares.

The paid dividends are subject to tax. See *"Russian Taxation Considerations — Taxation of Dividends."*

The Joint Stock Companies Law allows dividends to be declared as long as the following conditions have been met:

- the share capital of the company has been paid in full;
- the value of the company's net assets on the date of adoption of decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company (if any);
- the company has repurchased all shares from shareholders having the right to demand repurchase;
- the company is not, and would not become, insolvent as a result of the proposed dividend payment; and
- certain other requirements of Russian legislation.

According to our charter, dividends on ordinary shares may be paid out of our net profits calculated under RAS.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- otherwise prohibited by Russian legislation.

We are required to pay dividends within the time period, which is indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution.

Distributions to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in the company ceasing to exist without rights and obligations being transferred to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- voluntary, by a three-quarters majority vote at a general shareholders' meeting (subject to the Board of Directors' recommendation); or
- involuntary, by a court order.

Following a decision on our liquidation, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the general shareholders' meeting and, in an involuntary liquidation, is appointed by the court that may vest the duty to liquidate us in our shareholders. Our creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation of a company:

- first priority — individuals owed compensation for personal injury or death or moral damages;
- second priority — employees' claims and copyright claims;

- third priority — federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- fourth priority — other creditors in accordance with Russian legislation.

Subject to certain limitations, claims of creditors with respect to obligations secured by a pledge over a company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors of the first and second orders of priority arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares of all types.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders of a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investments. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is called an "**effective parent**." The entity whose decisions are capable of being so determined is called an "effective subsidiary." The effective parent bears joint and several liability for transactions entered into by the effective subsidiary in carrying out these decisions if:

- the effective parent gives binding instructions to the effective subsidiary; and
- the right of the effective parent to give binding instructions is provided for in the charter of the effective subsidiary or in a contract between such entities.

Thus, a shareholder of an effective parent is not liable itself for the debts of the effective parent's effective subsidiary unless that shareholder is itself an effective parent of the effective parent.

Therefore, shareholders will not be personally liable for our debts or those of our effective subsidiaries unless the shareholders control our business.

In addition, the effective parent is secondarily liable for the effective subsidiary's debts if the effective subsidiary becomes insolvent or bankrupt resulting from the fault of the effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency or bankruptcy of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, the effective parent has secondary liability only if the effective parent has caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent may be held secondarily liable if the effective subsidiary's insolvency is caused by the willful misconduct or negligence of such effective parent and if the effective subsidiary's assets are insufficient to cover its obligations.

Shareholders of an effective subsidiary that is a joint stock company may also claim compensation for the effective subsidiary's losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent through its willful misconduct or negligence caused the effective subsidiary to take any action that resulted in a loss.

Alteration of Share Capital

Share capital increase

We may increase our share capital by:

- issuing new shares; or
- increasing the nominal value of previously issued shares.

A decision to increase the share capital by increasing the nominal value of previously issued shares, a decision on issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of shares or securities convertible into shares, requires a three-quarters majority vote of a general shareholders' meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter requires a charter amendment, approved by a three-quarters majority vote of a general shareholders' meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at the price determined by the Board of Directors based on their market value. The Board of Directors may provide for a discount for existing shareholders exercising their pre-emptive right to purchase shares for a price that shall not be less than 90% of the price set for third parties. In any event the price may not be set at less than the nominal value of the shares. The Board of Directors shall value any in-kind contributions for new shares based on the appraisal report of an independent appraiser.

Federal Law No. 39-FZ "On the Securities Market", dated 22 April 1996, as amended (the "**Law on the Securities Market**"), and the FSFM regulations set out detailed procedures for the registration and issuance of shares of a Russian joint stock company.

Share capital decrease

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is RUB100,000 for a Russian open joint stock company. While a decision to reduce our share capital through the repurchase and cancellation of shares should be made by a majority vote of the general shareholders' meeting, a decision to reduce share capital through a reduction in the nominal value of the shares should be made by a 75% majority of votes at the general shareholder's meeting and only upon recommendation of the Board of Directors. A decision to reduce our share capital through the reduction of the nominal value of the shares may provide for payments to all the shareholders and/or transfer of securities of other companies owned by us.

The Joint Stock Companies Law allows us to reduce our share capital only if at the time of such reduction:

- our share capital is paid up in full;
- we are not and would not become, as a result of the payment and/or the transfer of securities to the shareholders as described above, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the payment and/or the transfer of securities to the shareholders) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares;
- we have fully paid all declared dividends; and
- we comply with other requirements of Russian legislation.

Additionally, within three business days of a decision to reduce our share capital, we must inform on this decision an authority for registration of legal entities and publish a notice on this during each of the following two months. Our creditors would have the right to demand, within 30 days of the last publication of the notice, early termination or discharge of relevant obligations by us, as well as compensation for damages.

The shares repurchased pursuant to a decision of a company's general shareholders' meeting to decrease the overall number of shares are cancelled at their redemption.

Share buy-back

The Joint Stock Companies Law and our charter allow the general shareholders' meeting to authorize the repurchase of up to 10% of our shares in exchange for cash. The shares repurchased pursuant to a decision of the general shareholders' meeting must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital.

The Joint Stock Companies Law allows us to repurchase our shares only if at the time of repurchase:

- our share capital is paid up in full;
- we are not and would not become, as a result of the repurchase, insolvent;

- the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares.

Russian legislation and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- any reorganization;
- entering into a major transaction with a value in excess of 50% of the balance sheet value of our assets, as determined under RAS as of the most recent reporting date; or
- amendment of our charter or approval of a restated version of our charter in a manner, which restricts rights of shareholders of the same class.

We will repurchase the shares at the price stated by the Board of Directors, which shall not be less than the market value determined by an independent appraiser. Any such repurchase shall be limited up to 10% of our net assets calculated under RAS. If the value of shares with respect to which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a *pro rata* basis.

Registration, Transfer and Pledge of Shares

All our shares are ordinary shares in registered form. Since 2010, OJSC "Moscow Central Depository", located at 34 Bolshaya Pochtovaya Street, building 8, Moscow, Russia, has maintained our shareholder register. Ownership of our registered ordinary shares is evidenced solely by entries made in such register or in a depo account of a licensed Russian depositary (custodian). Any of our shareholders may obtain an extract from such register certifying the number of shares that such shareholder holds. Any purchase, sale or other transfer or pledge of shares is accomplished through registration of the transfer or pledge in the register of shareholders, or in a depo account maintained by a depositary if shares are held through a depositary. In the latter case, the depositary must appear as a nominal holder of shares in our register of shareholders or in the depo account of another depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to register the transfer or pledge of shares in the register or depo accounts as applicable. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, is not allowed, provided that the transfer or pledge documents comply with Russian law requirements, and such refusals may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The reserve fund must be utilized only for the above mentioned purposes. Our charter provides for the reserve fund of 5% of our share capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 5% of our share capital.

Disclosure of Information

After the Offering, according to Russian securities regulations, we shall make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders, management bodies, members of the Board of Directors, branches and representative offices, our shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity and disclosing the same information on our website on the same basis as required by applicable securities regulations;
- publishing in a newsline and on our Internet page, as well as, in certain cases, publishing in a periodical publication, any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on, and other stages of, share issuances, certain changes in ownership and shareholding as well as resolutions of the general shareholders' meeting and certain resolutions of the Board of Directors and other information which may substantially affect the value of our shares;
- disclosing our charter and internal regulations;

- disclosing information on any of the following documents we have received:

  a voluntary offer (including any competing offer);

  a mandatory offer (including any competing offer);

  a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of our shares;

  a request that minority shareholders sell their shares to the person that has acquired more than 95% of our shares;

- publishing our annual report and annual financial statements prepared in accordance with RAS and IFRS financial statements (if any);
- disclosing list of our affiliates on our website on a quarterly basis; and
- disclosing other information as required by applicable securities legislation.

General Shareholders' Meeting

Procedure

The powers of the general shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. The scope of authority of the general shareholders' meeting is limited to the powers contemplated by the Joint Stock Companies Law and our charter. Among issues that the shareholders have the power to decide are:

- amendments and additions to our charter;
- our reorganization;
- our liquidation, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- appointment and removal of the general director (chief executive officer);
- election and removal of members of the Board of Directors;
- determination of the number, nominal value and class/type of authorized shares and the rights granted by such shares;
- increase of our share capital;
- reduction of our share capital either by reduction of the nominal value of the shares or by buy-back of our outstanding shares for the purposes of such reduction or by cancellation of our treasury shares;
- splitting and consolidating our shares;
- issuance of bonds or other securities convertible into ordinary shares when placed by either closed subscription or by open subscription;
- appointment and removal of the members of our internal audit commission;
- approval of our external auditor;
- approval of our annual reports and financial statements;
- approval of certain interested party transactions and major transactions;
- distribution of profits, including payment of dividends;
- setting out a procedure for holding a general shareholders' meeting;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organizations;
- approval of certain internal regulations;
- payment of remuneration to the members of the Board of Directors;
- payment of remuneration to the members of our internal audit commission; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a general shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting.

Ordinarily, a majority vote of the voting shares present at a general shareholders' meeting is required for a decision of the general shareholders' meeting to be valid. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve the following:

- amendments and additions to our charter;
- our reorganization, liquidation, appointment of the liquidation commission or approval of preliminary and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of our assets;
- determination of the number, nominal value and type of authorized shares and the rights granted to holders of such shares;
- reduction of our share capital through a reduction of the nominal value of the shares;
- increase of our share capital through the issuance of ordinary shares when such shares are either placed by closed subscription or placed by open subscription if the amount of such shares exceeds 25% of issued and outstanding ordinary shares; and
- issuance of bonds or other securities convertible into ordinary shares when such bonds or other securities are either placed by closed subscription or placed by open subscription if the amount of ordinary shares in which such securities may be converted exceeds 25% of issued and outstanding ordinary shares.

The quorum requirement for a general shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another general shareholders' meeting with the same agenda may (and, in case of an annual general shareholders' meeting, must) be convened and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

Under the Joint Stock Companies Law certain shareholders' resolutions may provide that they remain valid for a specific period of time, such as with respect to our reorganization or spin-off, an increase or decrease in share capital or a subdivision or consolidation of shares (the "**Validity Period**"). In the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions become void and, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

An annual general shareholders' meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and the agenda must include among other issues the following:

- election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and the income statement;
- approval of distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor;
- appointment of the members of the internal audit commission; and
- other issues according to our charter and Joint Stock Companies Law.

A shareholder or shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of an annual general shareholders' meeting and may nominate candidates for the Board of Directors, the audit commission and the general director (chief executive officer). Any agenda proposals or nominations must be provided to us no later than 30 calendar days after the end of the preceding financial year.

Extraordinary general shareholders' meetings may be convened by the Board of Directors on its own initiative, or at the request of the internal audit commission, the external auditor or a shareholder owning, individually or collectively with other shareholders, at least 10% of the issued voting shares as of the date of the request.

If election of the members of the Board of Directors is on the agenda of an extraordinary general shareholders' meeting, a shareholder or a group of shareholders owning in the aggregate at least 2% of our voting shares may introduce proposals for nomination of candidates to the Board of Directors. The number of such candidates may not exceed the number set forth in the charter.

A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a general shareholders' meeting through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to us without personally attending the meeting. A general

shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders' meeting by absentee ballot:

- election of the members of the Board of Directors;
- election of the internal audit commission;
- approval of the external auditor;
- approval of our annual report, the annual financial statements, including the balance sheet, the income statement; and
- any distribution of profits, including approval of annual dividends, if any.

Notice and participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of joint attendance (meeting) or by absentee ballot, by no less than 30 days' notice. However, if it is an extraordinary general shareholders' meeting to elect the Board of Directors or to elect the board of directors of a newly established company in connection with our reorganization through a merger, spin off or split, shareholders must be notified at least 70 days prior to the date of the meeting. If a general shareholders' meeting is to decide on our reorganization, the shareholders must be notified of the meeting by no less than 30 days' notice. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our register of shareholders on the date established by the Board of Directors, which date may neither be earlier than the date of adoption of the resolution of the Board of Directors to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, not more than 85 days before the date of such general shareholders' meeting).

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorized representative (by proxy);
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to a duly authorized representative.

Board of Directors

Pursuant to the Joint Stock Companies Law and our charter, the Board of Directors performs general management of our affairs, except for the adoption of decisions that fall within the exclusive competence of the general shareholders' meeting.

The Joint Stock Companies Law requires at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only individuals (as opposed to legal entities) are entitled to sit on the Board of Directors. Members of the Board of Directors are not required to be our shareholders. Our charter provides that the Board of Directors must consist of five members.

Our charter provides for the election of the entire Board of Directors at each annual general shareholders' meeting. The Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons to be elected to the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates.

Prior to expiration of their term, the entire Board of Directors may be dismissed at any time without cause by a majority vote of shareholders participating in the general shareholders' meeting. Members of the Board of Directors may be re-elected an unlimited number of times.

The Joint Stock Companies Law prohibits the Board of Directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. The Board of Directors has the power to perform the general management of our affairs and to decide, among other things, the following issues:

- determination of our business priorities and approval of our annual and quarterly budgets;

- convening annual and extraordinary general shareholders' meetings, except for certain cases specified in the Joint Stock Companies Law;
- approval of the agenda of a general shareholders' meeting;
- determination of the record date for shareholders entitled to participate in the general shareholders' meeting and other issues in connection with preparation for, and holding of, general shareholders' meetings;
- preliminary approval of annual reports;
- determination of the value of property, price of the securities to be issued in cases specified by the Joint Stock Companies Law and of the purchase price at which our securities may be repurchased by us;
- repurchase of our bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- recommendations on the amount of remuneration to be paid to members of the internal audit commission and on the fees payable for the services of an external auditor;
- recommendations on the amount of dividends and the payment procedure therefor;
- use of our reserve fund and other funds;
- approval of our internal documents, except for those documents the approval of which falls within the competence of the general shareholders' meeting or the general director (chief executive officer);
- establishment of branches and representative offices and their liquidation;
- approval of major and interested party transactions in cases specified by the Joint Stock Companies Law;
- appointment of a share registrar as well as approval of terms and conditions of, and termination of, the agreement with the registrar; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

A meeting of the Board of Directors has a quorum if three of its members elected at a general shareholders' meeting are present at the meeting. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions require either the unanimous vote of all members of the Board of Directors (such as approvals of major transactions) or a majority vote of the disinterested and independent directors (such as approval of interested party transactions). In the case of a tied vote, the chairman of the Board of Directors has the casting vote.

General Director (Chief Executive Officer)

Pursuant to our charter, the general director (chief executive officer) is our sole executive body and is entitled to perform our day-to-day management. The general shareholders' meeting appoints the general director (chief executive officer) for a term of five years but can remove him/her at any time.

The general director (chief executive officer) exercises day-to-day control over our activities and is accountable to the Board of Directors and the general shareholders' meeting. The general director (chief executive officer) is authorized, without a power of attorney, to act on our behalf. The general director (chief executive officer) may be held liable for losses caused to us. Under our charter, the powers of the general director (chief executive officer) include, among other things, the following issues:

- entering into transactions on our behalf as provided by the Joint Stock Companies Law and our charter;
- issuing powers of attorney on our behalf;
- entering into, or termination of, employment contracts with our employees; and
- approval of our staffing table and making mandatory orders and instructions for our employees.

Internal Audit Commission

Our Internal Audit Commission, whose activities are governed by our charter, oversees and coordinates audits of our financial and economic activity. The principal duties of the Internal Audit Commission are to ensure that our operations comply with applicable laws and that our RAS accounting and reporting documents are prepared in accordance with applicable requirements and are complete and accurate.

The general shareholders' meeting elects the Internal Audit Commission members until the next annual general shareholders' meeting.

Interested Party Transactions

The Joint Stock Companies Law contains requirements with respect to interested party transactions. An interested party transaction is a transaction with an "interested party," which is defined as a member of the board of directors of the company, a person performing functions of the sole executive body (including a managing company or a manager, which performs functions of the sole executive body of the company under a contract), a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20% of the company's voting shares, or any person able to issue binding instructions to the company, if any of the abovementioned persons, or any of these persons' spouses, close relatives, adoptive parents or children or affiliates:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- holds offices in any management body of the company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

The Joint Stock Companies Law requires that a transaction with an interested party must be approved by a majority vote of the disinterested members of the board of directors or by a decision of the majority of disinterested shareholders holding voting shares, as applicable.

In a company with more than 1,000 shareholders holding voting shares, a disinterested director is entitled to vote on the approval of an interested party transaction only if he/she is an "independent director," i.e. a member of the board of directors who is not, and within one year preceding the decision was not, (i) performing the functions of the sole executive body (including being a manager) or a member of the collective executive body of the company, or holding offices in management bodies of the managing company, (ii) a person whose spouse, close relatives, adoptive parents or children hold positions in any of the abovementioned management bodies, managing company of the company, or a manager of the company, or (iii) otherwise an affiliate of the company (except for the members of the board of directors of the company).

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares if:

- the value of such a transaction, or series of transactions, is 2% or more of the balance sheet value of the company's assets as of the last reporting date;
- the transaction, or series of transactions, involves the placement by subscription or the sale of ordinary shares in the amount exceeding 2% of the company's issued ordinary shares and ordinary shares into which the issued convertible securities may be converted;
- the transaction, or series of transactions, involves the placement by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding 2% of the company's issued ordinary shares and ordinary shares into which the issued convertible securities may be converted;
- all members of the board of directors of the company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director; or
- the number of the disinterested directors of the company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions entered into by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual general shareholders' meeting.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the sole executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares or securities convertible into shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;

- the company merges with or into another company; or
- entering into a transaction is mandatory for the company according to Russian legislation and settlement with respect to which is effected in accordance with the fixed prices and tariffs established by authorized regulatory authorities.

An interested party transaction entered into in breach of the abovementioned rules may be invalidated by a court following an action by the company or any of its shareholders and the interested party can be liable to the company for any loss incurred by such company as a result of such breach.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of transactions, involving the acquisition or disposal, or the possibility of disposal of property with the value of 25% or more of the balance sheet value of the assets of the company as determined under RAS as of the latest reporting date, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement by subscription (sale) of ordinary shares, or placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the company's assets, as determined under RAS as of the latest reporting date, require unanimous approval by all members of the board of directors or, in the absence of such approval, a simple majority vote of a general shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters majority vote of a general shareholders' meeting.

The approval of a major transaction is not required if a company has only one shareholder that simultaneously performs the functions of the sole executive body of the company.

Any major transaction entered into in breach of the above requirements may be invalidated by a court following an action by the company or any of its shareholders.

Shareholders' Agreements

The Joint Stock Companies Law has been recently amended to expressly permit shareholders' agreements in respect of Russian joint stock companies. In particular, the Joint Stock Companies Law stipulates that shareholders may enter into an agreement under which they undertake to exercise their shareholder rights in a certain manner or to refrain from exercising their shareholder rights, including, *inter alia*:

- to vote in a certain manner at a general shareholders' meeting;
- to coordinate voting with other shareholders;
- to acquire or dispose of shares at a pre-determined price or upon occurrence of certain circumstances;
- to refrain from disposing of shares until occurrence of certain circumstances; and
- to perform jointly other actions relating to the company's management, activities, reorganization and liquidation.

Provisions of the Joint Stock Companies Law in respect of shareholders' agreements are very generic and have been largely untested. It remains to be seen how this new regulation is implemented and enforced in practice.

Change of Control

Anti-takeover protection

Effective 1 July 2006, Russian legislation has been amended to introduce new anti-takeover provisions. The key anti-takeover provisions of the revised Joint Stock Companies Law are as follows:

A person intending to acquire more than 30% of an open joint stock company's voting shares, including for such purpose shares already owned by such person and its affiliates, has the right to make a public offer to purchase the remaining shares from other shareholders (voluntary offer).

Within 35 days after acquisition by any means of more than 30%, 50% or 75% of voting shares or 35 days from the date when the acquirer learned or should have learned that it, either independently or together with its affiliates, owns such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders (mandatory offer).

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, including shares owned by its affiliates, it is required to (i) notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice,

the acquirer may deliver a buy-out demand, binding on the minority shareholders, that they sell their shares if the acquirer crossed the 95% threshold by acquiring at least 10% of the voting shares in a voluntary or mandatory offer.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by an irrevocable bank guarantee of payment, a share price valuation report prepared by an independent appraiser and certain other documents. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or mandatory offer, respectively) to purchase shares in the quantity of and at the price that are greater than or equal to the quantity and the price offered in the initial voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the initial voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or mandatory offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of the voluntary or mandatory offer, only the company's shareholders' meeting will have the exclusive power to make decisions on a share capital increase through an additional share issuance, on approval of interested party and certain other transactions and on certain other significant matters.

Foreign Ownership

Federal Law No. 57-FZ "On the Order of Accomplishing Foreign Investments Into Entities Having Strategic Importance for Procuring State Defense and Security", dated 29 April 2008, (the "**Strategic Investments Law**") that came into force on 7 May 2008 regulates foreign investments (whether direct or indirect) in Russian businesses having strategic importance for procuring state defense and security ("**Strategic Companies**") and, *inter alia,* requires foreign investors to receive a prior consent of the special government commission before acquiring certain percentages of voting shares or certain management rights in respect of Strategic Companies. Currently, we are not considered to be a Strategic Company for purposes of the Strategic Investments Law and except as described below foreign investments in our shares are not restricted.

At the same time, Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation", dated 9 July 1999, as amended ("**Foreign Investments Law**"), provides that any acquisition (whether direct or indirect) by a foreign state or international organization or entities controlled by them of (i) more than 25% of voting shares of a Russian company (such as ourselves); or (ii) any powers to block decisions of the management bodies of a Russian company (such as ourselves), require a prior approval of the special government commission in accordance with the procedures set forth in the Strategic Investments Law.

In addition, foreign persons registered as individual entrepreneurs in Russia and foreign companies (regardless of whether they are registered with the Russian tax authorities) that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to foreign ownership of our shares.

Notification of Acquisition of Significant Interest

Pursuant to Russian securities legislation, a person must notify the company and the FSFM of any acquisition of 5% or more of the ordinary shares, or acquisition of the right to cast votes attached to 5% or more of the ordinary shares by virtue of an agreement or otherwise, and any change in the number of the ordinary shares above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. Each notification should contain the name of the acquirer, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired (or votes with respect to which can be cast). Such notifications must be generally given within five days after the ordinary shares have been transferred to such shareholder's securities account or after the acquisition of the right to cast votes attached to such ordinary shares.

Antimonopoly Regulation

Under the Competition Law, a person (or a group of affiliated persons) may be considered as having a dominant position in a particular market. A dominant position may arise in circumstances when (a) the person (or a group of affiliated persons) has a market share in a particular market in excess of 50%, unless it is specifically established that the person (or a group of affiliated persons) does not have a dominant position;(b) the person has a market share in a particular market in excess of 35% (but less than 50%), and it is specifically established by the FAS that the person (or a group of affiliated persons) has a dominant position based on the following factors: (i) the share of the person in

the relevant market is permanent or is subject to insignificant changes as compared to competitors' shares in the same market; (ii) the likelihood of successful entry into the relevant market by a new competitor is low; or (iii) other criteria characterizing the market that the FAS deems relevant; or (c) the person has a market share in a particular market less than 35% but exceeding shares of competitors in the same market, which can have a crucial impact on general conditions of commodity circulation in the market, if (i) the person can unilaterally determine a price level and have a crucial impact on general conditions of sales in the relevant market; (ii) access to the relevant market of new competitors is hampered due to economic, technological, administrative or other limitations; (iii) the commodity being sold or purchased by the person can not be replaced by other commodities in the course of consumption; and (iv) change of the commodity price does not condition the relevant decrease of demand for such commodity.

Under the Competition Law, a person with a dominant position in a particular market shall not engage in the following activities: (a) fix and maintain excessively high or excessively low prices; (b) withdraw goods or services from circulation resulting in price increases; (c) dictate terms unfavorable to a counterparty or irrelevant to the subject-matter of the agreement; (d) reduce or terminate production of goods or provision of services for reasons that are not economic or technological in nature, where demand for the goods or services exists, so long as the goods or services can be produced/provided at a profit; (e) refuse to enter into an agreement with particular buyers or customers for reasons that are not economic or technological in nature, where the goods or services can be produced or supplied; (f) fix differing prices (tariffs) for the same goods or services for reasons that are not economic or technological in nature; (g) create discriminatory conditions; (h) create barriers to enter or exit a particular market; (i) violate legal requirements relating to pricing; or (j) carry out any other activities that result or may result in the prevention, limitation or elimination of competition and/or the infringement of interests of other persons.

The FAS is authorized to issue binding orders on persons to eliminate abuse of a dominant position, as well as to transfer the profits obtained as a result of the illegal conduct to federal funds. The FAS also has a power to require in a court order a spin-off or split of business operations of a legal entity that holds a dominant position and repeatedly (i.e., more than two times within three years) abuses its dominant position.

In addition to the above requirements set forth with regard to a dominant position, the Competition Law provides for a merger control regime, i.e., the necessity of "approval prior to closing" by the FAS, of the following actions:

- acquisition by a person (or its group) of voting shares in a joint stock company resulting in such person (or its group) owning more than 25%, 50% and 75% of the voting shares of a joint stock company (1/3, 1/2 and 2/3 participation interest in a limited liability company); or acquisition by a person (or its group) of the core production assets and/or intangible assets of a person if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such person; or obtaining rights to determine the conditions of business activity of a person or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer (and its group) together with a target (and its group) exceeds RUB 7 billion and at the same time the total asset value of the target (and its group) exceeds RUB 250 million; or the total annual revenues of such acquirer (and its group) and the target (and its group) for the preceding calendar year exceed RUB 10 billion and at the same time the total asset value of the target (and its group) exceeds RUB 250 million or an acquirer, and/or a target, or any person within the acquirer's group or a target's group are included in the Register;

- mergers and consolidations of companies, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUB 3 billion; or total annual revenues of such companies (groups of persons to which they belong) for the preceding calendar year exceed RUB 6 billion; or if one of these companies is included into the FAS Register; and

- creation of a company, if its share capital is paid by the shares (participation interests) and/or the assets (except for monetary means) of another company or the newly created company acquires shares (participation interests) and (or) assets of another company on the basis of a transfer act or separation balance sheet and acquires the rights with respect to such shares (participation interests) and/or assets (except for cash) as specified in the first bullet point above provided that the aggregate asset value of the founders (group of persons to which they belong) and the persons (groups of persons to which they belong) which shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly created company exceeds RUB 7 billion; or total annual revenues of the founders (group of persons to which they belong) and the persons (groups of persons to which they belong) which shares (participation interests) and/or assets are contributed to the share capital of the newly founded company for the preceding calendar year exceed RUB 10 billion; or if a company whose shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly founded company is included in the FAS Register.

The Competition Law establishes a 30-day review period for pre-closing approval of transactions. The review period may be extended for a further two months if the FAS believes the prospective transaction might restrict competition with respect to a particular market.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the antimonopoly authorities in connection with actions specified in the first bullet point above if the aggregate asset value or total annual revenues of an acquirer (and its group) and a target (and its group) for the preceding calendar year exceed RUB 400 million and at the same time the total asset value of the target (and its group) exceeds RUB 60 million; and in connection with actions specified in the second bullet point above if their aggregate asset value or total annual revenues of the relevant companies for the preceding calendar year exceed RUB 400 million.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court order initiated by the FAS, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

More generally, Russian legislation provides for civil, administrative and criminal liability for the violation of anti-monopoly legislation.

REGULATION OF THE COAL MINING INDUSTRY IN RUSSIA

Set out below is a summary of material information concerning regulation of our business. This description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations of the Russian Federation.

Applicable Laws, Rules and Regulations

Russia has not enacted any specific legislation governing the operation of the coal mining industry and the activities of coal producing and processing companies. The production, processing, sale and distribution of coal in Russia are regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental, labor and other issues.

Federal Law No. 81-FZ "On Governmental Regulation in the Sphere of the Mining and the Use of Coal and On the Specifics of the Social Protection of Workers in the Coal Industry Organizations", dated 20 June 1996, as amended (the "**Coal Mining and Use Law**"), to a certain limited extent, provides for a specific regulation of mining and use of coal, as well as envisages specific social protection afforded to workers in the coal industry.

State regulation of the coal mining industry primarily includes: (i) licensing of exploration, geological study and mining of coal; (ii) control over accounting and reporting of coal production; (iii) requirements related to contracts for supply of coal; (iv) certification of coal and control over coal's quality; and (v) requirements for the utilization of coal.

Restructuring of Russian Coal Industry

Russian government has been restructuring the coal mining industry in Russia since 1994. Currently, in accordance with Resolution of the Government of the Russian Federation No. 840 "On the Schedule of Undertakings for Restructuring of the Coal Industry and the Procedure for Respective Funding," dated 24 December 2004, as amended, and Order of the Ministry of Industry and Energy of the Russian Federation No. 177 "On the Complex of Undertakings for Completion of Restructuring of the Coal Industry in Russia," dated 27 July 2006, the coal mining industry is undergoing the third and final stage of its restructuring that, among other things, includes:

- undertakings related to liquidation of certain coal mining organizations;
- undertakings related to maintenance of continuous readiness of paramilitary wrecking units;
- measures related to support of the research and development works associated with developing advanced technologies of production, processing and utilization of coal;
- measures related to ensuring safe working conditions and improving the environmental situation in coal-producing regions; and
- implementation of investment projects in the coal industry.

Regulatory Authorities

At the federal level, regulatory supervision over the coal mining industry is divided primarily between the Government, the Ministry of Finance, the Ministry of Economic Development, the Ministry of Natural Resources, the Ministry of Industry and Trade and the Ministry of Energy of the Russian Federation.

The federal ministries in Russia are not, however, responsible for compliance control or management of state property and provision of state services, which are directed by the federal services and the federal agencies, respectively. The federal services and agencies that regulate the Group's business include: the Federal Agency for Subsoil Use (the "**Subsoil Agency**"), the Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision ("**Rostekhnadzor**"), the Federal Agency for Technical Regulation and Metrology and FAS.

Regional and local authorities have certain powers in the sphere of control over land-use allocations and exercise certain taxation powers as well as adopt certain regulatory acts concerning restructuring of local coal mining organizations and environmental protection. The Government of the Russian Federation ensures implementation of a common state policy in the area of geological study and exploration of coal deposits, extraction, production, use and trade of coal; and determines the licensing procedures for the subsoil use in connection with the exploration and production of coal.

Licensing

The Group is required to obtain licenses, authorizations and permits from Russian governmental authorities to conduct its operations. The Federal Law on Licensing of Certain Types of Activities, dated 8 August 2001, as amended (the "**Licensing Law**"), as well as other laws and regulations, list activities which can only be performed

subject to licenses issued by the relevant Russian authorities and establish procedures for issuing such licenses. In particular, to conduct its operations, the Group requires licenses and permits for, inter alia:

- use of subsoil, See *"— Subsoil Licensing"*;
- discharge of pollutants into the environment;
- handling of hazardous waste;
- storage and use of explosive materials;
- operation of explosive and flammable production facilities;
- surveyor's works; and
- various transportation activities.

The licenses are usually issued for a minimum period of five years. Licenses for the use of natural resources may be issued for shorter or longer periods. Upon expiration, a license may be extended upon application by the licensee but usually subject to prior compliance with regulations.

A license may be suspended if the licensee repeatedly makes material breaches of the terms and conditions of such license. If a licensee fails to mitigate any breach of the license granted to it within the period established by the licensing authority, that authority may apply to court for the cancellation of the license. A court may also cancel the license in certain other cases (for example, if the breach of the terms and conditions of a license by the licensee damaged the rights, legal interests or health of individuals).

Licensing regulations and the terms of its licenses and permits require the Group to comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and a system of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect its activities.

Subsoil Licensing

In Russia, minerals mining requires a subsoil license issued by the Subsoil Agency with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land plot where such licensed mineral deposit is located. In addition, operating permits are required for specific mining activities.

The primary law regulating subsoil use and licensing is Law No. 2395-1 "On Subsoil", dated 21 February 1992, as amended (the "**Subsoil Law**"), and the regulations adopted thereunder, which set out the regime for granting licenses for the exploration and production of mineral resources and subsoil use. The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and features of the license based regulatory framework, and outlines the rules governing the issuance, transfer, suspension and termination of licenses. Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licenses, in particular abolishing the joint grant of licenses by federal and regional authorities. Currently, production licenses and combined exploration and production licenses are awarded by tender or auction conducted by special commissions of the Subsoil Agency. While such auction or tender may involve a representative of the relevant region, the separate consent of regional authorities is no longer required in order to issue subsoil licenses. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. At an auction, the success of a bid is determined by the attractiveness of the financial proposal. In limited circumstances production licenses may also be issued without holding an auction or tender.

There are several types of licenses applicable to the study, exploration and production of natural resources, including:

- Licenses for geological exploration and assessment within the license area (which is defined in terms of latitude, longitude and depth);
- Licenses for the production of natural resources within the license area; and
- Combined licenses for exploration, assessment and production of natural resources within the license area.

Payments with respect to the exploration, evaluation and extraction of minerals include: (i) payments for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments) and (ii) the mineral extraction tax under the Russian Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil license. The mineral extraction tax is calculated as a percentage of the value of minerals extracted, and currently is set at 4.0% for coal.

The term of the license is set forth in the license. After amendment of the Subsoil Law in January 2000, exploration licenses have a maximum term of five years as a general rule and in some limited circumstances — ten years; production licenses are generally granted for a term of the expected operational life of the field (deposit) based on a feasibility study. The term of the license may be extended per request of the licensee in order to complete the production from the subsoil plot covered by the license or to vacate the land once the use of subsoil is complete, provided such licensee complies with the terms and conditions of the license and the relevant regulations

Licenses may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including, inter alia, the transformation or merger of the license holder or in the event that an initial license holder transfers its license to its subsidiary, provided that the transferee complies with certain requirements.

A license granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil license and certain environmental, safety and production commitments, including bringing the field into production by a certain date; extracting an agreed-upon volume of natural resources each year; conducting agreed mining and other exploratory and development activities; protecting the environment in the license areas from damage; providing geological information and data to the relevant authorities; and submitting on a regular basis formal progress reports to regional authorities. The license agreement may also contain commitments with respect to social and economic development of the region. When the license expires, the licensee must return the land to a condition which is adequate for future use.

If the subsoil licensee fails to fulfill the license's conditions, upon notice, the license may be terminated by the licensing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a license due to material changes in circumstances, it may apply to amend the relevant license conditions, as discussed above, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for limitation, suspension or termination of the rights of a subsoil user. A licensee can be fined or its rights can be limited, suspended or terminated for repeated breaches of the law.

A licensee can be fined for failing to comply with the conditions of the subsoil license and the subsoil license can be revoked, suspended or limited in certain circumstances, including:

- a breach or violation of material terms and conditions of the license by the licensee;
- repeated violation of the subsoil regulations by the licensee;
- the failure of licensee to commence operations within a required period of time or to produce required volumes, as specified in the license;
- the occurrence of an emergency situation;
- upon the emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the license;
- the liquidation of the licensee; and
- the non-submission of reporting data in accordance with the legislation.

Certification of Coal

Commercial coal is subject to obligatory quality and safety certification in accordance with the procedure for certification of coal and the system for certification of coal. Certification is effectuated by governmental bodies composing the system for certification of coal that is headed by the Central Body on Certification of Coal, functions of which are carried out by a department of the Federal Agency for Technical Regulation and Metrology.

Environmental Matters

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law No. 7-FZ "On Environmental Protection", dated 10 January 2002, as amended (the "**Environmental Protection Law**"), as well as by a number of other federal and local laws.

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and resource extraction, while the Federal Service for Environmental, Technological and Nuclear Supervision has set limits for the emission and disposal of substances as well as for waste disposal. A company may

obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact.

Any number of activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law No. 174-FZ "On Ecological Expert Examination", dated 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described below under "— *Environmental liability*."

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court may suspend these operations or limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Moreover, courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines. Regulatory authorities, along with other state authorities, individuals and public and nongovernmental organizations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Health and Safety

Due to the nature of the Group's business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is the Federal Law No. 116-FZ "On Industrial Safety of Hazardous Industrial Facilities", dated 21 July 1997, as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used and where certain types of mining or underground work are carried out. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. The Group in the conduct of its operations is also obliged to comply with numerous safety rules that are adopted by Rostekhnadzor and has a wide range of obligations under the relevant regulations.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages, and in certain cases its activities may be suspended.

Employment and Labor

Labor matters in Russia are primarily governed by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws.

As a general rule, employment contracts for an indefinite term are concluded with all employees.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labor Code.

An employee dismissed from a company due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, a salary payment for a period of two months until such person finds a new job. The Coal Mining and Use Law provides for certain additional benefits and guarantees for the dismissed and/or retired employees of coal mining organizations.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in many cases.

RUSSIAN TAXATION CONSIDERATIONS

The following is a general description of certain Russian tax considerations relating to the Shares. It does not purport to be a complete analysis of all tax considerations relating to the Shares. Prospective investors in the Shares should consult their tax advisers as to which countries' tax laws could be relevant to acquiring holding and disposing of Shares and receiving payments of dividends and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Shares.

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT THEIR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS OFFERING CIRCULAR, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Shares, as well as the taxation of dividend income. The summary is based on the laws of Russia in effect at the date of this Offering Circular, which are subject to change (possibly with retroactive effect).

The summary does not address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary address the availability of double tax treaty relief in respect of the Shares, and it should be noted that there might be practical difficulties, including satisfying certain documentation requirements, involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own professional advisors regarding the tax consequences of investing in the Shares. No representations with respect to the Russian tax consequences to any particular investor are made hereby.

The provisions of the Russian Tax Code applicable to investors and transactions involving the Shares are uncertain and lack interpretative guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may impose conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents, decisions on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

According to the Russian Tax Code, a tax resident is an individual who spent in Russia not less than 183 days within 12 consecutive months (days of medical treatment and education outside of the Russian Federation are also counted as Russian days if the individual departed from the Russian Federation for these purposes for less than six months).

The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for tax withholding purposes an individual's tax residence should be determined on the date of income payment (based on the number of Russian days in a 12-month period proceeding the date of payment). The individual's final tax liability in the Russian Federation for the reporting calendar year (or shorter period upon departure from Russia) should be determined based on his/her tax residence for such calendar year (or such shorter period), i.e., based on the number of Russian days in the 12-months as of the end of such period).

For the purposes of this summary, a "**non-resident investor**" means (i) an individual investor who has not established a Russian tax residence for the reporting calendar year as discussed above; or (ii) a legal entity or organization in each case not organized under Russian law that holds and disposes of the Shares otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a "**Russian resident investor**" means (i) an individual investor who has established a Russian tax residence for the reporting calendar year as discussed above; or (ii) a legal entity or organization, which is an investor but is not a non-resident investor defined in the previous paragraph.

Taxation of Acquisition of the Shares

No Russian tax implications generally should arise for the investors, whether they are Russian resident investors or non-resident investors, upon purchase of the Shares. However, in certain circumstances, taxable income in the form of a material benefit may arise for the individual investors if the Shares are purchased at a price below the market value. Also, in certain circumstances, Russian resident investors, which are legal entities or organizations acquiring Shares, including as part of the initial offering, must fulfill Russian tax agent responsibilities with respect to profits withholding tax from the sales proceeds for Shares to be transferred to a non-resident investor disposing of such Shares. Resident investors that are legal entities or organizations should consult their own tax advisers with respect to this possibility.

Taxation of Dividends

Russian resident investors

Payments of dividends by us to a Russian resident investor who is an individual or legal entity resident in Russia for tax purposes (except legal entities or organizations, in each case not organized under Russian law, that hold the Shares through a permanent establishment in Russia) should generally be subject to Russian withholding income tax and such tax should not exceed 9% from the gross dividend amount payable to each Russian resident investor.

Certain participation exemption provisions with respect to taxation of dividends have been introduced into the applicable Russian tax law since 1 January 2008. Under these participation exemption rules dividends received by an investor that is a Russian legal entity should be taxed at zero rate if the following conditions are met when the decision on the payment of dividends is adopted:

- such Russian legal entity has owned not less than 50% of our charter capital for at least 365 days uninterruptedly; and
- such Russian legal entity's contribution to our charter capital exceeds RUB 500 million (approximately EUR 12 million as at the date of Offering Circular). This condition will be abolished from 1 January 2011 and will not apply to the dividends to be paid by the Company for the year of 2010 (i.e. providing payment of dividends is to be made after January 2011) and subsequent periods.

An investor which is a Russian legal entity would be required to provide to the tax authorities certain documentation in order to confirm its eligibility for zero rate tax on dividend income received.

If the above conditions are not met, the dividends received by a Russian legal entity would be taxed in Russia at a rate not exceeding 9% as stated above.

Payments of dividends by a Russian entity to an investor which is a legal entity or organization not organized under Russian law that holds the Shares through a permanent establishment in Russia should generally be subject to Russian withholding tax at a rate of 15%. An investor that is a legal entity or organization not organized under Russian law that holds the Shares through a permanent establishment in Russia is entitled to pay this tax to the Russian budget on its own behalf (i.e., without withholding of the tax by a Russian entity distributing the dividends to such investor) if such investor provides the Russian entity distributing the dividends as the Russian tax agent with special documentary evidence confirming the fact that this dividend income is attributable to a permanent establishment of the investor in Russia. This evidence includes a notarised copy of the document confirming registration of the investor with the Russian tax authorities. The local tax authorities at the investor's place of tax registration must also confirm the fact that this dividend income is attributable to the permanent establishment of the investor in Russia.

Alternatively, payments of dividends on the Shares made by us to an investor which is a legal entity or organization not organized under Russian law that holds the Shares through a permanent establishment in Russia may be subject to taxation at a rate not exceeding 9%. This lower rate could apply to each such investor that holds the Shares through a permanent establishment in Russia if the applicable double tax treaty between Russia and the country of the tax residence of such investor provides for the non-discrimination of tax residents of such country as compared to Russian tax residents. In such case, a tax rate not exceeding 9%, (i.e., the rate applicable to Russian legal entities) should be applied with respect to the gross dividend amount payable to such investor to the extent such investor is entitled to benefit under such double tax treaty and provided further that such investor satisfies the Russian tax documentation requirements, (i.e., the requirement that an investor should provide an annual advance tax residency confirmation). However, there can be no assurance that such double tax treaty relief will be available to an investor which is a legal entity or organization in each case not organized under Russian law that holds the Shares through a permanent establishment in Russia.

Russian resident investors should consult their own tax advisers with respect to the tax consequences of the receipt of dividend income on the Shares.

Non-resident investors

In general, payments of dividends by a Russian entity to non-resident legal entity or organization and non-resident individuals are subject to Russian withholding tax at a rate of 15%. Such Russian withholding tax may generally be subject to reduction pursuant to the terms of an applicable double tax treaty between Russia and the country of tax residence of non-resident investors to the extent such non-resident investors are entitled to benefit from this double tax treaty and the corresponding tax treaty reliefs provided by such treaty.

We believe that payments of dividends on the Shares made by us to non-resident investors may be subject to withholding taxation at a reduced rate if such reduction is provided for by an applicable double tax treaty, provided the Russian tax documentation requirements are satisfied. For a non-resident legal entity or organization, such documentation would include an annual advance confirmation of the investor's tax residency.

However, procedures for advance treaty clearance are not provided for by current Russian legislation with respect to non-resident individual investors. Therefore, technically, for non-resident individual investors a reduction of withholding income tax provided by a respective double tax treaty between Russia and the country of the tax residence of such non-resident individual investors could not be obtained. If non-resident individual investors do not obtain double tax treaty relief at the time the dividend income is paid to such non-resident individual investors and income tax is withheld by a Russian payer of dividends, such non-resident individual investors may apply for a refund within one year from the end of the tax period in which the tax was withheld. The documentation requirements to obtain such a refund would include a confirmation of the income received and the taxes paid in the country of tax residence of the non-resident individual investors as confirmed by the relevant tax authorities of such countries.

Non-resident investors should consult their own tax advisers with respect to the tax consequences of the receipt of dividend income on the Shares.

Taxation of Capital Gains

The following sections summarize taxation of capital gains in respect of the disposition of the Shares.

Russian resident investors

Russian resident investor for tax purposes is subject to all applicable Russian taxes, including any documentation requirements that may be prescribed by law or practice in respect of capital gains arising from any disposal of the Shares.

A Russian resident investor that is a legal entity or an organization should generally be subject to Russian profits tax at a rate of 20% of the capital gain. An investor that is a legal entity or organisation not organized under Russian law that holds the Shares through a permanent establishment in Russia is entitled to pay profits tax to the Russian budget on its own behalf (i.e., without withholding of the tax) if such investor provides the Russian entity acquiring the Shares being a Russian tax agent with special documentary evidence confirming the fact that the income from disposal of Shares is attributable to a permanent establishment of the investor in Russia. This evidence includes a notarised copy of the document confirming registration of the investor with the Russian tax authorities. The local tax authorities at the investor's place of tax registration must also confirm the fact that this income from the disposal of Shares is attributable to the permanent establishment of the investor in Russia. Such gain is generally determined as the gross proceeds from the disposal of the Shares less the cost of acquisition of such Shares and less expenses incurred by such resident investor in relation to the acquisition, holding and sale of the Shares (provided that the cost of acquisition of the Shares and the other expenses can be confirmed by appropriate documents). Russian resident investors which are legal entities or organizations should consult their own tax advisers with respect to the tax consequences of gains derived from the disposal of the Shares.

A Russian resident investor who is an individual should generally be subject to income tax at a rate of 13% on the gross proceeds from a disposal of the Shares less any available cost deduction (including, *inter alia,* the cost of acquisition of the Shares). In certain circumstances if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign legal entity or organization, the payer may be required to withhold this income tax. Unless the tax is withheld by the payer, the resident individual investor would be liable to pay the tax to the Russian budget. The imposition of this tax could adversely affect the value of the Shares. Russian resident investors who are individuals should consult their own tax advisers with respect to the tax consequences of gains derived from the disposal of the Shares.

Non-resident investors

If a non-resident investor which is a legal entity or an organization disposes of the Shares (other than through a permanent establishment in Russia) and the proceeds from such disposal are deemed to be received from a Russian source, the gross proceeds from such disposal may be subject to withholding tax in Russia at a rate of 20%.

Alternatively, the capital gains from the sale may be subject to a 20% withholding tax. Capital gain is the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the Shares. Russian withholding tax would apply if more than 50% of our assets consist of immovable property located in Russia.

The above withholding tax rates are subject to any available double tax treaty relief. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed. Non-resident investors that are legal entities or organizations should consult their own tax advisers with respect to this possibility.

A non-resident investor should generally not be subject to any Russian taxes in respect of capital gains or other income realised on the sale or other disposal of the Shares outside of Russia, provided that the proceeds of such sale, redemption or other disposal of the Shares are not received from a source within Russia. Even if a sale or other disposal by a non-resident investor to another non-resident investor could be regarded as received from a Russian source and subject to withholding income tax, there is currently no mechanism for withholding of the Russian tax due. Non-resident investors that are legal entities or organizations should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds received from a disposal of the Shares.

If proceeds from the disposal of the Shares are received from a Russian source, a non-resident investor who is an individual will generally be subject to tax at a rate of 30%, subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deductions (including, *inter alia,* the cost of acquisition of the Shares). In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organization, the payer may be required to withhold this tax or the non-resident individual may be liable to pay the tax. Procedures for advance treaty clearance are not provided for by current Russian legislation with respect to non-resident individual investors. As a result, for non-resident individual investors, a reduction of withholding income tax provided by the double tax treaty between Russia and the country of the tax residence of such non-resident individual investor cannot be obtained. If a non-resident individual investor does not obtain double tax treaty relief at the time the proceeds from the disposal of the Shares are paid to such non-resident individual investor, and income tax is withheld by the Russian payer of such income, the non-resident individual investor may apply for a refund within one year from the end of the tax period in which the tax was withheld. However, there can be no assurance that such double tax treaty relief (or the refund of any taxes withheld) will be available for a non-resident investor. Non-resident investors who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a disposal of the Shares.

Tax Treaty Procedures

To apply for double tax treaty relief, an investor that is a non-resident legal entity or organization should provide the payer of income with a confirmation of its tax residency. Such confirmation should be presented before the income payment date and certified by the competent authority. Such confirmation is valid for the calendar year in which it is issued. It should be legalised or apostilled with a notarized Russian translation attached to it. In the absence of the tax residence confirmation, Russian legal entities acting as tax agents are required to withhold Russian income tax at the full rate from the proceeds representing taxable Russian source income as provided for by the Russian Tax Code.

For an investor that is not an individual and for which double tax treaty relief is available, where Russian withholding tax on income was withheld at the source of payment, a refund of such tax is possible within three years from the end of the tax period in which the tax was withheld. In order to obtain a refund, the tax documentation confirming the right of the non-resident recipient of the income to double tax treaty relief is required.

For an individual investor for which double tax treaty relief is available, where Russian withholding tax on income was withheld by the source of payment, a refund of such tax may be filed within one year after the end of the year in which the tax was withheld. In order to obtain a refund, the tax documentation confirming the right of the non-resident recipient of the income to double tax treaty relief is required.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefit under a double tax treaty or the right to receive a zero tax rate under Russian domestic tax law. Such documentation, in practice, may not be explicitly required by the Russian Tax Code. Obtaining a refund of Russian tax withheld may be a time-consuming process and can involve considerable difficulties.

Stamp Duties

No Russian stamp duty will be payable by the investors upon any of the transactions with the Shares discussed in this section of this Offering Circular (e.g., on a purchase or sale of the Shares), except for transactions involving the receipt of Shares by way of inheritance.

PLAN OF DISTRIBUTION AND TRANSFER RESTRICTIONS

The Offering consists of (i) an offering by us of 14,258,686 Subscribed Shares, and (ii) an offering of 3,339,438 and 7,528,720 Sale Shares by Mr. Prokudin and Laycraft, respectively. The Shares are being offered to investors in Russia and to qualified investors in offshore transactions in certain other countries outside of the United States in reliance on Regulation S under the Securities Act.

We, the Selling Shareholders, Mizar and the Joint Lead Managers will enter into an underwriting agreement dated on or about the date of this Offering Circular (the "**Underwriting Agreement**") pursuant to which each Joint Lead Manager named below severally, and not jointly, agrees to purchase the number of Shares set out opposite its name in the table below. We and the Selling Shareholders have agreed to make available to the Joint Lead Managers, the total number of Shares indicated below.

Sellers	**Number of Shares**
KTK	14,258,686
Mr. Prokudin	3,339,438
Laycraft	7,528,720
Total	**25,126,844**
Managers	
UBS Limited	12,563,422
TD Investments Limited	12,563,422
Total	**25,126,844**

The Offering Price is U.S.$6.50 per Share. Pursuant to the Underwriting Agreement, the Joint Lead Managers will deduct from the proceeds of the Offering (in the case of the Sale Shares), or (in the case of Subscribed Shares) will separately invoice us, for certain commissions of approximately U.S.$4.6 million. The Joint Lead Managers will also separately invoice us for certain costs and expenses incurred by the Joint Lead Managers in connection with the Offering. Our estimated expenses in relation to the Offering, including certain costs and expenses incurred by the Joint Lead Managers, other than commissions, are approximately U.S.$2 million.

In the Underwriting Agreement, we and the Selling Shareholders are providing the Joint Lead Managers with customary representations, warranties and undertakings, including in relation to us, the Selling Shareholders, our business, the Shares and the contents of this Offering Circular. We and the Selling Shareholders are also providing customary indemnification and contribution to the Joint Lead Managers against liabilities in connection with the Offering. The Joint Lead Managers will be entitled to withdraw from the Offering and terminate the Underwriting Agreement in certain circumstances that are customary for an agreement of this nature, including but not limited to a material adverse change in our business, condition (financial or otherwise), results of operations, properties and prospects, as well as certain changes in financial, political, economic or market conditions.

Neither we, nor the Selling Shareholders, nor Mizar, nor any of their respective controlled affiliates or persons or subsidiaries from time to time, nor any person acting on behalf of any of them will, from the date hereof until 180 days after the final Closing Date without the prior written consent of the Joint Lead Managers:

- issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or

- enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Shares; or

- enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of Shares or such other securities, in cash or otherwise. The foregoing undertaking shall not apply to (a) the offer and sale of the Shares as described herein, (b) the offer and sale of Shares to other members of the Group or other persons subject to the prior written consent of the Joint Lead Managers provided that, in the case of (b) such entities and recipients of shares first agree to be bound by the provisions similar to those stated above by executing a legally valid, binding and enforceable agreement on substantially similar terms to the above.

The Joint Lead Managers will conduct a book-building exercise in which they will solicit non-binding indications of interest in acquiring the Shares under the Offering from prospective investors. Prospective investors will be required

to specify the number of Shares which they would be prepared to acquire at the Offering Price (subject to it being determined). Shares allocated in the Offering will, following determination of the Offering Price, be underwritten by the Joint Lead Managers as described herein.

The Offering Price has been determined by us and the Selling Shareholders. A number of factors have been considered in deciding the Offering Price and the bases of allocation under the Offering, including the level and the nature of the demand for the Shares and the objective of encouraging the development of an orderly after-market in the Shares.

All Shares sold to investors pursuant to the Offering will be sold at the Offering Price.

Some of the Joint Lead Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or members of the Group. They have received customary fees and commissions for these transactions and services.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a "**Relevant Member State**") an offer to the public of any Shares may not be made in that Relevant Member State, except that the Shares may be offered to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Global Coordinator for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company or any Joint Lead Manager of a Prospectus pursuant to Article 3 of the Prospectus Directive and each person who initially acquires Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the Joint Lead Managers and us that it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of Shares to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

In the case of any Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will be deemed to have represented, acknowledged and agreed that the Shares acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined who are not financial intermediaries or in circumstances in which the prior consent of the Joint Lead Managers has been obtained to each such proposed offer or resale.

Each subscriber for or purchaser of Shares in the Offering located within a Member State of the European Economic Area will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. The Company, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement, and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Lead Managers of such fact in writing may, with the consent of the Joint Lead Managers, be permitted to subscribe for or purchase Shares in the Offering.

United Kingdom

Each of the Joint Lead Managers has severally and not jointly represented, warranted and undertaken to the Company and the Selling Shareholders that:

(a) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom; and

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the United Kingdom any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of the Shares in circumstances in which Section 21(1) of FSMA does not apply to the Company.

United States

The Shares have not been, and will not be, registered under the Securities Act or the securities laws of any state of the United States and, subject to certain exceptions, may not be offered or sold in the United States. The Shares are being sold outside the United States in offshore transactions as defined in, and in reliance, on Regulation S. In addition, until 40 days after commencement of this Offering, an offer or sale of the Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

Japan

The Shares offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "**Financial Instruments and Exchange Act**"). Accordingly, no Shares may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Australia

This Offering Circular has not been lodged with the Australian Securities and Investments Commission and is only directed to certain categories of exempt persons. Accordingly, if you receive this Offering Circular in Australia:

(a) you confirm and warrant that you are either:

  (i) a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act 2001 (Cth) of Australia ("**Corporations Act**");

  (ii) a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate pursuant to the section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

  (iii) a person associated with the company under section 708(12) of the Corporations Act; or

  (iv) a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act,

  and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this Offering Circular is void and incapable of acceptance.

(b) you warrant and agree that you will not offer any of the Shares issued to you pursuant to this Offering Circular for resale in Australia within 12 months of those Shares being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

Canada

This document is not, and under no circumstances is it to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Representations and Agreements by Purchasers

The Offer is being made in Canada only in the Canadian provinces of British Columbia, Alberta, Manitoba, Ontario, Québec, Newfoundland and Labrador and New Brunswick (the "**Canadian Jurisdictions**" and each, a "**Canadian**

Jurisdiction") by way of a private placement of Shares. The Offer in the Canadian Jurisdictions is being made pursuant to this Offering Circular through the Joint Lead Managers named in this Offering Circular or through their selling agents who are permitted under applicable law to distribute such securities in Canada. Each Canadian investor who purchases the Shares will be deemed to have represented to the Company, the Selling Shareholders and the Joint Lead Managers that: (1) the offer and sale was made exclusively through this Offering Circular and was not made through an advertisement of the Shares in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (2) such investor has read and understood the terms referred to below under "Canadian Resale Restrictions"; (3) where required by law, such investor is, or is deemed to be, acquiring the Shares as principal for its own account in accordance with the laws of the Canadian Jurisdiction in which the investor is resident and not as agent or trustee; and (4) such investor is an "accredited investor" as defined in section 1.1 of National Instrument 45-106 — *Prospectus and Registration Exemptions* ("**NI 45-106**") and (a) is an "investment dealer" as defined in section 1.1 of National Instrument 31-103 — *Registration Requirements and Exemptions* ("**NI 31-103**") or (b) is a "permitted client" as defined in NI 31-103 who (i) is a person or company registered under the securities legislation of the relevant Canadian Jurisdiction as an adviser or a dealer or (ii) has received the notice required pursuant to paragraph 8.18(4)(b) of NI 31-103; and (5) such investor, if not an individual or an investment fund, has a pre-existing purpose and was not established solely or primarily for the purpose of acquiring the Shares in reliance on an exemption from applicable prospectus requirements in the Canadian Jurisdictions.

Each resident of Ontario who purchases the Shares will be deemed to have represented to the Company, the Selling Shareholders and the Joint Lead Managers that such investor: (a) has been notified by the Company (i) that the Company required to provide information ("**personal information**") pertaining to the investor as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any Shares purchased), which Form 45-106F1 is required to be filed by the Company under NI 45-106; (ii) that such personal information will be delivered to the Ontario Securities Commission (the "**OSC**") in accordance with NI 45-106; (iii) that such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario; (iv) that such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (v) that the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administration Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and (b) has authorized the indirect collection of the personal information by the OSC. Further, the investor acknowledges that its name, address, telephone number and other specified information, including the number of Shares it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. Each resident of a Canadian Jurisdiction other than Ontario who purchases the Shares hereby acknowledges to the Company, the Selling Shareholders and the Joint Lead Managers that its name and other specific information, including the number of Shares it has purchased and the aggregate purchase price to the investor, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian securities laws. By purchasing the Shares, each Canadian investor consents to the disclosure of such information.

Selling Restrictions

Each Joint Lead Manager has agreed that (a) no prospectus has been issued or will be issued in respect of the Shares for distribution to the public under applicable Canadian securities laws, and (b) the Shares may not be offered or sold, directly or indirectly, in Canada except with the consent of the Joint Lead Managers and in compliance with applicable Canadian securities laws and accordingly, any sales of Shares will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws; and (ii) pursuant to an exemption from the prospectus requirements of such laws.

Language of Document

Each purchaser of Shares in Canada that receives a purchase confirmation hereby agrees that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of such Shares be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

Canadian Resale Restrictions

The distribution of the Shares in the Canadian Jurisdictions is being made on a private placement basis. Accordingly, any resale of the Shares must be made (i) through an appropriately registered dealer or in accordance

with an available exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of Shares are advised to seek legal advice prior to any resale of Shares.

The Company is not, and may never be, a "reporting issuer", as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which the Shares will be offered and there currently is no public market for any of the securities of the Company in Canada, including the Shares, and one may never develop. Under no circumstances will the Company be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Shares to the public in any province or territory of Canada. Canadian investors are advised that the Company currently has no intention to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Shares to the public in any province or territory in Canada.

Rights of Action for Damages or Rescission

Securities legislation in some of the Canadian Jurisdictions provides some purchasers, in addition to any other rights they may have at law, with a remedy for rescission or damages or both where an offering memorandum and any amendment to it and, in some cases, advertising and sales literature used in connection therewith, contains a misrepresentation. Those remedies, or notice with respect thereto, must be exercised, or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation. ***Prospective purchasers should refer to the applicable provisions of the relevant securities legislation and are advised to consult their own legal advisers as to which, or whether any, of such rights may be available to them.*** The enforceability of these rights may be limited as described herein under "Enforcement of Legal Rights".

The rights of action discussed below will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant Joint Lead Manager of the purchase price for the Shares. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law. Similar rights may be available to investors resident in other Canadian Jurisdictions under local provincial securities laws.

- *Rights for Purchasers in Ontario*

Securities legislation in Ontario provides investors in Shares pursuant to this Offering Circular with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where this Offering Circular or any amendment to it, contains a "Misrepresentation". Where used herein, "**Misrepresentation**" means an untrue statement of a material fact or an omission to state a material fact that is required to be made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation.

Section 130.1 of the *Securities Act* (Ontario) (the "**OSA**") provides that every purchaser of securities pursuant to an offering memorandum (such as this Offering Circular) shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer provided that:

(a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer;

(b) the issuer will not be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;

(c) the issuer will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and

(d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Subject to the paragraph below, all or any one or more of the issuer and any selling security holder are jointly and severally liable, and every person or company who becomes liable to make any payment for a Misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the Misrepresentation was not based on information provided by the issuer, unless the Misrepresentation (a) was based on information that was previously publicly disclosed by the

issuer, (b) was a Misrepresentation at the time of its previous public disclosure and (c) was not subsequently publicly corrected or superseded by the issuer prior to the completion of the distribution of the securities.

Section 138 of the OSA provides that no action shall be commenced to enforce these rights more than:

(a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or

(b) in the case of an action for damages, the earlier of:

  (i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or

  (ii) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the OSA do not apply in respect of an offering memorandum (such as this Offering Circular) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of NI 45-106 (the "**accredited investor exemption**") if the prospective purchaser is:

(a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank,

(b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada), or

(c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the OSA and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defences on which the Company may rely.

- *Rights for Purchasers in Manitoba*

Manitoba securities legislation provides that if an offering memorandum (such as this Offering Circular) or any advertising or sales literature (as defined in the *Securities Act* (Manitoba)) contains a misrepresentation, a purchaser of securities is deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase and has, subject to certain limitations and defences, a statutory right of action for damages against the seller of such securities, the directors of the seller as of the date of the offering memorandum and the persons who have signed the offering memorandum or, alternatively, while still the owner of the securities, may elect instead to exercise a statutory right of rescission against the seller, in which case the investor shall have no right of action for damages against the seller, the directors of the seller or the persons who have signed the offering memorandum. The rights described above are subject to certain limitations, including that: (a) no action may be commenced to enforce the right of action for rescission or damages by a purchaser resident in Manitoba later than 180 days after the date of the transaction that gave rise to the cause of action, or the earlier of (i) 180 days after the day that the plaintiff first had knowledge of the facts giving rise to the cause of action, or (ii) two years after the day of the transaction that gave rise to the cause of action, in any other case; (b) no person will be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation; (c) in the case of an action for damages, no person will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities; and (d) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the investor.

The liability of all persons or companies referred to above is joint and several with respect to the same cause of action. A defendant who is found liable to pay a sum in damages may recover a contribution, in whole or in part, from a person or company who is jointly and severally liable to make the same payment in the same cause of action unless, in all the circumstances of the case, the court is satisfied that it would not be just and equitable.

- *Rights for Purchasers in New Brunswick*

Pursuant to section 150 of the *Securities Act* (New Brunswick), if an offering memorandum (such as this Offering Circular), together with any amendment thereto or any information relating to the offer, delivered to a New Brunswick purchaser in connection with a distribution of securities, contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied upon the misrepresentation and will, as provided below, have a right of action against the issuer and any selling security holders for damages, or for rescission, in which case, if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages, provided that among other limitations:

(a) no person is liable in an action for damages or rescission, if the person proves that the purchaser purchased the securities with knowledge of the misrepresentation;

(b) in an action for damages, the defendant is not liable for all or any portion of the damages that the defendant proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied on;

(c) the issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the misrepresentation was not based on information provided by the issuer unless the misrepresentation (i) was based on information that was previously publicly disclosed by the issuer, (ii) was a misrepresentation at the time of its previous public disclosure, and (iii) was not subsequently publicly corrected or superseded by the issuer before the completion of the distribution of the securities being distributed; and

(d) in no case shall the amount recoverable under these rights of action exceed the price at which the securities were offered.

In case of an action for rescission, no action shall be commenced more than 180 days after the date of the transaction that gave rise to the cause of action and in the case of any action, other than an action for rescission, no action shall be commenced more than the earlier of (a) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action, and (b) six years after the date of the transaction that gave rise to the cause of action.

Enforcement of Legal Rights

All of the directors and officers (or their equivalents) of the Company, the Selling Shareholders, as well as any experts named herein, may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company, the Selling Shareholders or such experts. All or a substantial portion of the assets of the Company, the Selling Shareholders and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company, the Selling Shareholders or such experts in Canada or to enforce a judgment obtained in Canadian courts against the Company, the Selling Shareholders or such experts outside of Canada.

Canadian Tax Considerations and Eligibility for Investment

This Offering Circular does not address the Canadian tax consequences of ownership of the Shares. Prospective purchasers of Shares should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the Shares for investment by purchasers under relevant Canadian legislation.

SETTLEMENT, CLEARING AND TRADING

You must pay for the Shares delivered to you in U.S. dollars or Roubles on or before the date agreed between you and the Joint Lead Managers, but in any case not later than three business days before the Closing Date. All amounts payable in Roubles shall be paid at the official exchange rate set by the Central Bank of Russia for the date immediately preceding the date on which the relevant payment is made. In order to take delivery of the Shares, you must have either a direct account with our share registrar, OJSC "Moscow Central Depository," or a deposit account with DCC or NDC or any other depository that has an account with DCC or NDC. You may at your own expense choose to hold the Shares through a direct account with our share registrar. However, directly held Shares are ineligible for trading on RTS or MICEX. Shares can be traded on RTS only if they are deposited with DCC (or another depositary that has an account with DCC). Shares can be traded on MICEX only if they are deposited with NDC (or another depositary that has an account with NDC).

Prior to the Offering, there has been only limited public trading of our Shares.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain technical terms used in this Offering Circular. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

Ash content	Incombustible impurities contained in coal, which affect the burning characteristics of coal.
Calorific value	The heat of combustion of a unit quantity of coal. It is expressed in British Thermal Units per pound (BTU/lb), kilocalories per kilogram (kcal/kg) or mega joules per kilogram (MJ/kg). The gross calorific value includes all heat of vaporisation of water. Net calorific value assumes all water is in the vapour phase.
Clean coal technology	A comprehensive new technology that aims to improve various aspects of coal production, including coal processing, combustion, conversion and pollution control.
Cleanup	Actions taken to deal with a release or threat of release of a hazardous substance that could affect humans, the environment, or both.
Coal	A solid, brittle, more or less distinctly stratified combustible carbonaceous rock, formed by partial to complete decomposition of vegetation.
Coal blending	Mixing coal in predetermined and controlled quantities to adjust the chemical or burn characteristics of the resulting coal or to produce a more uniform product.
Coal preparation	The process of selectively removing residual stone material from raw coal through beneficiation at a coal preparation or coal washing plant.
Coal products	Collectively, our raw coal and coal concentrate.
Coal seam	A geological structure containing a series of layers of coal, shale and other mineral materials of various thickness within a defined zone.
CAGR	Compound annual growth rate, which is an average growth rate over a period of several years.
DAF	Delivered at Frontier. Means that the seller delivers the goods, not loaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the customs border of the adjoining country.
Dense-media cyclone processing, or DMC	A coal processing method that processes raw coal by using heavy dense media with a density between coal and waste minerals.
Diluted raw coal, or DRC	Coal produced in the course of selective mining when coal seams are cleaned up, which generally contains an ash content of 45-55%.
Dragline	A large excavation machine used in surface mining to remove overburden covering a coal seam. The dragline casts a wire rope-hung bucket a distance, collects the extracted material by pulling the bucket towards itself on the ground with a second wire rope (or chain), elevates the bucket, and dumps the material onto a spoil bank, in a hopper or on a pile.
Dump	A site used to dispose of solid wastes without environmental controls.
Emission	Pollution discharged into the atmosphere from smokestacks, other vents, and surface areas of commercial or industrial facilities, from residential chimneys; and from motor vehicle, locomotive, or aircraft exhausts.
FCA	Free carrier. Means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place.

FOB	Free on board. A FOB contract price does not include insurance and freight from the point of shipping.
Groundwater	The supply of fresh water found beneath the Earth's surface (usually in aquifers), which is often used for supplying wells and springs. Because groundwater is a major source of drinking water, there is growing concern about areas where leaching agricultural or industrial pollutants or substances from leaking underground storage tanks are contaminating it.
GW	Gigawatt, equivalent to one million kilowatts.
GWh	Gigawatt-hour, equivalent to one million kilowatt hours.
Hazardous waste	Waste that can pose a substantial or potential hazard to human health or the environment when improperly managed. Substances classified as hazardous wastes possess at least one of four characteristics: ignitability, corrosivity, reactivity, or toxicity, or appear on special lists.
Hectare	A metric unit of square measurement of surface of land equal to 10,000 square meters, or approximately 2,471 acres.
Indicated coal resource	An indicated coal resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence as defined by the JORC Code.
Installed capacity	The full-load continuous rating of a generator as designated by the manufacturer, usually denominated in MW.
JORC Code	Australian Code of Reporting of Mineral Resources and Ore Reserves, effective December 2004.
Kcal/kg	Kilocalorie per kilogram.
KW	Kilowatt, equivalent to one thousand watts.
KWh	Kilowatt-hour. The standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.
Marketable coal reserves	The tonnages of coal reserves, at specified moisture and quality, available for sale after accounting for preparation plant yield. Marketable coal reserves are reported in terms of probable reserves or proved reserves.
Measured coal resource	A measured coal resource is that part of a coal resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence as defined by the JORC Code.
Moisture content	The amount of moisture in coal, expressed as a percentage of the weight of the coal. Two types of moisture can be found in coal, including: (i) free or surface moisture, which can be removed by exposure to air, and (ii) inherent moisture, which is trapped in the coal and can be removed by heating the coal.
MW	Megawatt, equivalent to one million watts.
MWh	Megawatt-hour, equivalent to one thousand kilowatt-hours.
Open-pit mine	A mine where the coal is extracted after removing the overlying strata or overburden.
Output	A raw production with respect to coal mines.
Overburden	The soil and rock that must be removed in order to expose an ore deposit.
Preparation plant	Plant used for raw coal to make a product suitable for a particular use.

Probable reserves	Probable reserves under the JORC Code, which are the economically mineable part of an indicated coal resource, and in some circumstances, measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Unless otherwise indicated in this Offering Circular (excluding the IMC Report), "probable reserves" refers to marketable probable reserves.
Proved reserves	Proved reserves under the JORC Code, which are the economically mineable part of a measured coal resource. They include diluting materials, and allowances for losses which may occur when the material is mined and after accounting for preparation plant yield. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Unless otherwise indicated, in this Offering Circular (excluding the IMC Report) "proved reserves" refers to marketable proved reserves.
Pulverised coal	Coal which has been ground into particles. Pulverised coal becomes combustible when sprayed with compressed air.
Raw coal	A mineral in its raw, untreated state subsequent to extraction and prior to sizing and other treatment.
Reclamation	In the context of mining, refers to the process of restoring land and the environment to their original state following mining activities. The process commonly includes "recontouring" or reshaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground cover. Reclamation operations generally are initiated before the mining of a site is completed.
Recoverable reserves	Proven and probable reserves prior to adjustment for preparation plant yield, which can be economically mined with existing or future technology and equipment.
Rolling stock	Any type of rail car, including any type of locomotive or freight car.
Run-of-mine, or ROM coal	Usually the typical quality of coal that is extracted prior to any act of beneficiation such as washing, crushing or screening. The term is used loosely and can be applied on a pit-by-pit basis and is typically also used to refer to the processing and raw stockpile areas. ROM cal is usually ready for sale upon extraction and does not require any washing.
Screen	A device for separating by size.
Seam	A geological structure containing a series of layers of coal, shale and other mineral materials of various thickness within a defined zone.
Stripping ratio	Ratio of overburden waste, which must be removed per tonne of coal reserve, mined, typically expressed in cubic meters per tonne of coal.
Structural capacity	The maximum production capacity that the Company believes could be achieved (taking into account projected stoppages for planned repair and maintenance) in an annual period if the Company were able to process all the coal that could be mined using the Company's existing mine facilities after acquisition of certain mining equipment and construction of three coal processing/enrichment facilities in accordance with our current capital expenditure program.

Sub-bituminous coal	A rank class of coal with a heat value content of more than 4,600 kcal/kg and less than 6,400 kcal/kg on a moist mineral-matter-free basis.
Sulphur	One of the elements present, in varying quantities, in coal that contributes to environmental degradation when coal is burned. Sulfur dioxide is produced as a gaseous by-product of coal combustion.
Sulphur content	Sulphur contained in coal. Sulphur content can vary from coal seam to coal seam and sometimes within seam. "Low sulphur" coal has a variety of definitions but typically is used to describe coal consisting of 1.0% or less sulphur.
Tce	Tonne of coal equivalent, which means a unit representing energy generated by burning one tonne of coal, equivalent to the energy obtained from 700 kilograms of oil or 890 cubic meters of natural gas that is 8.14 MWh.
Thermal coal	Thermal coal, also normally referred to as "steam" or "steaming coal," is used in combustion processes by power producers and industrial users to produce steam for power and heat. It is generally lower in heat and higher in volatile matter than metallurgical coal.
Ton or tonne	A metric tonne, which is a measurement of mass equal to 1,000 kilograms or approximately 2,205 pounds, or 1.102 US (short) tones.
Transportation method	A mining method that involves the removal of overburden and the recovery of coal in open-cut mines by shovels, excavators and front-end loaders, which load the coal into trucks for transportation onward.
Waste	Rock lacking or containing an uneconomic quantity of the target elements.

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ZAO KPMG
Naberezhnaya Tower Complex, Block C
10 Presnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

The Board of Directors
OJSC Kuzbass Fuel Company

We have audited the accompanying consolidated financial statements of OJSC Kuzbass Fuel Company (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUR 134 million as at 1 January 2007 because we were engaged as auditors of the Group only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended 31 December 2007.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures for 2007 of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
30 March 2010

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

OJSC Kuzbass Fuel Company

Consolidated Statement of Financial Position as at 31 December 2009

	Note	31 December 2009	31 December 2008 (Restated)	31 December 2007
		Mln RUR	Mln RUR	Mln RUR
ASSETS				
Non-current assets				
Property, plant and equipment	17	7,333	6,772	5,068
Goodwill and intangible assets	18	14	15	5
Investments in equity accounted investees		3	3	—
Other investments	19	67	—	200
Long-term receivables		7	2	3
Deferred tax assets	20	6	72	8
Total non-current assets		**7,430**	**6,864**	**5,284**
Current assets				
Inventories	21	405	512	216
Other investments	19	7	71	7
Income tax receivable		30	17	7
Trade and other receivables	22	1,227	1,074	671
Prepayments and deferred expenses	23	230	203	57
Cash and cash equivalents	24	86	315	31
Total current assets		**1,985**	**2,192**	**989**
Total assets		**9,415**	**9,056**	**6,273**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-8 to F-43.

OJSC Kuzbass Fuel Company

Consolidated Statement of Financial Position as at 31 December 2009

	Note	31 December 2009	31 December 2008 (Restated)	31 December 2007
		Mln RUR	Mln RUR	Mln RUR
EQUITY AND LIABILITIES				
Equity				
Share capital	25	17	17	17
Retained earnings		3,409	2,767	1,783
Total equity attributable to equity holders of the Company		3,426	2,784	1,800
Minority interest		41	34	20
Total equity		**3,467**	**2,818**	**1,820**
Non-current liabilities				
Loans and borrowings	27	2,204	2,453	1,272
Net assets attributable to minority participants in LLC subsidiaries	28	66	50	7
Provisions	29	237	217	203
Deferred tax liabilities	20	362	364	340
Total non-current liabilities		**2,869**	**3,084**	**1,822**
Current liabilities				
Bank overdrafts		—	60	—
Loans and borrowings	27	1,655	1,172	1,846
Trade and other payables	30	1,414	1,788	723
Provisions	29	—	7	49
Income tax payable		10	127	13
Total current liabilities		**3,079**	**3,154**	**2,631**
Total liabilities		**5,948**	**6,238**	**4,453**
Total equity and liabilities		**9,415**	**9,056**	**6,273**

These consolidated financial statements were approved by management on 30 March 2010 and were signed on its behalf by:

Chairman of the Board of Directors
Vadim V. Danilov



First Deputy General Director
Eduard V. Alekseenko



The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-8 to F-43.

OJSC Kuzbass Fuel Company

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

		2009	2008 (Restated)	2007
		Mln RUR	Mln RUR	Mln RUR
Revenue	9	**10,658**	**8,557**	**3,864**
Cost of sales	10	(8,171)	(6,090)	(3,168)
Gross profit		2,487	2,467	696
Distribution expenses	11	(312)	(242)	(174)
Administrative expenses	12	(687)	(565)	(422)
Other operating expenses	13	(19)	(22)	(16)
Results from operating activities		1,469	1,638	84
Finance income	15	65	66	27
Finance costs	15	(656)	(402)	(209)
Profit/(loss) before income tax		878	1,302	(98)
Income tax expense	16	(215)	(200)	(8)
Profit/(loss) for the year		**663**	**1,102**	**(106)**
Profit/(loss) and total comprehensive income attributable to:				
Owners of the Company		637	1,064	(94)
Minority participants in LLC subsidiaries		4	29	(11)
Equity minority interest		22	9	(1)
Profit/(loss) and total comprehensive income for the year		**663**	**1,102**	**(106)**
Earnings per share	26			
Basic and diluted earnings per share (RUR)		8	13	(1)

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-8 to F-43.

OJSC Kuzbass Fuel Company

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

Mln RUR	Attributable to shareholders of the Company			Minority interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 1 January 2007	**17**	**1,912**	**1,929**	**21**	**1,950**
Loss for the year and total comprehensive income for the year	—	(94)	(94)	(1)	**(95)**
Dividends to shareholders	—	(122)	(122)	—	**(122)**
Acquisition of minority interest in LLC subsidiaries	—	113	113	—	**113**
Acquisition of shares of subsidiaries under common control (see note 8)	—	(26)	(26)	—	**(26)**
Balance at 31 December 2007	**17**	**1,783**	**1,800**	**20**	**1,820**
Profit for the year and total comprehensive income for the year, as restated	—	1,064	1,064	9	**1,073**
Dividends to shareholders	—	(80)	(80)	—	**(80)**
Acquisition of subsidiaries (see note 8)	—	—	—	5	**5**
Balance at 31 December 2008, as restated	**17**	**2,767**	**2,784**	**34**	**2,818**
Profit for the year and total comprehensive income for the year	—	637	637	22	**659**
Effect of acquisition of minority interest in LLC subsidiaries (see note 8)	—	5	5	(15)	**(10)**
Balance at 31 December 2009	**17**	**3,409**	**3,426**	**41**	**3,467**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-8 to F-43.

OJSC Kuzbass Fuel Company

Consolidated Statement of Cash Flows for the year ended 31 December 2009

	2009	2008 (Restated)	2007
	Mln RUR	Mln RUR	Mln RUR
OPERATING ACTIVITIES			
Profit/(loss) for the year	663	1,102	(106)
Adjustments for:			
Depreciation and amortisation	689	512	375
Change in provision for site restoration	(1)	13	61
Impairment loss	15	17	—
Loss on disposal of property, plant and equipment	4	5	16
Net finance expense	591	336	182
Income tax expense	215	200	8
Operating result before changes in working capital and provisions	**2,176**	**2,185**	**536**
Change in inventories	107	(265)	(82)
Change in trade and other receivables	(126)	(387)	(179)
Change in prepayments for current assets	(27)	(146)	13
Change in trade and other payables	(583)	966	106
Cash flows from operations before income tax and interest paid	**1,547**	**2,353**	**394**
Income taxes and penalties paid	(281)	(208)	(78)
Interest paid	(640)	(413)	(246)
Cash flows from operating activities	**626**	**1,732**	**70**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment	42	22	22
Proceeds from disposal of discontinued operations	—	—	25
Loans issued	(217)	(199)	(310)
Proceeds from loans issued including interest received	233	352	232
Acquisition of property, plant and equipment	(1,084)	(2,007)	(1,105)
Acquisition of subsidiaries, net of cash acquired	—	(111)	—
Acquisition of equity accounted investees	—	(3)	(7)
Acquisition of minority interests	(4)	—	(25)
Cash flows used in investing activities	**(1,030)**	**(1,946)**	**(1,168)**
FINANCING ACTIVITIES			
Proceeds from borrowings	7,119	8,010	5,455
Repayment of borrowings	(6,904)	(7,494)	(4,314)
Contribution from minority participants	6	—	—
Dividends paid	—	(80)	(138)
Cash flows from financing activities	**221**	**436**	**1,003**
Net (decrease)/increase in cash and cash equivalents	**(183)**	**222**	**(95)**
Cash and cash equivalents at the beginning of year	255	31	126
Effect of exchange rate fluctuations on cash and cash equivalents	14	2	—
Cash and cash equivalents at the end of year	**86**	**255**	**31**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages F-8 to F-43.

1 Background

(a) Corporate information

The Company is an open joint-stock company (OAO) registered under Russian law on 4 April 2000. The registered office of the Company is 4, 50-Letiya Oktyabrya street, Kemerovo, Russia.

The Company is controlled by Mr. Igor Yurjevich Prokudin (the "Controlling shareholder"), who is the Group's ultimate controlling party. Related party transactions are detailed in note 35.

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

	Country of incorporation	Principal activity	2009 Ownership/ voting	2008 Ownership/ voting	2007 Ownership/ voting
LLC TEK Meret	Russia	Railroad transportation services	100%	100%	100%
OJSC Kuzbasstoplivosbyt	Russia	Retail sale of coal	75%	75%	75%
OJSC Kaskad Energo	Russia	Electricity generation	100%	100%	100%
CJSC Management Company Kaskad	Russia	Wholesale supply of coal	100%	100%	100%
OJSC ATK	Russia	Retail sale of coal	51%	51%	51%
LLC Transugol	Russia	Retail sale of coal	51%	51%	51%
LLC NTK	Russia	Retail sale of coal	51%	51%	—
LLC Karakan Farm	Russia	Land lease	98.5%	98.5%	98.5%
LLC Kaskad Geo	Russia	Land lease	100%	100%	100%

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

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

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

(b) Business environment

Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

- Note 17 — Property, plant and equipment;
- Note 29 — Provision for site restoration;
- Note 31 — Financial risk management;
- Note 34 — Contingencies.

(e) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- determination and presentation of operating segments;
- presentation of financial statements.

(i) Determination and presentation of operating segments

With effect from 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the General Director, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of International Financial Reporting Standard 8 *Operating Segments*. Previously segments were not determined, as the Group did not have to comply with the requirements of IAS 14. The new accounting policy in respect of operating segment disclosures is presented in note 3(p).

Comparative segment information has been presented in conformity with the transitional requirements of IFRS 8. The change in accounting policy only impacts disclosure aspects.

(ii) Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share resulting from this change alone.

3 Significant accounting policies

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

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Acquisitions from entities under common control

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

(iii) Investments in associates (equity accounted investees)

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

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

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

Loans and receivables

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

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

Other

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

(ii) Non-derivative financial liabilities

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

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

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

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

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

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(iii) Share capital

Ordinary shares

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Exploration and evaluation expenditure

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

(iii) Mine development costs

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

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to "Mining assets and mining structures" category, which is classified within property, plant and equipment.

(iv) Stripping costs

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

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

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

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

(v) Mining assets and mining structures

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

- Capitalized mine development expenditure — note 3(d)(iii);
- Capitalized development stripping costs — note 3(d)(iv);
- Capitalized site restoration obligations — note 29(a);
- Cost of production mining licences.

(vi) Subsequent costs

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

(vii) Depreciation

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

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

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

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

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

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

Based on projected extraction volumes, the remaining useful life of the existing mining assets and mining structures is estimated to exceed 20 years.

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

(e) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2006. No goodwill has been recognized in respect of any business combinations which occurred before 1 January 2006.

Acquisitions on or after 1 January 2006

For acquisitions on or after 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Acquisitions of minority interests

The Group does not recognise goodwill (negative goodwill) on the acquisition of minority interests. The excess of the cost of acquiring an additional interest in the subsidiary over the minorities' share of the carrying value of the assets and liabilities is recognised in the statement of changes in equity as a distribution, or as contribution if the cost of acquisition is less than the minorities' share of the carrying value of assets and liabilities.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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

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

(f) Leased assets

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

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

(g) Inventories

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

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

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

(h) Impairment

(i) Financial assets

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

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

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables, if found not to be specifically impaired, are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

(ii) Non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

(i) Employee benefits

(i) Short-term benefits

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

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

(j) Provisions

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

(i) Site restoration

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

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

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

According to Article 26 of Federal Law of Russian Federation on Limited Liability Companies, a participant in a limited liability company may unilaterally withdraw from the company if the right to withdraw is provided for in a company's charter.

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

(l) Revenue

(i) Sale of coal

Revenue from the sale of coal in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

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

(ii) Revenue from rendering of services

Revenue from rendering of services comprises sales of power and heat energy and sales of transportation services. Revenue from transportation services rendered is recognised in the income statement in proportion to the stage of completion of a respective voyage at the reporting date. Revenue from sales of power and heat energy is recognized on the delivery of electricity and heat and is based on the quantities actually measured or estimated on the basis of the output less expected grid losses, and authorized tariffs for electricity and heat as approved by the Regional Energy Commission.

(iii) Compensation from government

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

(m) Finance income and costs

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

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

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

(n) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax

assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Segment reporting

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

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective:

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The amendment is expected to have no impact on the Group's financial position or performance.

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require the effects of transactions with non-controlling interests to be recognised directly in equity. The new Standard is likely to affect the Group's accounting for future business combinations; however, the impact has not yet been quantified.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

4 Restatements and reclassifications

(a) Restatements

(i) Change in the basis for revenue recognition

The Group previously determined the point of transfer of risks and rewards for its export sales with contract obligations to deliver goods to the frontier by reference to dates of customs clearance as indicated on final customs declarations, as it was believed that final customs declarations provide conclusive evidence indicating the transfer of risks and rewards. In connection with the preparation of the consolidated financial statements as at and for the year ended 31 December 2009, management analysed documentation underlying export sales, and concluded that information contained in individual railroad waybills provides the appropriate basis for revenue recognition.

(ii) Bonuses attributed to period of services

During 2009, management identified that the Group had constructive obligations to pay certain short-term employee benefits as at 31 December 2008. As a result, the Group has restated comparative periods which has resulted in the following changes in the statement of comprehensive income for the year ended 31 December 2008 and in the statement of financial position as at that date.

As a result of the above the Group has restated the comparative information, which has resulted in the changes in the statement of comprehensive income for the year ended 31 December 2008 and in the statement of financial position as at that date as shown in note 4(c) below.

Management determined that the effect as at and for the year ended 31 December 2007 and earlier periods is not material.

(b) Reclassifications

(i) Classification of operating expenses related to coal handling and storage

The Group changed the classification of certain operating expenses, related to coal loading and storage. Comparative information for the year ended 31 December 2008 was reclassified, which resulted in a decrease in distribution expenses of RUR 142 million, with the corresponding increase in cost of sales and administrative expenses of RUR 128 million and RUR 14 million respectively. The effect on the comparative information for 2007 was RUR 93 million reclassified from distribution expenses to cost of sales.

(ii) Presentation of cost of sales

The Group changed the presentation of cost of sales note. Comparatives were reclassified for consistency. As a result, expenses which were previously allocated to individual cost elements of RUR 22 million for 2008 and RUR 45 million for 2007 have been reallocated to the new line item “Change in coal stock”, which is a reconciling item of cost of production to cost of sales. The purpose of the change in presentation is to deliver a more transparent classification of expenses.

(iii) Classes of property, plant and equipment

The Group changed the classification of property, plant and equipment which resulted in combining two previously separate classes “Production equipment” and “Earth-moving machinery and vehicles” into a single class “Machinery, equipment and vehicles”. The reclassification is made to provide assets grouping by nature of performed activities rather than by technical characteristics of assets. Comparatives were reclassified for consistency.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(c) Effect of restatements and reclassifications of comparative information

Amounts as at and for the year ended 31 December 2008	As reported previously	Revenue recognition	Accrual of employee benefits	Reclassifications	As restated
	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR
Financial results					
Sales	8,029	528	—	—	8,557
Cost of sales	(5,590)	(343)	(29)	(128)	(6,090)
Distribution expenses	(381)	—	(3)	142	(242)
Administrative expenses	(543)	—	(8)	(14)	(565)
Income tax expense	(171)	(37)	8	—	(200)
Profit and total comprehensive income	**986**	**148**	**(32)**	**—**	**1,102**
Financial position					
Inventories	855	(343)	—	—	512
Trade and other receivables	991	83	—	—	1,074
Total assets	**9,316**	**(260)**	**—**	**—**	**9,056**
Deferred income tax liabilities	335	37	(8)	—	364
Trade and other payables	2,193	(445)	40	—	1,788
Total liabilities	**6,614**	**(408)**	**32**	**—**	**6,238**
Retained earnings	2,651	148	(32)	—	2,767
Total equity	**2,702**	**148**	**(32)**	**—**	**2,818**
Cash flows					
Profit for the year	986	148	(32)	—	1,102
Income tax expense	171	37	(8)	—	200
Change in inventories	(608)	343	—	—	(265)
Change in trade and other receivables	(302)	(83)	—	(2)	(387)
Change in trade and other payables	1,371	(445)	40	—	966
Cash flows from operating activities	**1,734**	**—**	**—**	**(2)**	**1,732**
Net increase in cash and cash equivalents	**224**	**—**	**—**	**(2)**	**222**
Effect of exchange rate fluctuations	**—**	**—**	**—**	**2**	**2**

5 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(b) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6 Reportable segments

The Group is engaged in different business activities from which it earns revenues and incurs expenses. Individual operations are reviewed by the Company's general director for purposes of assessing performance and making resource allocation decisions. For this review the general director uses various regular reports, including monthly reports on coal sales volumes and average sales prices, monthly coal production reports, as well as the Company's statutory financial information. During 2009, management also prepared IFRS quarterly consolidated financial information which was used by the general director.

Management believes that during 2009 no discrete financial information was available for the Group's business activities and the Group represented a single reportable segment.

Going forward, management plans to implement a new financial reporting system where quarterly IFRS financial results of different activities will be grouped to operating segments and reported to the general director as follows:

- Domestic sales of own-produced coal
- Export sales of own-produced coal
- Sales of purchased coal
- Other business activities.

These financial statements include a note, which presents analysis of the Group's revenue and cost of sales on the abovementioned basis (see Note 7). The note does not represent the Group's operating segments in 2009, 2008 and 2007.

Geographical information

In presenting information on the basis of geographical information, revenue is based on the geographical location of customers, as presented below:

Mln RUR	2009	2008	2007
Russian Federation	5,654	4,613	2,874
Export	5,004	3,944	990
	10,658	**8,557**	**3,864**

Major customers

During 2009 sales to Glencore International AG amounted to RUR 2,579 million (2008: RUR 1,488 million, 2007: RUR 526 million) while sales to Kort Enterprises Limited amounted to RUR 1,929 million (2008: RUR 1,503 million, 2007: RUR 464 million). The respective participation of these major customers in the Group's revenues were 24% and 18% (2008: 17% and 18%, 2007: 14% and 12%) respectively.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

7 Analysis of sales, cost of sales, trade receivables and advances received by types of activities

For the year ended and as at 31 December 2009	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	Total
Revenue	3,624	5,004	1,500	530	10,658
Cost of sales	(2,612)	(3,855)	(1,337)	(367)	(8,171)
Gross profit	**1,012**	**1,149**	**163**	**163**	**2,487**
Trade receivables	421	51	174	74	720
Advances received	(79)	(103)	(33)	(54)	(269)

For the year ended and as at 31 December 2008	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	Total
Revenue	2,182	3,944	2,008	423	8,557
Cost of sales	(1,466)	(2,453)	(1,852)	(319)	(6,090)
Gross profit	**716**	**1,491**	**156**	**104**	**2,467**
Trade receivables	136	83	125	67	411
Advances received	(41)	(349)	(38)	(36)	(464)

For the year ended and as at 31 December 2007	Domestic sales of coal produced	Export sales of coal produced	Re-sale of coal purchased	Other operations	Total
Revenue	1,581	977	953	353	3,864
Cost of sales	(1,342)	(662)	(881)	(283)	(3,168)
Gross profit	**239**	**315**	**72**	**70**	**696**
Trade receivables	156	—	93	23	272
Advances received	(12)	(97)	(9)	(10)	(128)

8 Acquisitions and disposals of subsidiaries and minority interests

(a) Acquisition of subsidiaries

In June 2008 the Group acquired a coal distribution network of 19 companies, commonly referred to as NTK which operates in the Novosibirsk region of the Russian Federation, for RUR 185 million, of which RUR 134 million was settled in cash and a further consideration was paid by issuing the Group's own long-term interest-free promissory notes with nominal (face) value of RUR 75 million and fair value of RUR 51 million. The Group acquired effective ownership interests of between 26% and 51%. The impact of acquiring NTK was to increase the Group's profit for the year ended 31 December 2008 by RUR 19 million, and the Group's revenue for 2008 by RUR 421 million.

If the acquisition had occurred on 1 January 2008, NTK's part of Group's revenue for the year ended 31 December 2008 would have been RUR 678 million and the Group's profit for that year would not have been significantly

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

different. The acquisition of the NTK had the following effect on the Group's assets and liabilities at the date of acquisition:

	Recognised fair values on acquisition
	Mln RUR
Non-current assets	
Property, plant and equipment	247
Current assets	
Inventories	30
Income tax receivable	5
Trade and other receivables	85
Cash and cash equivalents	23
Non-current liabilities	
Deferred tax liabilities	(48)
Current liabilities	
Loans and borrowings	(4)
Trade and other payables	(144)
Net identifiable assets, liabilities and contingent liabilities	194
Goodwill on acquisition	10
Equity minority interest	(5)
Minority participants in LLC subsidiaries	(14)
Fair value of consideration paid	185
Fair value of long-term promissory notes issued as consideration	(51)
Cash acquired	(23)
Net cash outflow	111

It has not been practicable to determine the carrying amounts of the NTK's assets, liabilities and contingent liabilities on an IFRS basis immediately prior to the date of acquisition because NTK's financial statements were prepared in accordance with Russian Accounting Principles, which are significantly different from IFRSs.

Goodwill arose on the acquisition because Group's management perceived additional strategic value in getting access to the regional market where NTK coal distribution chain operates.

(b) Acquisitions under common control and acquisition of minority interests

In 2007 the Group transferred RUR 25.5 million to its controlling shareholder for the 51% share in LLC TEK Meret and RUR 10 thousand for the 10% share in CJSC Management Company Kaskad. According to the Group's accounting policy, the assets, liabilities and results of operations of the acquired entities have been included to these consolidated financial statements retrospectively from the earliest period of their operations or, if later, from the date when common control was established over the acquired entities. Cash consideration paid to the controlling shareholder has been recorded in the statement of changes in equity as distribution to shareholders.

In July 2007 the Group acquired an additional 10% interest in CJSC Management Company Kaskad for RUR 1 thousand, increasing its ownership from 90% to 100%. The carrying amount of CJSC Management Company Kaskad's net liabilities in the consolidated financial statements on the date of acquisition was RUR 18 million. The acquisition did not affect the minority interest balance as minority interest had not been recognized due to accumulated losses.

In October 2007 the Group acquired an additional 49% interest in LLC TEK Meret for RUR 24.5 million, increasing its ownership from 51% to 100%. The carrying amount of LLC TEK Meret's net assets in the consolidated financial statements on the date of acquisition was RUR 280 million. The Group recognised a decrease in minority interests in LLC subsidiaries of RUR 137 million and gain from acquisition of minority interest of RUR 113 million in the statement of changes in equity.

During 2009, the Group acquired additional interests in certain coal retail entities for RUR 4 million. The acquisition resulted in reduction of equity minority interest by RUR 15 million and in increase of net assets

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

attributable to minority participants of LLC subsidiaries by RUR 6 million. The effect of acquisition was recognised in equity.

9 Revenue

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Sales of coal	9,225	7,528	3,162
Compensation from government	904	606	349
Sales of electrical and heat power	202	168	160
Provision of transportation services	137	143	137
Provision of storage services	67	75	36
Other revenue	123	37	20
	10,658	**8,557**	**3,864**

'Compensation from government' refers to amounts subsidised by the local authorities as a part of the consideration for the coal sold to local municipalities. Such compensation is due to the company in accordance with Russian legislation.

10 Cost of sales

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Railway tariff and transportation services	(3,543)	(1,853)	(559)
Coal purchased	(942)	(1,440)	(738)
Wages, salaries and social charges	(750)	(663)	(515)
Extraction, processing and sorting of coal	(659)	(257)	(73)
Fuel	(546)	(594)	(310)
Depreciation	(615)	(451)	(321)
Spare parts	(323)	(198)	(150)
Mining and environmental taxes	(204)	(192)	(90)
Repair and maintenance	(144)	(55)	(54)
Operating lease	(57)	(82)	(34)
Electricity	(33)	(36)	(27)
Security services	(32)	(21)	(13)
Land rent	(31)	(25)	(103)
Storage services	(4)	(23)	(2)
Change in provision for site restoration	1	(13)	(61)
Other materials	(106)	(99)	(108)
Other services	(153)	(55)	(35)
Other costs	(28)	(11)	(20)
Change in coal stock	(2)	(22)	45
	(8,171)	**(6,090)**	**(3,168)**

11 Distribution expenses

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Services	110	107	65
Wages, salaries and social charges	124	82	62
Materials	28	14	7
Depreciation	42	32	38
Other distribution expenses	8	7	2
	312	**242**	**174**

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

12 Administrative expenses

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Wages, salaries and social charges	332	266	206
Services	111	92	57
Taxes other than income tax	92	61	44
Charity and welfare	33	36	56
Fees and penalties	25	22	4
Materials	21	18	12
Depreciation	31	29	16
Sundry payments to personnel	18	13	5
Other administrative expenses	24	28	22
	687	**565**	**422**

13 Other operating expenses

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Impairment loss	(15)	(17)	—
Loss on disposal of property, plant and equipment	(4)	(5)	(16)
	(19)	**(22)**	**(16)**

14 Personnel costs

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Wages, salaries and sundry payments to personnel	(1,002)	(844)	(644)
Social charges	(223)	(180)	(143)
	(1,225)	**(1,024)**	**(787)**

15 Finance income and finance costs

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Discount at initial recognition of interest-free loan received	5	48	—
Interest income on loans granted	19	18	19
Foreign exchange gain	41	—	8
Finance income	**65**	**66**	**27**
Interest expense	(615)	(319)	(185)
Allowance for doubtful debts and write-offs	(9)	(34)	(1)
Foreign exchange loss	—	(32)	—
Unwinding of discount on provision for site restoration	(22)	(13)	(7)
Unwinding of discount on long-term promissory notes	(10)	(4)	—
Dividends paid to minority participants in LLC subsidiaries	—	—	(16)
Finance expense	**(656)**	**(402)**	**(209)**
Net finance expense recognised in profit or loss	**(591)**	**(336)**	**(182)**

In addition to interest expense shown above, the Group has capitalised RUR 49 million (2008: RUR 89 million, 2007: RUR 32 million) to property, plant and equipment under construction using a capitalisation rate of 11.1 % (2008: 11.2%, 2007: 9.9%).

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

16 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%, 2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%.

	2009 Mln RUR	2008 Mln RUR	2007 Mln RUR
Current tax expense			
Current year	(144)	(352)	(34)
(Under) / Overprovided in prior years	(7)	64	—
	(151)	**(288)**	**(34)**
Deferred tax expense			
Origination and reversal of temporary differences	(73)	31	33
Change in tax rate	—	58	—
Current year losses not giving rise to a deferred tax asset	—	(1)	(8)
Change in unrecognised temporary differences	9	—	1
	(64)	**88**	**26**
	(215)	**(200)**	**(8)**

Reconciliation of effective tax rate:	2009 Mln RUR	%	2008 Mln RUR	%	2007 Mln RUR	%
Profit/(loss) from continuing operations before tax	878	100	1,302	100	(98)	100
Income tax at applicable tax rate	(176)	(20)	(312)	(24)	24	(24)
Change in tax rate	—	—	58	5	—	—
Non-deductible expenses	(41)	(4)	(9)	(1)	(25)	26
Current year losses not giving rise to a deferred tax asset	—	—	(1)	—	(8)	8
Change in unrecognised temporary differences	9	1	—	—	1	(1)
(Under)/Overprovided in prior years	(7)	(1)	64	5	—	—
	(215)	**(24)**	**(200)**	**(15)**	**(8)**	**9**

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

17 Property, plant and equipment

	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
				Mln RUR				
Cost/deemed cost								
Balance at 1 January 2007	371	330	2,014	1,205	3	478	119	4,520
Additions	5	7	8	192	2	980	106	1,300
Transfers	145	—	41	302	—	(486)	(2)	—
Disposals	—	—	—	(59)	—	—	—	(59)
Balance at 31 December 2007	**521**	**337**	**2,063**	**1,640**	**5**	**972**	**223**	**5,761**
Acquisitions through business combinations	82	—	67	94	—	4	—	247
Additions	222	—	1	198	—	709	898	2,028
Transfers	25	595	473	752	1	(1,089)	(757)	—
Disposals	—	(14)	(12)	(44)	—	—	—	(70)
Balance at 31 December 2008	**850**	**918**	**2,592**	**2,640**	**6**	**596**	**364**	**7,966**
Additions	302	—	16	106	1	570	317	1,312
Transfers	2	11	89	1,378	14	(847)	(647)	—
Disposals	(4)	(9)	(2)	(87)	—	(5)	(2)	(109)
Balance at 31 December 2009	**1,150**	**920**	**2,695**	**4,037**	**21**	**314**	**32**	**9,169**

	Land and buildings	Mining assets and mining structures	Other production structures	Machinery, equipment and vehicles	Fittings and fixtures	Construction in progress and uninstalled equipment	Advances	Total
				Mln RUR				
Depreciation and impairment losses								
Balance at 1 January 2007	(15)	(13)	(97)	(209)	(1)	—	—	(335)
Depreciation charge	(20)	(7)	(120)	(231)	(1)	—	—	(379)
Disposals	—	—	—	21	—	—	—	21
Balance at 31 December 2007	**(35)**	**(20)**	**(217)**	**(419)**	**(2)**	**—**	**—**	**(693)**
Depreciation charge	(17)	(13)	(147)	(349)	(1)	—	—	(527)
Impairment loss	—	—	(17)	—	—	—	—	(17)
Disposals	—	—	12	31	—	—	—	43
Balance at 31 December 2008	**(52)**	**(33)**	**(369)**	**(737)**	**(3)**	**—**	**—**	**(1,194)**
Depreciation charge	(22)	(18)	(162)	(486)	(2)	—	—	(690)
Impairment loss	—	—	2	(17)	—	—	—	(15)
Disposals	—	—	2	60	1	—	—	63
Balance at 31 December 2009	**(74)**	**(51)**	**(527)**	**(1,180)**	**(4)**	**—**	**—**	**(1,836)**
Net book value								
At 1 January 2007	**356**	**317**	**1,917**	**996**	**2**	**478**	**119**	**4,185**
At 31 December 2007	**486**	**317**	**1,846**	**1,221**	**3**	**972**	**223**	**5,068**
At 31 December 2008	**798**	**885**	**2,223**	**1,903**	**3**	**596**	**364**	**6,772**
At 31 December 2009	**1,076**	**869**	**2,168**	**2,857**	**17**	**314**	**32**	**7,333**

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

The allocation of depreciation charge is presented in the table below:

Mln RUR	2009	2008	2007
Cost of sales	(615)	(451)	(321)
Distribution expenses	(42)	(32)	(38)
Administrative expenses	(31)	(29)	(16)
Capitalized in property, plant and equipment — construction in progress	(2)	(15)	(4)
	(690)	**(527)**	**(379)**

Additions to property, plant and equipment include RUR 49 million (2008: RUR 89 million; 2007: RUR 32 million) of capitalised interest.

At 31 December 2009 items of property, plant and equipment with a carrying amount of RUR 3,421 million (31 December 2008: RUR 3,931 million; 31 December 2007: RUR 2,525 million) were pledged to secure bank loans (see note 27).

18 Intangible assets

Mln RUR	Goodwill	Other	Total
Cost			
Balance at 1 January 2007	4	—	4
Additions	—	1	1
Balance at 31 December 2007	**4**	**1**	**5**
Acquisitions through business combinations	10	—	10
Balance at 31 December 2008	**14**	**1**	**15**
Additions	—	—	—
Balance at 31 December 2009	**14**	**1**	**15**
Amortisation and impairment losses			
Balance at 1 January 2007	—	—	—
Balance at 31 December 2007	—	—	—
Balance at 31 December 2008	—	—	—
Amortisation charge	—	**(1)**	**(1)**
Balance at 31 December 2009	—	**(1)**	**(1)**
Net book value			
At 1 January 2007	**4**	—	**4**
At 31 December 2007	**4**	**1**	**5**
At 31 December 2008	**14**	**1**	**15**
At 31 December 2009	**14**	—	**14**

Impairment testing of goodwill

Goodwill arising from previous business combinations has been entirely allocated to the coal distribution unit of the business, which is the lowest level at which the goodwill is monitored for internal management purposes.

The Group tested the goodwill for impairment as at 31 December 2009. The results of the test did not identify any impairment of the goodwill as at 31 December 2009.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

19 Other investments

	31 December 2009	31 December 2008	31 December 2007
	Mln RUR	Mln RUR	Mln RUR
Non-current			
Loan granted to shareholder	67	—	200
	67	**—**	**200**
Current			
Loan granted to shareholder	—	69	4
Loan granted to other companies	7	2	3
	7	**71**	**7**

The loan granted to shareholder as at 31 December 2009 is secured by 16,880 shares of the Company. The loan is provided at 18% p. a. and matures in January 2011.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 31.

20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net balance		
Mln RUR	2009	2008	2007	2009	2008	2007	2009	2008	2007
Property, plant and equipment	—	—	—	(422)	(363)	(396)	(422)	(363)	(396)
Inventories	15	59	6	(14)	69	—	1	128	6
Trade and other receivables	7	11	2	(7)	(17)	—	—	(6)	2
Trade and other payables	16	7	6	—	(81)	—	16	(74)	6
Loans and borrowings	5	—	—	(12)	(9)	—	(7)	(9)	—
Provisions	47	32	50	—	—	—	47	32	50
Tax loss carry-forwards	9	—	—	—	—	—	9	—	—
Deferred tax assets/liabilities	**99**	**109**	**64**	**(455)**	**(401)**	**(396)**	**(356)**	**(292)**	**(332)**
Set-off of tax	(93)	(37)	(56)	93	37	56	—	—	—
Net tax assets / liabilities	**6**	**72**	**8**	**(362)**	**(364)**	**(340)**	**(356)**	**(292)**	**(332)**

The tax losses expire in 2017-2018.

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (tax-effected amounts shown below):

	31 December 2009	31 December 2008	31 December 2007
	Mln RUR	Mln RUR	Mln RUR
Tax loss carry-forwards	—	9	8

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(c) Movement in temporary differences during the year

Mln RUR	1 January 2007	Recognised in income statement	31 December 2007	Acquired in business combination	Recognised in income statement	31 December 2008	Recognised in income statement	31 December 2009
Property, plant and equipment	(394)	(2)	(396)	(48)	81	(363)	(59)	(422)
Inventories	2	4	6	—	122	128	(127)	1
Trade and other receivables	1	1	2	—	(8)	(6)	6	—
Trade and other payables	7	(1)	6	—	(80)	(74)	90	16
Loans and borrowings	—	—	—	—	(9)	(9)	2	(7)
Provisions	26	24	50	—	(18)	32	15	47
Tax loss carry-forwards	—	—	—	—	—	—	9	9
	(358)	**26**	**(332)**	**(48)**	**88**	**(292)**	**(64)**	**(356)**

21 Inventories

	31 December 2009	31 December 2008	31 December 2007
	Mln RUR	Mln RUR	Mln RUR
Raw materials and consumables	132	106	91
Coal in stock	150	167	65
Coal in transit	114	231	60
Other	9	8	—
	405	**512**	**216**

Inventories with a carrying amount of RUR 45 million (31 December 2008: 32 million; 31 December 2007: 80 million) have been pledged as security for borrowings.

22 Trade and other receivables

	31 December 2009	31 December 2008	31 December 2007
	Mln RUR	Mln RUR	Mln RUR
Trade receivables	720	411	272
Overpayment of VAT to budget	145	221	86
Input VAT receivable	134	210	112
Compensation receivable from budget	96	46	37
Receivables for railway tariff	72	56	115
Receivable from personnel	14	21	13
Other receivables	91	145	43
Provision for doubtful debts	(45)	(36)	(7)
	1,227	**1,074**	**671**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 31.

23 Prepayments and deferred expenses

	31 December 2009	31 December 2008	31 December 2007
	Mln RUR	Mln RUR	Mln RUR
Prepaid customs duties	—	70	—
Advances given	209	117	45
Deferred expenses	21	16	12
	230	**203**	**57**

24 Cash and cash equivalents

	2009	2008	2007
	Mln RUR	Mln RUR	Mln RUR
Petty cash	1	1	1
Bank balances	85	314	30
Cash and cash equivalents in the statement of financial position	86	315	31
Bank overdrafts used for cash management purposes	—	(60)	—
Cash and cash equivalents in the statement of cash flows	**86**	**255**	**31**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

25 Capital and reserves

Number of shares unless otherwise stated	31 December 2009	31 December 2008	31 December 2007
Authorised shares	93,777,100	1,875,542	1,875,542
Shares on issue, fully paid	84,399,400	1,687,988	1,687,988
Par value, Roubles	RUR 0.2	RUR 10	RUR 10
On issue and fully paid at end of year, RUR million	17	17	17

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In December 2009, the shareholders approved a share split in the ratio of 1:50, which has resulted in an increase in the number of shares on issue to 84,399,400. The split was registered with the regulating authorities on 28 December 2009.

On 17 February 2010, the shareholders resolved to increase the number of the Company's authorised shares to 99,299,400 through an issue of additional 14,900,000 shares. As of the date when these financial statements were authorised, the additional shares have not been subscribed to and paid for.

(a) Dividends

In accordance with the Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2009 the Company had retained earnings, including the profit for the current year, of RUR 2,468 million (31 December 2008: RUR 1,926 million; 31 December 2007: RUR 923 million).

26 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders of the Company of RUR 637 million (2008: RUR 1,064 million; 2007: loss of RUR 94 million), and a weighted average number of ordinary shares outstanding of 84,399,400. The Company has neither preference shares nor dilutive potential

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

ordinary shares. Per share calculations for comparative periods are based on the number of shares after the share split.

27 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 31.

	31 December 2009	31 December 2008	31 December 2007
	Mln RUR	Mln RUR	Mln RUR
Non-current liabilities			
Secured bank loans	2,130	2,371	1,271
Loans from other companies	41	41	1
Promissory notes issued	33	41	—
	2,204	**2,453**	**1,272**
Current liabilities			
Secured bank loans	1,622	780	1,739
Promissory notes issued	11	14	—
Unsecured bank loans	—	366	—
Loan from shareholder	—	—	63
Loans from other companies	18	2	35
Interest accrued	4	10	9
	1,655	**1,172**	**1,846**

(a) Terms and debt repayment schedule:

Mln RUR	Currency	Nominal interest rate	Year of maturity	2009 Carrying amount	2009 Face value	2008 Carrying amount	2008 Face value	2007 Carrying amount	2007 Face value
Secured bank loan	USD	8% - 9.1%	2011 - 2014	1,966	1,966	—	—	—	—
Secured bank loan	RUR	12% - 17.8%	2010	800	800	—	—	—	—
Secured bank loan	RUR	1m Mosprime+3.5%	2010	350	350	—	—	—	—
Secured bank loan	RUR	20% - 22%	2010	246	246	—	—	—	—
Secured bank loan	RUR	12% - 22%	2011 - 2014	184	184	—	—	—	—
Secured bank loan	USD	8% - 9.1%	2010	136	136	—	—	12	12
Secured bank loan	RUR	16.5%	2010	60	60	—	—	—	—
Promissory notes issued	RUR	0%	2010 - 2014	44	57	55	75	—	—
Loans from other companies	RUR	0%	2010 - 2028	44	92	43	91	—	—
Loans from other companies	RUR	20%	2010	15	15	—	—	—	—
Secured bank loan	RUR	10.5% - 14.0%	2010 - 2012	10	10	2,371	2,371	878	878
Secured bank loan	RUR	16.5% - 24.0%	2009	—	—	67	67	—	—
Secured bank loan	RUR	8.6% - 14.5%	2008 - 2009	—	—	713	713	2,120	2,120
Unsecured bank loan	RUR	11.8% - 14.5%	2009	—	—	278	278	—	—
Unsecured bank loan	USD	12.8%	2009	—	—	88	88	—	—
Loans from other companies	RUR	0%	2008	—	—	—	—	30	30
Loans from other companies	RUR	10.5% - 11%	2008	—	—	—	—	6	6
Loans from shareholder	RUR	12.0%	2008	—	—	—	—	63	63
				3,855	**3,916**	**3,615**	**3,683**	**3,109**	**3,109**

Bank loans are secured by the following:

- Property plant and equipment with a carrying amount of RUR 3,421 million (31 December 2008: RUR 3,931 million; 31 December 2007: RUR 2,525 million) (see note 17).
- Inventory with a carrying amount of RUR 45 million (31 December 2008: RUR 32 million; 31 December 2007: RUR 80 million) (see note 21).
- 100% shares of LLC TEK Meret, a subsidiary of the Group (2008: none; 2007: none).

28 Net assets attributable to minority participants in LLC subsidiaries

	Mln RUR
Balance at 1 January 2007	154
Acquired through business combination	1
Profit attributable to minority participants	5
Dividends paid to minority participants	(16)
Acquisition of share of minority participants by the Group	(137)
Balance at 31 December 2007	**7**
Acquired through business combination	14
Profit attributable to minority participants	29
Balance at 31 December 2008	**50**
Profit attributable to minority participants	4
Effect of share issue by LLC subsidiary	6
Effect of change in equity minority interests (refer note 8(b))	6
Balance at 31 December 2009	**66**

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

In accordance with Federal Law of the Russian Federation on limited liability companies, a participant in such a company may unilaterally withdraw from the entity if the right to withdraw is provided for in the company's charter. Under such circumstances, the company is obliged to pay a withdrawing participant their share of the net assets in cash or, given consent of the participant, by in-kind transfer of assets.

As minority participants in limited liability companies of the Group have a unilateral right to withdraw their share of net assets from the entity, their interests in the net assets of these entities have been recognised as a liability.

29 Provisions

Mln RUR	Site restoration	Tax claims	Total
Balance at 1 January 2007	106	100	206
Provisions made during the year	90	—	90
Unwinding of discount	7	—	7
Provisions used during the year	—	(51)	(51)
Balance at 31 December 2007	**203**	**49**	**252**
Non-current	203	—	203
Current	—	49	49
Balance at 1 January 2008	203	49	252
Provisions made during the year	45	—	45
Unwinding of discount	13	—	13
Change of accounting estimates	(37)	—	(37)
Reversal	—	(17)	(17)
Provisions used during the year	—	(32)	(32)
Balance at 31 December 2008	**224**	—	**224**
Non-current	217	—	217
Current	7	—	7
Balance at 1 January 2009	224	—	224
Provisions made during the year	28	—	28
Unwinding of discount	22	—	22
Change of accounting estimates	(37)	—	(37)
Balance at 31 December 2009	**237**	**—**	**237**
Non-current	237	—	237
Current	—	—	—

(a) Site restoration

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

During 2009, nil (2008: RUR 9 million; 2007: RUR 29 million) was charged to mining assets in the course of land plot development, and RUR 28 million (2008: RUR 36 million; 2007: RUR 61 million) was charged to cost of sales in the course of coal extraction.

Additionally, as a result of change in accounting estimates, RUR 8 million (2008: RUR 14 million, 2007: nil) was derecognised from mining assets and RUR 29 million (2008: RUR 23 million, 2007: nil) was credited to cost of sales.

Because of the nature of the liability, the most significant uncertainty in estimating the provision is the costs which will be incurred. Environmental legislation in the Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as those operating by the Group. Generally the standard of restoration is determined based on discussions with federal and local government officials at the time when restoration is about to commence.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

In making the assumptions for the calculation of the expected costs management has consulted with its in-house engineers who have considered statutory requirements in respect of similar sites that require similar site restoration activities.

Future costs were discounted using an average yield on Russian government bonds with similar maturities. As at 31 December 2009 the Group applied an average yield of 8.8% p.a. (2008: 9.8 % p.a.; 2007: 6.6% p.a.).

(b) Tax liabilities

As at 1 January 2007 the tax provision included RUR 83 million of provisions for corporate profit tax, VAT and other taxes that were created based on the results of a tax audit related to earlier periods. Due to the fact that the Group paid the tax claims in 2007 and 2008 in cash, RUR 51 million of the tax provision was utilized in 2007, RUR 32 million of the tax provision was utilized in 2008.

In 2008, the Group filed an appeal against the previous court rulings, and was successful in reversing the tax penalties paid. The tax authorities filed counter-appeals to the courts of higher jurisdiction, however in February 2009 the Federal Arbitration Court of the West Siberian district confirmed the ruling made by the court of lower instance in favour of the Group.

As at 1 January 2007 the tax provision also included an amount of RUR 17 million for a potential tax exposure related to the disposal of a subsidiary by the Company. However, in early 2009 the Company was subject to a tax audit covering 2006 and 2007 tax years and the tax authorities did not challenge the economic substance of the disposal.

As a result of the circumstances described above, in 2008 management recognised income from the reversal of income tax provisions and accruals in the amount of RUR 64 million, see note 16.

30 Trade and other payables

	31 December 2009	31 December 2008	31 December 2007
	Mln RUR	Mln RUR	Mln RUR
Trade payables	576	864	293
Advances received	269	464	128
Taxes (other than income tax) payable	205	267	53
Payables for property, plant and equipment	238	53	131
Payables to personnel	81	76	53
Accrual for unused vacation	32	31	26
Payables to shareholder	—	—	26
Other payables	13	33	13
	1,414	**1,788**	**723**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

31 Financial instruments and risk management

(a) Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hedge its exposure to such risks.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group does not have formalized risk management policies, however procedures are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management procedures are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The actual execution of financial instruments risk analysis and management is the responsibility of First Deputy General Director of the Group, who reviews on a regular basis risk exposure and risk profiles and recommends management actions aimed at mitigating risks beyond levels of tolerance.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, deposits with banks and financial institutions, loans given and outstanding trade and other receivables. Credit risk is managed on a group basis.

The Group does not require collateral in respect of its financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The Group primarily transacts with its customers on a prepayment basis, however sales to related parties, government bodies and established customers, who have been trading with the Group for several years are made on credit terms. The Group's two most significant customers, Glencore International AG and Kort Enterprises Limited, account together for 42% (2008: 35%) of total Group revenue (see note 6).

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance is made for individually significant exposures where objective evidence of impairment loss exists.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Mln RUR	31 December 2009	31 December 2008	31 December 2007
Loans granted	74	71	207
Trade and other receivables	1,234	1,076	674
Cash and cash equivalents	86	315	31
	1,394	**1,462**	**912**

The Group's exposure to credit risk in respect of trade and other receivables at the end of the reporting period is primarily represented by receivables from wholesale customers and other counterparties in Russia.

The Group's most significant customer, Glencore International AG, accounted for RUR 48 million of the trade receivables carrying amount at 31 December 2009 (2008: RUR 89 million, 2007: nil).

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

Impairment losses

The aging of trade receivables together with allowances as at the reporting dates was:

	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR
Not past due	505	1	285	—	151	—
Past due 0-30 days	114	—	103	2	65	—
Past due 31-60 days	33	—	4	1	47	—
Past due 61-90 days	19	—	4	—	1	—
Past due 91-180 days	18	3	7	—	1	—
Past due more than 180 days	31	17	8	4	7	7
	720	**21**	**411**	**7**	**272**	**7**

The impairment losses as at 31 December 2009 mostly relate to customers that experienced difficulties in obtaining finance from municipal budgets.

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Mln RUR	2009	2008	2007
Balance, as at beginning of the year	36	7	6
Recognised in income statement for the year	9	34	1
Amounts written off against trade receivables	—	(5)	—
Balance, as at end of the year	**45**	**36**	**7**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due. Impairment allowance for receivables which are overdue is determined on a case-by-case basis. Overdue but not impaired trade receivables primarily comprise amounts due from government bodies and customers who have a good track record with the Group.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As of 31 December 2009, the Group's current liabilities exceeded its current assets by RUR 1,094 million (31 December 2008: RUR 962 million; 31 December 2007: RUR 1,642 million).

To date, the Group has significantly relied upon short-term and long-term financing to fund the development of its production facilities. This financing has historically been provided through bank loans.

In 2010 and beyond, the Group anticipates funding for further capital investments from cash generated from operations and additional bank loans. Management believes that based on the expected levels of operating profit and cash flows, and taking into account actions to replace short-term debt with long-term borrowings, the Group will be able to meet its short-term liabilities as they fall due. Additionally, management believes that if required, certain capital expansion projects may be deferred or curtailed in order to fund the current operating needs. Management also expects to be able to delay payment for certain operating costs to manage its working capital requirements, if necessary.

As at 31 December 2009, the Group had several open credit facilities with a number of major Russian banks. In accordance with existing agreements the Group may borrow from these banks at 15% p.a. As at 31 December 2009 the unused amount of these facilities was RUR 248 million. The majority of the facilities expire in 2013.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

As at 31 December 2009

Mln RUR	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	3,752	1,358	754	491	746	673	330	—	4,352
Promissory notes issued	44	—	12	15	15	15	—	—	57
Loans from other companies	59	3	19	5	5	5	5	64	106
Trade and other payables*	940	940	—	—	—	—	—	—	940
	4,795	**2,301**	**785**	**511**	**766**	**693**	**335**	**64**	**5,455**

As at 31 December 2008

Mln RUR	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	3,151	515	626	2,082	568	68	—	—	3,859
Unsecured bank loans	366	378	33	—	—	—	—	—	411
Bank overdrafts	60	66	—	—	—	—	—	—	66
Promissory notes issued	55	—	15	15	15	15	15	—	75
Loans from other companies	43	4	3	5	6	5	5	62	90
Trade and other payables*	1,057	1,057	—	—	—	—	—	—	1,057
	4,732	**2,020**	**677**	**2,102**	**589**	**88**	**20**	**62**	**5,558**

As at 31 December 2007

Mln RUR	Carrying amount	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Contractual cash flows
Non-derivative financial liabilities									
Secured bank loans	3,010	503	1,409	432	900	66	—	—	3,310
Loan from shareholder	63	70	—	—	—	—	—	—	70
Loans from other companies	36	36	—	1	—	—	—	—	37
Trade and other payables*	542	542	—	—	—	—	—	—	542
	3,651	**1,151**	**1,409**	**433**	**900**	**66**	**—**	**—**	**3,959**

* Amounts of trade and other payables exclude advances received and other taxes payable

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group entities, the Russian Rouble (RUR).

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUR, but also USD.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

Companies in the Group do not use foreign exchange hedges to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

Mln RUR	USD-denominated 31 December 2009	USD-denominated 31 December 2008	USD-denominated 31 December 2007
Trade receivables and other receivables	62	91	1
Cash and cash equivalents	1	93	—
Loans and borrowings	(2,102)	(88)	(12)
Net exposure	**(2,039)**	**96**	**(11)**

The following significant exchange rates applied during the year:

	Average rate			Reporting date spot rate		
in RUR	2009	2008	2007	2009	2008	2007
USD 1	31.7205	24.8553	25.5759	30.2442	29.3804	24.5462

(e) Sensitivity analysis

A strengthening of the RUR, as indicated below, against the US dollar at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008 and 2007.

Mln RUR	Equity	Profit or loss
2009		
USD (10% strengthening)	204	204
2008		
USD (10% strengthening)	(10)	(10)
2007		
USD (10% strengthening)	(1)	(1)

A weakening of the RUR against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(i) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	31 December 2009	31 December 2008 Restated	31 December 2007
Mln RUR			
Fixed rate interest-bearing instruments:			
Financial assets	74	71	207
Financial liabilities	(3,509)	(3,685)	(3,118)
	(3,435)	(3,614)	(2,911)
Variable rate interest-bearing instruments:			
Financial liabilities	(350)	—	—
Net amount	**(3,785)**	**(3,614)**	**(2,911)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 1% p.a. in Mosprime rates based on the Group's exposure at the reporting date would increase (decrease) future cash flow related to interest payments of the Group by RUR 4 million (2008: nil; 2007: nil). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(f) Fair values versus carrying amounts

Except for the items stated below, management believes that the carrying amounts of financial assets and liabilities as at 31 December 2009 approximate their fair values:

	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR
Loans received measured at amortised cost	3,859	3,840	3,625	3,218	3,118	3,118

The interest rates used to discount estimated cash flows, where applicable, are based on the incremental borrowing interest rate at the reporting date:

	2009	2008	2007
Loans received measured at amortised cost	9%-11% (USD) 14%-16% (RUR)	18%-20% (RUR)	10%-12% (RUR)

(g) Fair value hierarchy

The basis for determining fair values is disclosed in note 5.

The Group's fair value measurements are classified into a fair value hierarchy with the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The fair values, which are disclosed above, were determined on the basis of level 2 inputs.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(h) Capital management

The Group's objectives when managing capital is to provide an adequate return to shareholders by investing in financial assets which provide a return proportionate to the associated level of risk, and to safeguard the Group's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Group may adjust the return capital to shareholders, issue new shares, or sell assets to reduce debt.

With effect from 2010, the Board of Directors adopted a policy, under which the Company intends to pay dividends annually in amount of 25% of the Company's net profit for the preceding year, as determined under Russian statutory accounting principles.

With effect from 2010, the Company is also subject to new capital requirements imposed by additional loan agreements with one of the banks which contain debt covenants stating that:

- at the end of each quarter the Company's debt (defined as the Company's non-current liabilities and short-term loans and borrowings less cash) cannot exceed 4 times the Company's EBITDA for the last four quarters;
- the Company's net assets at the end of each quarter should not be negative.

All amounts above are to be determined on the basis of the Company's statutory financial statements for a relevant period. As at 31 December 2009, the outstanding amount of the loans which will be subject to these covenants was RUR 1,966 million.

32 Operating leases

The Group leases a number of machinery and equipment items under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. During the year RUR 57 million (2008: RUR 108 million, 2007: RUR 34 million) was recognised as an expense in the income statement in respect of leased machinery and equipment.

Additionally, the Group leases land plots from various municipal bodies. The leases of land plots are non-cancellable by nature as most of the Group's production assets are located on the leased land. The leases typically run for a period of one year and are prolonged on an annual basis, except for one lease agreement with a lease term until 2024. As at year end the Group leased in excess of 100 hectares of land and made payments during the year of RUR 31 million (2008: RUR 25 million, 2007: RUR 103 million) including RUR 2 million relating to the long-term lease agreement indicated above. Payments of land rent in subsequent years will depend on the size of land plots under lease and changes in the per hectare rent rate.

33 Capital commitments

As at 31 December 2009, the Group has entered into a number of contracts to purchase plant and equipment for RUR 970 million (31 December 2008: RUR 153 million; 31 December 2007: RUR 394 million). The increase is due to commencement of construction works of coal enrichment facilities.

34 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

35 Related party transactions

(a) Control relationships

The Company's ultimate controlling party is Mr Igor Yurjevich Prokudin, who was one of the Company's immediate shareholders as at 31 December 2009.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 14):

Mln RUR	31 December 2009	31 December 2008 Restated	31 December 2007 Restated
Salaries and bonuses	127	112	115
Contributions to State pension fund	8	8	8
Total management remuneration	135	120	123

In preparation of the 2009 consolidated financial statements, a more narrow definition of key management has been adopted, resulting in restatement of comparative information for consistency purposes.

(ii) Other transactions

Loan to a shareholder amounting to RUR 67 million is classified as "other investments" within non-current assets (see note 19). The loan is repayable in January 2011.

(b) Transactions with other related parties

The Group's other related party transactions are disclosed below:

(i) Revenue

	Transaction value 2009	Transaction value 2008	Transaction value 2007	Outstanding balance 2009	Outstanding balance 2008	Outstanding balance 2007
	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR
Sale of coal	21	314	427	—	—	190
Other revenue	2	4	1	—	4	5
	23	**318**	**428**	**—**	**4**	**195**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

(ii) Expenses

	Transaction value 2009	Transaction value 2008	Transaction value 2007	Outstanding balance 2009	Outstanding balance 2008	Outstanding balance 2007
	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR
Purchase of goods	4	182	88	—	—	41
Acquisitions under common control	—	—	50	—	—	26
Services received	44	103	37	3	3	3
	48	**285**	**175**	**3**	**3**	**70**

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

(iii) Loans

	Transaction value 2009	Transaction value 2008	Transaction value 2007	Outstanding balance 2009	Outstanding balance 2008	Outstanding balance 2007
	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR
Loans received:						
Shareholders of the Group	—	202	—	—	—	(63)
Fellow subsidiaries	—	144	17	—	—	(6)
Loans given:						
Shareholders of the Group	(60)	—	(200)	60	69	200
Entities with significant influence	—	—	—	—	—	1
	(60)	346	(183)	60	69	132

Loan granted to one of the shareholders bears interest rate of 18% (2008: 10.5%) and falls due in 2011.

Loans received from shareholders bear interest rate of 13% — 15% and were repaid during the year.

	Transaction value 2009	Transaction value 2008	Transaction value 2007	Outstanding balance 2009	Outstanding balance 2008	Outstanding balance 2007
	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR	Mln RUR
Interest expense on loans received:						
Shareholders of the Group	—	(7)	(7)	—	—	(2)
Fellow subsidiaries	—	(13)	—	—	—	—
Interest income on loans given:						
Shareholders of the Group	13	16	14	6	—	4
Entities with significant influence	—	—	1	—	—	—
	13	(4)	8	6	—	2

36 Events subsequent to the reporting date

Subsequent to 31 December 2009, the Board of Directors recommended a dividend of RUR 3 per share or RUR 253 million in respect to the 2009 year. The payment of dividends is subject to shareholders' approval at the annual general meeting, which is expected to take place on 16 April 2010.

Comparative information as at 31 December 2008 and 2007 and for the years then ended has been reclassified and restated (refer to note 4)

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IMC Group Consulting Ltd

Icon Business Centres,
Lake View Drive,
Sherwood Park,
Nottingham NG15 0DT
United Kingdom

Tel: +44 (0)1623 726166
Fax +44 (0)1623 729359

Email: mining@imcgcl.com
www.imcgcl.com

Date: 16 April 2010

The Directors and Management Board,

OAO Kuzbasskaya Toplivnaya Company
Kemerovo
Russian Federation

TD Investments Limited
57 Digeni Akrita Ave.
Zachariades Building, Office 301
Nicosia, CY-1070
Cyprus

UBS Limited
1 Finsbury Ave.
London, EC2M 2PP
United Kingdom

Dear Sirs,

MINERAL EXPERT REPORT FOR THE COAL MINING ASSETS HELD BY OAO KUZBASSKAYA TOPLIVNAYA COMPANY, RUSSIAN FEDERATION

Purpose of Report

This report has been prepared by IMC Group Consulting Ltd ("IMC") for possible use as part of a financing initiative and or inclusion in an offering circular (the "Circular") which could be published by OAO Kuzbasskaya Toplivnaya Company (the "Company" or "KTK") in connection with an offer of ordinary shares in the Company and the proposed admission of the ordinary shares of the Company to listing on the Moscow Stock Exchange.

IMC was instructed by the Directors of the Company to prepare a Mineral Expert Report ("MER") for the coal assets of the Company. This report, which summarises the findings of IMC's review, has been prepared in order to satisfy the requirements of established international practice for offering documents, including those of a Mineral Expert's Report as set out in the Prospectus Directive in conjunction with the recommendations of the CESR.

IMC has reviewed the practice and estimation methods undertaken by KTK for reporting reserves and resources in accordance with the Russian GKZ (State Committee for Reserves) classification and estimation methods for reserves and resources and the Company's classification system as applied to surface mine operations.

IMC has reviewed the reserves and resources statements of the individual units compiled by KTK and has restated the reserves and resources in compliance with the criteria for the internationally recognised reserve and resource categories of the "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004)

published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code"). In this report, all reserves and resources estimates, initially prepared by KTK have been substantiated by evidence obtained from IMC's site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by the management of the Company.

In accordance with the requirements of established international practice for offering documents, only Proved and Probable Reserves have been valued. Other assets of the Company, which include resources, have not been included in the valuation.

Capability and Independence

This report was prepared by IMC, the signatory to this letter. Details of the qualifications and experience of the consultants who carried out the work are in Annex A to this report. IMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to clients. IMC has received, and will receive, professional fees for its preparation of this report. However, neither IMC nor any of its directors, staff or sub consultants who contributed to this report has any interest in:

- OAO Kuzbasskaya Toplivnaya Company; or
- The mining assets reviewed or other assets of KTK or its subsidiaries; or
- The outcome of any potential financing initiative, including a share offering.

Drafts of this report were provided to KTK, but only for the purpose of confirming both the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Scope of Work / Materiality / Limitations and Exclusions

IMC reviewed the assets in accordance with the scope of work and exclusions and limitations and on the basis of the materiality criteria set out in Annex B to this report.

IMC has independently assessed the coal assets of KTK by reviewing pertinent data, including resources, reserves, manpower requirements, environmental issues and the life-of-mine (LOM) plans relating to productivity, production, operating costs, capital expenditures and revenues.

All opinions, findings and conclusions expressed in this report are those of IMC and its sub consultants.

Inherent Mining Risk

Surface and underground mining is carried out in an environment where not all events are predictable.

Whilst an effective management team can, firstly, identify the known risks, and secondly, take measures to manage and mitigate these risks, there is still the possibility for unexpected and unpredictable events to occur. It is therefore not totally possible to remove all risks or state with certainty that an event that may have a material impact on the operation of a mine, will not occur.

Glossary of Terms

Defined and technical terms used in this report are set out in Annex D.

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ANNEXES

Annex A Qualifications of the Consultants

Annex B Scope of Work

Annex C Mine and Location Plans

Annex D Glossary of Terms

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1 GENERAL INTRODUCTION

1.1 General Company Ownership Structure

The main shareholder of Kuzbasskaya Toplivnaya Company (KTK) is the current General Director who owns a 61% stake. The balance of the remaining shares are owned by other private investors.

KTK owns a number of enterprises engaged in the mining, transportation and sale of coal, and land management. Strategic management of the Company is directed by the General Director within a vertically integrated management structure. The company and its structure are compliant with all appropriate regulations.

Coal is produced in three opencast mining operations that are incorporated into a company known as "OAO Vinogradovsky Opencast". Day-to-day management of Vinogradovsky Opencast is directed by its own General Director.

1.2 General Description of Assets under Review

IMC reviewed the assets listed in Table 1-1 all of which are wholly owned by KTK.

The Company is engaged in development of coal deposits of Grade D, Longflame coal (calorific value of 5500-6000 kcal/kg) which is used for power generation. Commercial development was started in 1999 on the basis of a feasibility study prepared by the Sibgeoproekt Design Institute.

Mining operations are carried out at three opencast mining operations:-

- Karakansky South (including license areas Karakansky South, Karakansky South-1 and Karakansky South-2);
- Vinogradovsky (including license areas Vinogradovsky and Vinogradovsky-2); and,
- Cheremshansky.

A long range business plan envisages increasing production at all of the mines and maintaining it for 20 years. Maximum annual output of all mining sites will increase to 11 Mt of coal with stripping volume of 60 million m^3.

The total JORC equivalent Measured and Indicated Resource as at 1st January 2010 amounts to 387 Mt of run-of-mine coal. Total JORC equivalent Proven and Probable Reserves to sustain the business plan until 2029 amount to 192 Mt of run-of-mine (ROM) coal.

Currently the processing flow sheet includes only sizing of coal into 0-25 mm, 5-50 mm and 50-200 mm size fractions. Primary coal crushing is carried out by mobile crushing plant. The business plan involves mining and processing of diluted raw coal (DRC) produced during seam cleaning, and high ash run-of-mine coal. To allow for this increase in product range, the Company will construct the following additional processing plants:-

- A steeply inclined separator plant to process the DRC with a design capacity of 2.0 Mtpa of feed ROM.
- A steeply inclined separator plant and dense medium washing plant for raw coal with design capacity of 2.0 Mtpa of ROM feed.
- A dense medium processing plant to wash raw coal with feed design capacity of 4.5 Mtpa of ROM.

Karakansky South and Vinogradovsky surface mining sites are located in Belovo District, Kemerovo Oblast. Cheremshansky site is located in Prokopyevsk District, Kemerovo Oblast The nearest population centres are the cities of Prokopyevsk and Kiselyovsk, situated at a distance of 40-50 km away. Figure 1-1 shows the location of the mining sites.

Table 1-1 List of Assets

Asset	Description
OAO Kuzbasskaya Toplivnaya Company	
OAO Vinogradovsky Opencast Company	Production and development of 3 opencast coal mines and associated infrastructural support.
Meret Forwarding Company	Operates loading facility and depot, railways, locomotives and rolling stock.
Novosibirsk Fuel Corporation	Coal sales in Novosibirsk region
Kuzbasstoplivosbyt	Coal sales in Kemerovo region
Transugol	Coal sales in Omsk region
Altay Fuel Company	Coal sales in Altay region
ZAO UK Kaskad	Coal sales for export
Kaskad Energo	Electricity generation and heating
Karakan Farms	Land ownership and farming
Kaskad Geo	Land ownership and farming

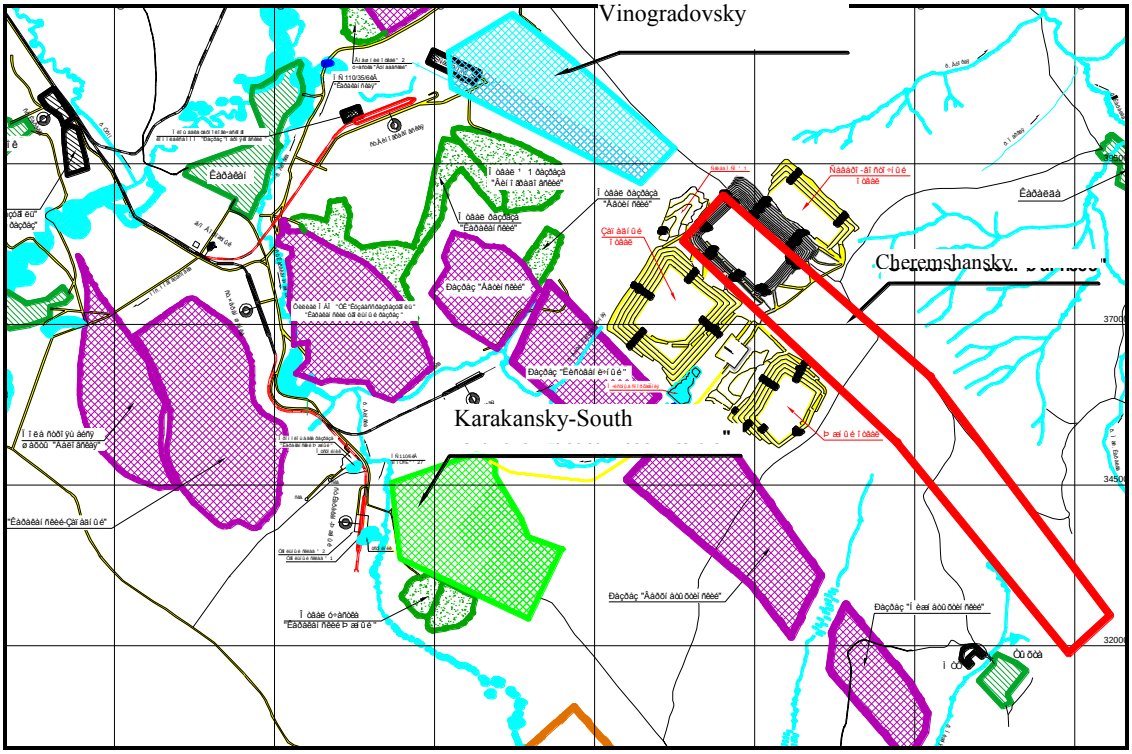


Figure 1-1 Mining Sites Location

1.3 Statutory Authorisations

The Company has all the necessary mining licenses to operate and these are summarised in Table 1-2. In accordance with current Russian legislation, licenses can be prolonged by the subsoil user providing the terms of the license agreement have been met.

Table 1-2 Mining License Data

License area	License number	Validity date	Main conditions of sub-soil use			Area & depth limit
			Start of production	Minimum annual production	Year of full production capacity	
Karakansky South	KEM 01235 TE	01.09.2019	1999	800 kt - 2000 1000 kt - 2001 1700 kt - 2002	2002 (now almost exhausted)	1.87 km^2 Base of K2 seam
Karakansky South-1	KEM 01236 TE	31.12.2023	2006	500 kt - 2007 1000 kt - 2009	2007	1.10 km^2 Base of K2 seam
Karakansky South-2	KEM 13490 TE	10.02.2026	2011	1000 kt – 2016	2016	1.00 km^2 Base of K2 seam
Vinogradovsky	KEM 12082 TE	31.12.2023	2006	1000 kt – 2009	2009	3.82 km^2 +200 m (Baltic Datum)
Vinigradovsky-2	KEM 13489 TE	10.02.2026	2012	500 kt – 2013	2013	5.60 km^2 +100 m
Cheremshansky	KEM 13097 TE	01.04.2025	2011	1000 kt – 2011 2000 kt – 2015	2015	8.79 km^2 +200 m

2 GEOLOGICAL CHARACTERISTICS

The Kuznetsky Basin (or "Kuzbass") covers an area of approximately 70,000 km^2 in the south-west of Siberia. It is one of the major coal producing areas of Russia and lies in the Kuznetsk Depression between Tomsk and Novokuznetsk in the basin of the Tom River, mainly within the territory of Kemerovo Region.

2.1 Tectonic Structure

The coalfields under review are exposed on either side of an anticline which displays a persistent linear axis in a north-west to south-east direction through the area. On the southern limb of the anticline are the three Karakansky South license areas where the strata is generally sub-horizontal and gently dipping (3°-8°) either side of a synclinal axis parallel to the regional north-west to south-east trend. The simple structure at Karakansky South becomes disturbed along its southern margin by a series of reverse thrust faults and a steepening of the strata to a sub-vertical attitude.

The Vinogradovsky licenses are found on the northern side of the major anticline and the strata here dip consistently to the north-east. The angle of dip steepens from approximately 20° at the northern margin to approximately 50° in the south. Cheremshansky occurs along strike from, and to the south of, Vinogradovsky and the strata here dip steeply to the north-east, becoming sub-vertical.

There is an official system for classification of deposits in regard to geological structure set by GKZ in Russia. One of the main classification criteria is faulting, as well as mining and geological conditions. Coal deposits are classified into one of three complexity categories; the first category being the most simple structure and the third category being the most complex. Under this classification scheme the sites developed by KTK are classified as follows:-

- Karakansky South, Karakansky South-1, Karakansky South-2 and Cheremshansky – medium complexity category 2;
- Vinogradovsky, Vinogradovsky-2 – simple complexity category 1.

Plans and typical cross sections of the deposits are shown in Annex C.

2.2 Stratigraphy

The Kuzbass Coalfield is of Middle Permian age and forms part of the Tailuganskaya Suite of the Yerunakovskaya Sub-series which in turn is part of the Kolchuginskaya Series.

Dozens of coal seams of potentially workable thickness occur interbedded with dirt bands consisting of siltstones and mudstones. Individual coal seams are typically persistent over several kilometres along strike but also occasionally show splitting or merging of seams.

Seams worked are typically 3-10 m in thickness but can be up to 20 m thick. In-seam dirt bands of siltstone and mudstone occur and have a significant detrimental effect on the whole seam ash content.

The Permian coal bearing sequence is unconformably overlain by an overburden of Triassic and Quaternary deposits which consist of distinctive orange-brown clays and sandy marls.

2.3 Exploration History

The first coal mining in the Kuzbass Coalfield was recorded in the 1800's. Modern era exploration began in the 1960's when the Belovo Geological Exploration Company (BGE) conducted regional geophysical and airborne surveys over the area.

Drilling at the Karakansky South and Vinogradovsky sites was conducted in 1984 by BGE. Drilling at the Karakansky South-1 and Karakansky South-2 sites was completed in 2004-2005 by the West Siberian

Geological Management Company (WSGM). Exploration drilling at the Cheremshansky site was completed in 2006-2007, also by WSGM.

2.4 Quality

The three sites are reported to have similar coal quality parameters and these are summarised in Table 2-1. The coal is classified as long flame, D rank according to GOST 25543-88 Russian classification system and has a low sulphur and phosphorus content. According to inert microcomponent content the coal is classified as vitrinite sub-group DV, and fusinite sub-group DF.

In macroscopic terms all types of coal from semi-bright to dull are present. Plastometric tests, carried out on the main worked seams, showed that the plastic layer thickness in samples with stuck, caked, non-fused or slightly caked non-volatile residue is less than 6 mm. Non-volatile residue in most cases is a powder and therefore the Roga Index value is zero.

Table 2-1 Coal quality and petrographic characteristics

Quality Parameter	Average	Minimum	Maximum
coal quality parameters based on sampling of 43 seams			
Total moisture wt%	5.9	2.9	9.7
Coal ash content % (ad)	12.3	4.3	26.3
Volatile matter % (daf)	39.9	32.8	46.3
Gross calorific value kcal/kg (MJ/kg) (daf)	7344 (30.8)	7230 (30.3)	7820 (32.7)
Net calorific value kcal/kg (MJ/kg) (daf)	5580 (23.4)	4791 (20.1)	6257 (26.2)
Total sulphur % (ad)	0.37	0.16	0.81
Total phosphorus % (ad)	0.05	0.01	0.22
petrographic composition based on sampling of 28 seams			
Vitrinite, Vt %	65	48	84
Semi-vitrinite, Sv %	2.1	1.0	3.5
Inertinite, In %	29	11	44
Leptynite, Lp %	4.1	1.5	7.0
Mineral impurities %	7.8	4.0	10.3
Fusainized components, ΣOK	30	12	45
Vitrinite reflectance index in immersion, Ro	57	52	63
Metamorphism degree	I	I	II

2.5 Hydrogeology

Two water bearing horizons have been identified within the area of the coalfield. These are:-

- The Upper Quaternary – water from porous sediments in overburden.
- The Upper Permian – water from sediments above and below coal bearing strata.

Mining sites are characterised by uneven, but relatively low water inflows. IMC concurs that the procedures and systems in place for the dewatering of the mines are effective and work to the designed plan.

2.6 Natural Threats

There are a number of natural threats or risks that can affect the mining operations. The recognised threats are hydrogeological, geotechnical, seismic and gas.

2.6.1 Hydrogeological Threats

The large surface area of the open pits and geological environment make them vulnerable to potential in-pit flooding, breaching of surface water courses, and flooding into the pit and adjacent areas caused by heavy rainfall. This can also result in the saturation of pit-wall material and superficial deposits and the creation of local perched water-tables, which could have the potential to initiate major slides in areas of poor consolidation. KTK recognises these as a potential to endanger operations and personnel within the mine and has measures in place to limit the potential hazards.

2.6.2 Geotechnical Threats

The weak strata within the pit make it prone to such problems as slippages on fixed and working slopes where heavy machinery may be working on the benches. Slope stability is related to the hydrogeological threat in that slopes become particularly unstable in areas with high outflows of residue water. High wall stability studies incorporating the characterisation of rock mass geomechanical properties have been carried out by the VNIMI Institute of St Petersberg.

There have been some localised slippages of the pit slopes. Most of these are related to structural problems encountered in the geology, such as palaeo-slip structures that are inherently present in the strata. Again the mine management recognises these potential problems and has survey based monitoring procedures in place to examine slope deformation and areas where slips have already occurred.

2.6.3 Seismic Threats

Seismic activity within the area of the mining operation is classified as low risk. Pit slope stability may be affected by low level seismic activity and is therefore monitored by the same survey based procedures to detect geotechnical hazards in the open pits.

2.6.4 Gas Threats

No hazards are anticipated from methane or other gases occurring within the coal seams. Overburden removal and dewatering has the effect of degassing the coal.

3 SUMMARY OF RESERVES AND RESOURCES

3.1 Principles of Resource and Reserves Classification

3.1.1 Principles of Russian GKZ Reserves Classification

The Russian classification of reserves and resources has remained largely unchanged since the Soviet era. The system is based on two coordinate axes, see Figure 3-1; the horizontal axis shows the degree of exploration increasing from right to left, while the vertical axis shows the potential for economic extraction increasing from bottom to top. The system divides mineral reserves and resources into the following groups: Explored Reserves, Preliminarily Estimated Reserves and Prognostic Resources along the horizontal axis, and Economic (Balance) Reserves and Potentially Economic (Out-of-Balance) Reserves along the vertical axis.

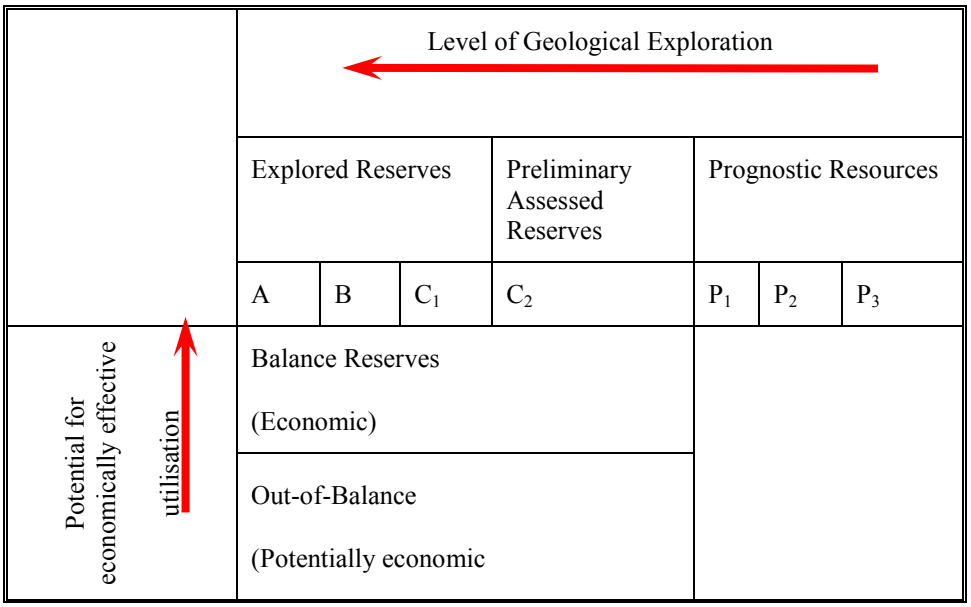


Figure 3-1 Principles of the Russian GKZ Reserves Classification System

Russian mining laws define a mineral deposit as a natural or artificial concentration of mineral which can be mined with economic benefit. The term “reserve” means an “identified tonnage of mineral, part of which can be mined cost effectively”.

Solid mineral reserves are subdivided according to their extent of exploration into the following categories: A, B, C_1 and C_2. These reserve categories reflect the degree and reliability of the exploration carried out in determining the geological and mining characteristics of the deposit. Drillhole spacing is usually the main, but not the only, criteria for the categorisation of reserves. In regard to their economic potential, mineral resources/reserves are divided into:-

- **Balance Reserves** (Economic) are reserves, the extraction of which according to technical and economic estimates at the time of evaluation is economically viable or becomes economically viable when there is a special support of the mineral resource user on the part of the government such as tax concessions or subsidies.

- **Out-of-Balance Reserves** (Potentially Economic) are reserves, the extraction of which at the time of evaluation is not viable in terms of mining, technical, legal, environmental, economic or other conditions but may become possible in the near future.

Estimation of the balance reserves is produced on the basis of cut-off parameters identified in the process of mining and economic modelling and later approved by the GKZ. Mining and economic modelling is carried out within the framework of a “Cut-off Parameters Feasibility Report” which equates to a pre-feasibility level

engineering study. The out-of-balance reserves are estimated and recorded in case changes in technical and economic parameters make their extraction viable at a later date.

Industrial Reserves are Balance Reserves which have been adjusted to allow for losses and dilution occurring at various stages of mining operations.

The most accurate estimation of Industrial Reserves is made in the course of the Mining Design. It should be noted that the Mining Design and the Cut-off Parameters Feasibility Report are different documents, both in regard to detail level and the purpose of evaluation. The Mining Design is more detailed and equates to a Feasibility Study level of engineering design. It is produced after the reserves are registered at GKZ.

To select the density of the exploration grid, coal deposits are divided into three groups based on the degree of geological complexity. The deposits held by KTK are classified as Group 1, simplest structure, and Group 2, medium complex structure, on this basis. The classification also determines the percentage share of different categories of reserves that are required before industrial development of the deposit can commence.

Mine design and the estimation of mineable reserves are normally based on reserves of A, B, C_1 and, in rare cases, C_2 categories. All estimated reserves must be officially approved and registered at the State Balance. Subsequent annual transfers of reserves are recorded in official State statistical forms.

3.1.2 The JORC Code

The JORC code has become the leading international system for reporting mineral exploration results. The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore reserves was established in 1971 by the Joint Ore Reserves Committee (JORC) and is the fundamental reporting system in Australia, Canada, South Africa, USA, UK and Ireland. It is also accepted in many states in Europe following the agreement to incorporate the CMMI (Council of Mining and Metallurgical Institutions) definitions into the International Framework Classification for Reserves and Resources – Solid Fuels and Mineral Commodities, developed by the United Nations Economic Commission for Europe (UN-ECE).

One of the main factors in the JORC code reporting is that a "Competent Person" executes the reporting. A Competent Person must have a minimum of five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which that person is undertaking. If the Competent Person is estimating or supervising the estimation of mineral resources, the relevant experience must be in the estimation, assessment and evaluation of mineral resources.

The JORC code uses the following terms and definitions which are explained schematically in Figure 3-2:-

- A Mineral Resource is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into three categories.

- Indicated Mineral Resource - is part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

- Inferred Mineral Resource - is part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed, but not verified, geological and/or grade continuity. It is based on information gathered from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

An Ore Reserve is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into two categories:-

- Probable Ore Reserve - is the economically mineable part of an Indicated Mineral Resource, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

- Proved Ore Reserve - is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

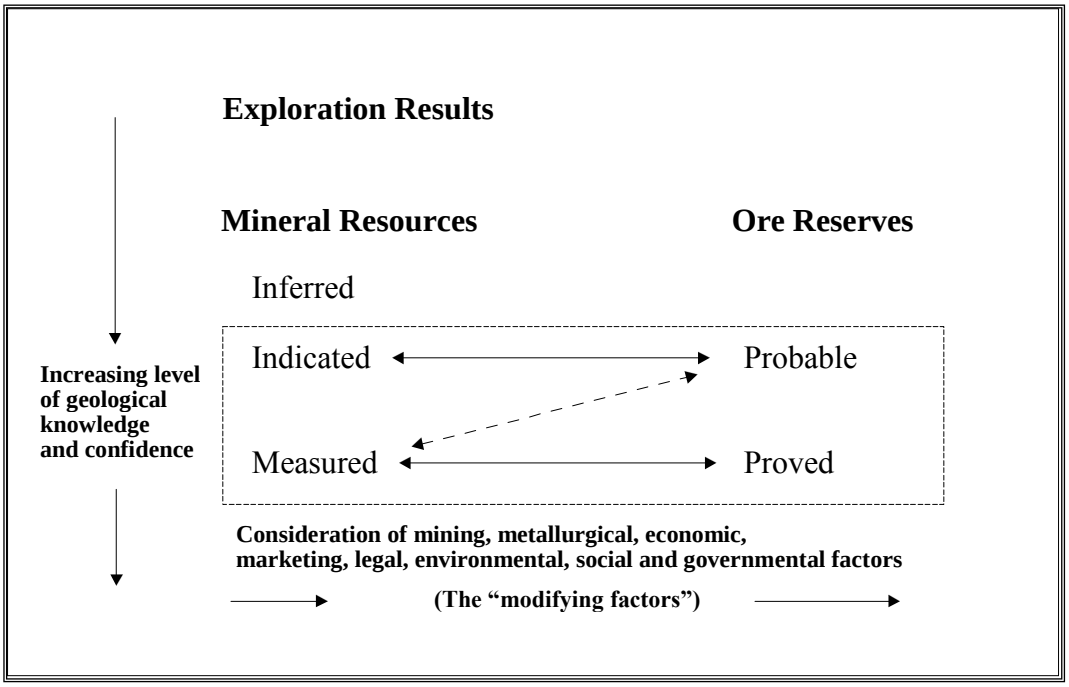


Figure 3-2 Principles behind the JORC Code

3.2 Reserves and Resources Estimation Methods

A key objective of this MER is to restate the resources and reserves of KTK's mines according to the JORC system for public reporting. The core difference in the two systems is the definition of "reserves".

In the Russian system, all assessed tonnages of potentially exploitable coal are referred to as "reserves". In terms of economic interest, coal reserves are divided into two basic groups which are subject to separate calculation and recording; Balanced (economic) and Non-Balanced (currently uneconomic) reserves.

In the JORC system, the term "reserves" is used and is strictly defined and is only that part of the assessed tonnage of potentially exploitable coal which is demonstrated to be economically mineable and forms part of the

well-defined (measured and indicated) category of assessed mineral. “Reserves” as defined in the JORC code, can only ever be a sub-set of what may be defined as “resources” and broadly equate to part of what is termed “Industrial Reserves”.

The basic defining parameters to assess mineral resources in the ground are uniformly recognised; the formal procedures required by the Russian system may differ somewhat from those suggested by the guidelines of the JORC code, but these differences can be considered immaterial for the purposes of providing confidence to potential investors in a mining company.

Assuming competent and professionally auditable application of the criteria for both systems, there should be no material difference in tonnage estimates for assessment of in-situ coal resources. In both systems initial parameters of potential economic interest are applied through the application of cut-off grade and minimum dimensions of the potential deposit (thickness or width, relative overall tonnage and proximity to adjacent workable deposits). As a general rule the total of economic (balanced) and uneconomic (non-balanced) “reserves” of the Russian system is equivalent to the coal resource base (Measured plus Indicated plus Inferred) of the JORC system. These totals are, in each case, before the application of the modifying factors for planned extraction, including mining losses.

The next steps for expressing the coal resource base in relation to the planned economic extraction of the resources is the critical stage at which the two systems diverge:

In the Russian system the balanced reserves are modified by the application of mining loss factors, based initially on a conceptual mine development and established by a State Committee or Institute, and the resulting tonnage is defined as the “Industrial Reserve”; this is the figure against which mining operations have to justify extraction of the reserves, but in practice the “commercial” or “mineable” coal planned for eventual extraction by each mine may be a significantly different figure (“non-active reserves” are regularly written-off).

In the JORC system, the relevant part of the coal resource base is up-graded to the status of reserves only where realistic appraisal has been performed to demonstrate that exploitation of the coal is viable and justifiable under reasonable financial assumptions; in practice this means that a mine plan and production schedule have been developed in conjunction with a financial model.

In the Russian system, the “industrial reserves” are a global figure which incorporates extraction over the “life of the mine”, determined possibly many decades before their actual extraction;

In the JORC system the “reserves” relate to extraction as part of an up to date realistic economic model, which in practice refers only to a production interval of 10-20 years maximum (discounted modelling of mining costs beyond 20 years means that little value accrues to projected operations beyond 20 years).

Current and near-term planned operations are required to demonstrate a realistic and economically viable business plan; this plan should be supported by a production schedule and mine plans which show the location, sequence and mining method for blocks of coal that will be extracted to fulfil the business plan. Where checking by the Mineral Expert shows that this scheduled coal is part of the Measured or Indicated mineable coal resource base (“industrial reserves” of the Russian system) and that the estimates of tonnage and grade are justified, these scheduled coal blocks could be restated as reserves in the context of the JORC code.

The allocation of reserves to the categories of Proven and Probable will be undertaken by the Mineral Expert. As a general rule the reserves categories established by exploration density will be the main guideline. For those reserves established in the context of the JORC code, where they are assigned A or B category in the Russian system based on frequency of points of observation, it can be assumed reasonable to assign them to Proven Reserves. Similarly for the C1 category it is likely to be appropriate to consider them as Probable Reserves. However, in every case the judgement of the Mineral Expert will require to be exercised.

The IMC approach was based on an assessment or confirmation of the balanced reserves under the Russian system in order to restate them as coal resources under the JORC code and then to assess the various “modifying factors”, to calculate those resources that could be stated as coal reserves.

IMC reviewed KTK's reserve figures in terms of the nature of evidence to confirm the reasonableness of the existing calculations. The reserves were then restated as measured, indicated or inferred resources under the JORC code.

IMC reviewed the reserves statements of the individual units and restated the reserves in accordance with JORC as in **Error! Reference source not found.** below.

Table 3-1 Reserves and Resources Relationship for GKZ and JORC Categories

Russian	JORC	
GKZ Reserve Category	Resources not Allocated to Detailed Business Plans (may be scheduled in long-term strategic plans without cost support)	Reserve Blocks Identified for Extraction within Business Plans
A	Measured Resource	Proved reserve
B	Measured Resource	Proved reserve
C_1	Indicated Resource	Probable reserve
C_2	Inferred Resource	-

For resources to be quoted as reserves, it was necessary to prove that relevant modifying factors had been considered. In order to do this, it was necessary to consider the technical and economic viability of mining and processing the resources. Therefore, the work entails a review and assessment of the mining and processing plans, including the current economic viability of the operations.

The coal reserves were limited to those industrial reserves that could be extracted, taking into account losses. Generally, measured resources that could be extracted economically were converted to proved reserves and indicated resources to probable reserves, although, where there is considered to be additional risk, measured resources could be quoted as probable reserves.

Following this assessment of reserves, the value of the reserves would normally be modelled. This should be carried out through the consideration of the many aspects of a Company Business Plan that relate to viability. The main areas of work in assessing KTK's business plans include mine planning, operations and processing, the condition of equipment and infrastructure, requirements for additional capital expenditure and the requirements of the market.

All reserves quoted in tables in this report are discounted for losses. Resources are not discounted for losses and are inclusive of reserves. All figures in reserves and resources are dated 1st January 2010.

3.3 Nature of Evidence

3.3.1 Drillhole Data

Within the three mining sites drillholes were completed initially on section lines spaced at 360-390 m intervals. Infill section lines were then drilled where required to establish continuity between section lines. Along sections lines drillholes were spaced at irregular intervals of 20-200 m depending on the structural complexity. All drilling was conducted vertically except at Cheremshansky where holes were inclined at 60° to intercept the steeply inclined strata. Table 3-2 shows a summary of drilling completed within the licenses.

Table 3-2 Summary of Drillhole Data

License area	No of drillholes	Total meters	Average core recovery
Karakansky South 1&2	160	16,858	66%
Karakansky South	536	44,927	67%
Vinogradovsky & Vinogradovsky 2	567	59,387	62%
Cheremshansky	231	35,723	82%

Drillhole diameters were at 93 mm or 76 mm and all cores were logged geologically and sampled. The open holes were then systematically logged with down-hole geophysics, including various electrical techniques, gamma logging, calliper logging, inclinometry and side wall sampling. The results of geophysical logging were used to confirmed coal seam thickness and depths recorded by the geologist's logs.

3.3.2 Data Archive

Raw data from drilling is not kept by KTK. The exploration work was conducted by State funded exploration companies, namely, Western Siberian Geological Management Company and Belovo Geological Exploration Company, and these two institutions keep the original data which was not viewed by IMC.

The Company keeps sets of compilations of drilling data in the form of plans and sections at various scales including 1:2000, 1:5000 and 1:25000. These hard copies are kept in binders and have all now been scanned so that electronic copies are available. The data examined was all in very good order and they were all readable and well preserved.

3.3.3 Survey Data

Survey data was obtained during the exploration of the deposits and is being obtained during the working of the mines. IMC understands that the pits are surveyed on a regular monthly basis and a full reconciliation survey is conducted annually.

Inclinometry of all exploration drillholes was included as part of the down-hole geophysical logging.

3.3.4 Geological Modelling

Modelling of the coal deposits has been undertaken by traditional sectional methods. Drillhole data along a particular section has been interpolated between holes and then the composite data from the section interpolated to adjacent sections.

Estimation of coal resources is based on the geological block method. Projections were made for each seam on a horizontal plane and estimation blocks are outlined by combining seam areas with similar thickness, exploration degree and mining and geological conditions. The average thickness in blocks was calculated as an arithmetic mean value of all thicknesses identified in boreholes. Elevations, oxidation zones, tectonic faults, exploration lines, thickness and ash content isolines were used as estimation blocks boundaries.

3.4 GKZ Reserve Estimation Cut-off Parameters

The following cut-off parameters, approved by GKZ, were used for the estimation of resources and reserves:-

- The minimum thickness of a simple and complex structure seam is 1 m;
- The highest acceptable ash content as dirt partings for Cheremshansky and Vinogradovsky sites is 35% ash with dirt partings up to 1 m thick; for Karakansky South site is 25% ash with dirt partings up to 0.3 m thick.

3.5 Balance Reserves

IMC were provided with data on balance reserves of individual sites with the breakdown by seams and ranks. Summarised data on coal balance reserves in clean coal bands and run-of-mine (ROM) coal which takes account of dilution from dirt partings are shown in Tables 4-2 and 4-3.

Table 3-3 Balance Reserves of Clean Coal (as at 1st January 2010)

Site	Balance Reserves-Clean Coal (kt)				
	A	B	C1	C2	Total
Karakansky South (inch KS-1&2)	15	18,933	22,536	0	41,484
Vinogradovsky (inch Vino-2)	0	70,151	85,869	0	156,020
Cheremshansky	0	24,715	122,242	18,305	165,262
Total	**15**	**113,799**	**230,647**	**18,305**	**362,766**

Table 3-4 Balance Reserves of ROM Coal (as at 1st January 2010)

Site	Balance Reserves-ROM Coal (kt)				
	A	B	C1	C2	Total
Karakansky South (inch KS-1&2)	16	19,965	24,163	0	44,144
Vinogradovsky (inch Vino-2)	0	78,008	95,486	0	173,494
Cheremshansky	0	26,964	142,569	22,116	191,649
Total	**16**	**124,937**	**262,218**	**22,116**	**409,287**

An official statement of balance reserves is a GKZ protocol approving the reserves tonnage and registering the reserves at the State balance. After the reserves are registered with GKZ the mining company must keep records on reserves and account for changes in the reserves tonnage due to additional exploration, non-confirmation, mining and losses. Transfers of balance reserves are recorded annually on a "Form-5" which must be submitted to GKZ.

In case of re-approval of reserves at GKZ, a new protocol on registration of reserves at the State balance is made, where the tonnage, reserve categories and cut-off parameters of their estimation are stated. In this case the Form-5 starts recording the changes in reserves as against the updated reserve figure.

Data on balance reserves at Karakansky South and Cheremshansky are based on the official statistical Form-5 report for 2009.

In 2009, balance reserves at Vinogradovsky were re-estimated in accordance with a GKZ protocol of approval of new cut-off parameters. The new cut-off parameters were established as a result of a technical-economic modelling study (TEO) undertaken during 2009. Therefore there is no Form-5 available for Vinogradovsky and the reserves estimation there is based on IMC's estimate of reserve depletion during 2009.

It should be noted that balance reserves are estimated within the licence boundaries and taking into account the preliminary parameters for pit slope angles. There are, therefore, significant quantities of balance reserves, including B, C_1 and C_2 categories, beyond the licence boundaries.

3.6 Losses and Dilution

Balance reserves are estimated based on preliminary boundaries of openpit coal mine design. Reserves to be mined are located within the technical boundaries of a site taking into account adjustments to slope angles made during the course of detailed mine design. These losses are referred to as General Losses.

Operational losses and dilution are estimated during detailed mining design and take into account equipment selection, technology and mining sequence specific to each site and for different coal seams. Operational losses

include those which occur during seam clean-up when they are developed for extraction, as well as transportation losses (fixed at 6% in all cases). A summary of losses and dilution is shown in Table 3-5.

Table 3-5 Summary of data on losses and dilution

site	General losses (kt)		Operational loss/dilution	
	Clean coal	ROM	Loss %	Dilution %
Karakansky South (inch KS-1&2)	3,639	3,950	13.1	6.3
Vinogradovsky (inch Vino-2)	40,248	44,147	8.8	11.2
Cheremshansky	0	0	10.2	16.0
Total	**43,887**	**48,097**	**9.9**	**11.4**

In accordance with Russian legislation, losses should be agreed with the State authorities for supervision over mineral resources (GKZ and Rostechnadzor). The aim of this control is to prevent unjustified or excessive losses of minerals, in which case fines can be imposed.

Operational losses are justified in the mining design for the whole amount of reserves and are verified by GKZ in the course of the design appraisal. Later on, losses are adjusted and agreed upon every year. Thus, the standard losses value is set. To register the actual losses and compare them to agreed standard values, the mine keeps annual state statistic reporting forms. The actual losses recorded at the KTK operations in recent years have never exceeded the standard values.

3.7 Industrial Reserves

Table 3-6 shows a summary of Industrial Reserves taking into account the technical boundaries of the mine sites and the losses and dilution factors described in Section 3.6.

Table 3-6 Summary of Industrial Reserves (as at 1st January 2010)

Site	Industrial Reserves (kt)	
	Clean coal	ROM coal
Karakansky South (inch KS-1&2)	32,884	34,981
Vinogradovsky (inch Vino-2)	105,584	117,409
Cheremshansky	148,330	172,015
Total	**286,798**	**324,405**

3.7.1 Reserves Reconciliation

The Karakansky South mine has been operating since 1999 and so it is possible to do a reconciliation of the reserves predicted there compared to production. The results of the exercise are summarised in Table 3-7. Taking into account adjustments for losses and exploration, 96% of the predicted reserve was mined at Karakansky South.

Table 3-7 Karakansky South Reserve Reconciliation

Balance Reserves in 1999 (kt)	19,808
Changes due to exploration 1999-2009 (kt)	-603
Net Balance Reserves (kt)	19,205
Production 1999-2009 (kt)	17,042
Losses 1999-2009 (kt)	1,421
Net Depletion (kt)	18,463
Depleted tonnes / Reserve tonnes	96%

3.8 JORC Equivalent Resources and Reserves Statement

KTK uses, and will continue to use, the Russian GKZ system for estimating and reporting mineral reserves. In the following report section, the reserves of KTK are restated as JORC equivalent resources and reserves.

3.8.1 JORC Equivalent Resources

A summary of JORC Resources is shown in Table 3-8. Having analysed the geological conditions of the coal deposits and the exploration grid density, IMC believes it is appropriate to;

- Classify the Balance Reserves of A and B categories as JORC Measured Resources;
- Classify the Balance Reserves of C_1 category as JORC Indicated Resources; and,
- Classify the Balance Reserves of C_2 category as JORC Inferred Resources.

Table 3-8 Summary of JORC Equivalent Resources (as at 1st January 2010)

Site	JORC Resources clean coal (kt)				JORC Resources ROM coal (kt)			
	Measured	Indicated	Total M+Ind	Inferred	Measured	Indicated	Total M+Ind	Inferred
Karakansky South (incl KS-1&2)	18,948	22,536	41,484	0	19,981	24,163	44,144	0
Vinogradovsky (incl Vino-2)	70,151	85,869	156,020	0	78,008	95,486	173,494	0
Cheremshansky	24,715	122,242	146,957	18,305	26,964	142,569	169,533	22,116
Total	**113,814**	**230,647**	**344,461**	**18,305**	**124,953**	**262,218**	**387,171**	**22,116**

3.8.2 JORC Equivalent Reserves

The conversion of JORC resources to reserves only applies to those resources which have been included in a business plan and for which all technical and economic aspects of mining, processing, marketing and legal issues have been considered. The business plan should only cover a realistic period during which assumptions and risk factors can be reasonably assessed; usually no longer than twenty years. The reserves also take into account mining losses and dilution.

KTK have provided a detailed business plan for mining of coal, including annual planning of operating costs, capital costs, product sales and technical parameters of open pit mines. IMC have used this business plan as the basis for evaluating JORC coal reserves for a twenty year planning period (2010 to 2029).

A summary of JORC Reserves is shown in Table 3-9. JORC Measured Resources have been converted to JORC Proven Reserves and JORC Indicated Resources have been converted to JORC Probable Reserves.

At Karakansky South, all the resource has been converted to reserve. At Vinogradovsky and Cheremshansky, the twenty year production schedule does not exhaust the available resource and it is assumed that measured and indicated resource categories will be mined in quantities proportional to their abundance. The same proportionality has been applied to the relative conversion of measured and indicated resources to proven and probable reserves.

In addition to the reserves shown in Table 3-9, KTK plans to start processing diluted raw coal (DRC) as part of their 2010-2029 business plan. This material is a mixture of coal and waste rock with an ash content of approximately 50% which results from the seam cleaning phase of mining. In previous years the DRC was dumped as waste, forming part of the operational loss, but from 2010, after the completion of a new washing

plant, it will be processed into a saleable product with an ash content of approximately 9%. Table 3-10 shows a summary of DRC reserves.

Table 3-9 Summary of JORC Equivalent Reserves (as at 1st January 2010)

site	JORC Reserves – Clean Coal (kt)			JORC Reserves – ROM Coal (kt)		
	Proven	**Probable**	**Total**	**Proven**	**Probable**	**Total**
Karakansky South (inch KS-1&2)	15,151	17,734	32,884	16,017	18,964	34,981
Vinogradovsky (inch Vino-2)	23,634	28,929	52,563	26,281	32,169	58,450
Cheremshansky	14,241	70,438	84,679	16,515	81,685	98,200
Total	**53,026**	**117,101**	**170,126**	**58,812**	**132,819**	**191,631**

Table 3-10 Summary of Diluted Raw Coal Reserves (as at 1st January 2010)

site	JORC Reserves – Clean Coal (kt)			JORC Reserves – ROM Coal (kt)		
	Proven	**Probable**	**Total**	**Proven**	**Probable**	**Total**
Karakansky South (inch KS-1&2)	1,854	2,184	4,029	2,786	3,298	6,084
Vinogradovsky (inch Vino-2)	1,993	2,439	4,432	3,009	3,683	6,692
Cheremshansky	1,476	7,299	8,774	2,224	11,021	13,245
Total	**5,313**	**11,922**	**17,235**	**8,019**	**18,002**	**26,021**

4 MINE AND FACILITIES

4.1 Production History

Mining operations are carried out at three surface mining sites covering six license areas:-

- Karakansky South (including license areas Karakansky South, Karakansky South-1 and Karakansky South-2);
- Vinogradovsky (including license areas Vinogradovsky and Vinogradovsky-2);
- Cheremshansky (Cheremshansky license area).

The Company is well advanced in terms of project development. Table 4-1 shows a summary of mining operations from 2007 to 2009. Operating losses are in the range 5.6-18.0% at the three mines and do not exceed the standard values specified by the authorities.

Table 4-1 Summary of Mining 2007-2009

activity	2007	2008	2009
Production (kt)	**4,096**	**5,475**	**6,149**
Karakansky South	2,738	2,586	2,654
Vinogradovsky	1,358	1,905	1,440
Cheremshansky		984	2,055
Overburden (kt)	**23,076**	**34,019**	**43,700**
Karakansky South	12,342	12,080	13,889
Vinogradovsky	10,734	11,246	8,872
Cheremshansky		10,693	20,939
Stripping ratio (m^3/t)	**5.63**	**6.21**	**7.11**
Karakansky South	4.51	4.67	5.23
Vinogradovsky	7.90	5.90	6.16
Cheremshansky		10.87	10.19

4.2 Karakansky South Opencast

4.2.1 Technical Boundaries

Karakansky South includes the following industrial sites for open cast coal mining:-

- Karakansky-South;
- Karakansky-South -1;
- Karakansky-South -2.

The license areas will be developed as a single mine site and part of the same project. The lower limit of the coal lease is the base of the K2 seam. The technical boundaries of the opencast coal mines and industrial sites are shown in Figures 4-1.

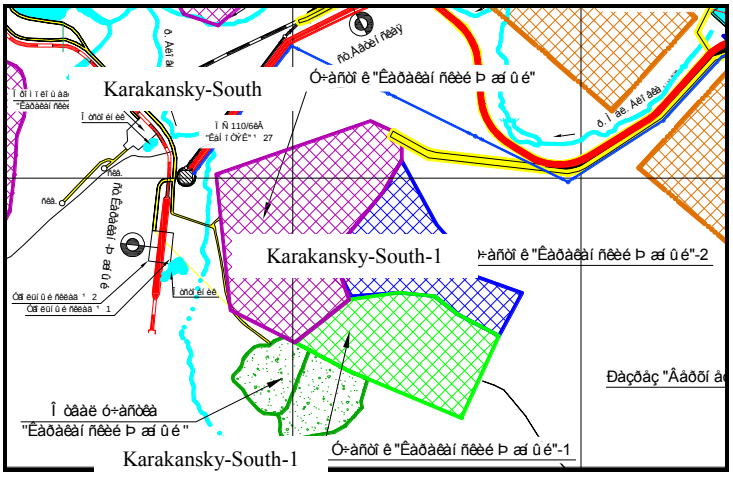


Figure 4-1 Surface Plan of Karakansky South Area

4.2.2 Mine Development System

At present coal reserves of Karakansky South license area are at the final stage of development. The reserves in the southern part of the deposit, Karakansky South-1 license area, are partially opened and are being mined.

The project envisages waste rock dumping within the pit (87% of total) and outside of the pit (13%).

The stripping layer above the K2 seam is developed with the help of ESh-10/70 draglines, and disposed of to an in-pit dump. Stripping of upper horizons and coal is undertaken by shovels loading into trucks and haulage to ex-pit dumps. Local blasting is required and these areas are stripped using excavators. Haulage trucks are up to 220 tonnes in capacity and haulage distances are 2.7-3.8 km depending on the stage of mining.

Winning of coal is undertaken selectively using shovels.

4.2.3 Open Pit Design Parameters

Basic geometrical parameters for the open pit are shown in Table 4-2. Transport berm design width is 36.5 m, and the width of technological surface haul roads is 35.0 m. Maximum haul track gradient is 8°. The height of the working bench is 15 m, in case of loose rocks, a bench is subdivided into two sub-benches. At the stage of bench end position formation, the benches are combined and reach up to 30 m.

Table 4-2 Karakansky South Basic Open Pit Design Parameters

Surface Dimensions (m)		Depth (m)		Slope Angles for the Final Pit		Average stripping ratio (m^3/t)
Length	Width	Design	Actual	Pit bench	Pit wall	
3200	2400	120	90	60°-70°	20°-33.5°	4.0

4.2.4 Water Inflow and Open Pit Drainage

The theoretical maximum predicted inflow of water to the open pit is 2,800 m^3/hour. At the final stage of mining operations, when the maximum water inflow can be expected, the pit drainage system will consist of three pumps of type TsNS 500-160 with a unit capacity of 500 m^3/h, one TsNS 105-98 type pump with unit capacity 105 m^3/h and one 6ш8 pump with unit capacity 250 m^3/h. Pump output and pump head, as well as sumps capacity are sufficient to cope with the estimated inflows and additional pumping capacity can be brought in from the other mines to cope with the maximum inflow.

4.2.5 Mechanisation of Mining Operations

The following equipment is to be used for mining operations:-

- Walking excavators ESh-10/70 with bucket capacity 10 m^3 and ESh-13/50 with bucket capacity 13 m^3,
- Face power shovels P&H 2300 XPA and EKG-5A with bucket capacity 23 m^3 and 5.2 m^3 respectively,
- Back hydraulic diggers Komatsu PC3000 with bucket capacity 15 m^3 and Komatsu PC1250 with bucket capacity 5 m^3 for coal and 4.2 m^3 for overburden.
- Back hydraulic diggers Komatsu PC300 and Komatsu PC400 with bucket capacity 1.6 and 1.8 m^3 respectively for winning and auxiliary operations,
- Transportation of overburden is to be carried out using dump trucks BelAZ-7547, BelAZ-7555B, BelAZ-75131 and BelAZ-7530 with load-carrying capacity 45, 55, 130 and 220 tonnes. Coal transportation is to be performed by coal carriers BelAZ-7555D with working capacity 55 tonnes.

4.2.6 Mine Planning and Scheduling

The coal deposit has been developed for surface mining and has been in production since 1999. Expansion of the mine envisages increasing production volume by 3 million tonnes by 2013, until reserve become depleted within the limits of the surface mine.

Starting from 2011, it is planned to separate the diluted raw coal from the overburden. This material is being produced during seam clean-up operations and has an ash content of about 50%. Presently, this material is dumped and forms a large part of operational losses. After commissioning of a simplified version of a steeply inclined separator plant, the diluted raw coal will be washed to produce additional saleable product. IMC have considered the future mining projections and consider them to be achievable.

4.3 Vinogradovsky Opencast

4.3.1 Technical Boundaries

The Vinogradovsky opencast site is divided into two overlapping license areas:-

- Vinogradovsky, which allows mining down to +200 m (Baltic Datum); and
- Vinogradovsky-2, which allows mining down to +100 m.

The license areas are to be developed within the same Project and represent technological sites of one and the same coal strip mine. Technical and license boundaries of the coal mine are shown in Figure 1-1.

4.3.2 Mine Development System

The project envisages dumping inside the pit (43% of material) and outside the pit (57%). The coal deposit is subdivided into subdivided into two blocks which are developed in succession. Coal reserves in the first block amount to more than 68 million tonnes, which is sufficient for over 20 years of mining operations. The block can be developed with an average stripping ratio of 4.85 m^3/t.

Stripping operations are carried out by excavators after rock breaking by blasting. Transport of stripped waste is carried out by trucks with capacity of up to 220 tonnes. Haul distances are 2.7-4.2 km and vary depending on the stage of mining operations.

Coal winning operations are performed by selective method.

4.3.3 Open Pit Design Parameters

Table 4-3 shows basic geometrical parameters of the mining site. The design width of transport berms is 36.5 m and the width of haulage roads on surface is 35.0 m. Maximum road gradient is 8°.

The height of working benches is 15 m and in cases of loose rocks, the working bench is subdivided into two sub-benches. At the stage of pit wall end position formation, the sub-benches are combined and 30 m high. The width of operating sites is 32-40 m.

Table 4-3 Vingradovsky Basic Open Pit Design Parameters

Surface measurements (m)		Depth (m)		Final Pit slope angles		Average stripping ratio (m^3/t)
Length	Width	Design	Actual	Bench	Pit Slope	
4,200	1,800	240	76	60°-70°	27°-39°	4.0

4.3.4 Water Inflows and Pit Drainage

The theoretical maximum predicted inflow of water to the open pit is 2,800 m^3/hour. At the final stage of mining operations, when the maximum water inflows can be expected, the pit drainage system will consist of three pumps of type TsNS 850-240 with a unit capacity of 850 m^3/h and a TsNS 500-240 pump with unit capacity 500 m^3/h. Pump output and pump head, as well as sumps capacity are sufficient to cope with the estimated inflows and additional pumping capacity can be brought in from the other mines to cope with the maximum inflow.

4.3.5 Mechanisation of Mining Operations

The following equipment is to be used for mining operations:-

- Face power shovels P&H 2300 XPA with bucket capacity of 23 m^3, for stripping operations,
- Mechanical shovels EKG-5A with bucket capacity 5.2 m^3 for winning and auxiliary operations,
- Back hydraulic diggers Komatsu PC300 and Komatsu PC400 with bucket capacity 1.6 and 1.8 m^3 respectively for winning and auxiliary operations,
- Transportation of overburden is to be carried out using dump trucks BelAZ-7547, BelAZ-7555B, BelAZ-75131 and BelAZ-7530 with load-carrying capacity 45, 55, 130 and 220 tonnes. Coal transportation is to be performed by coal carriers BelAZ-7555D with working capacity 55 tonnes.

4.3.6 Mine Planning Schedule

The mine has been developed since 2004 and the coal seam is opened up. From 2010 the mine schedule stipulates to separate the diluted raw coal from overall overburden. This material is being produced from seams clean-up and its ash content is about 50%. Presently this material is being dumped and it forms a large part of operational losses. After commissioning of a simplified version of a steeply inclined separator plant, the diluted raw coal will be washed to produce additional saleable product.

The Company's business plan envisages reaching design capacity of 3 million tonnes par annum by 2015. This annual output will be maintained until coal reserves are depleted within the opencast technical boundaries. IMC have considered the future mining projections and consider them to be achievable.

4.4 Cheremshansky Opencast

4.4.1 Technical Boundaries

The mining license is elongated along strike, extending for 9 km. The project specifies a block system of development in which the license area is divided into four blocks which are developed in succession. A plan of

the mining license and block subdivisions is shown in Figure 4-2. The technical boundary of the mine is down to an elevation of +200 m (Baltic Datum).

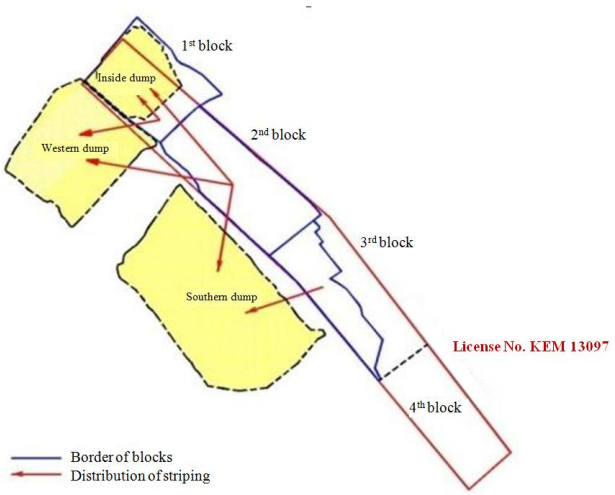


Figure 4-2 Surface Plan of Cheremshansky License Area

4.4.2 Mine Development System

At the primary stage of the deposit development the project envisages direct dumping system, and later on transportation system with dumping outside and inside the pit.

Stripping operations are performed by excavators after preliminary rock disintegration with the help of blasting. Stripped materials are transported by BelAZ-75131 and BelAZ-75306 haul trucks with capacity up to 220 tonnes Haulage distance for waste rock transportation varies from 2-5 km depending on the stage of mining operations. Winning operations proceed by gross method.

4.4.3 Open Pit Design Parameters

Basic geometrical parameters are shown in Table 4-4. The design width of transportation berms is 43.1 m and the width of technological surface roads is 36 m. Maximum haul road gradient is 8°. Width of working areas is 42.5m.

The height of working benches is 15 m. At the stage of final pit wall position development, the benches are combined to a height of 30 m.

Table 4-4 Cheremshamsky Basic Open Pit Design Parameters

Surface dimensions (m)		Depth (m)		Slope angles for final contour		Average stripping ratio (m^3/t)
Length	Width	Design	Actual	Bench	Pit wall	
9000	300	250-300	80	50°-70°	25°-35°	5.5

4.4.4 Water Inflows and Pit Drainage

The theoretical maximum water inflow to the pit is estimated to be 3,200 m^3/hour. The pit drainage system includes sixteen pumps of type TsNS 300-180, with unit capacity of 300 m^3/h, five pumps of type TsNS 180-85, with unit capacity of 180 m^3/h, and seven pumps of type 6ш8, with unit capacity 250 m^3/h. Pump output, pump head and sump capacity are sufficient to cope with the estimated amount of inflows and there is also reserve capacity if required.

4.4.5 Mechanisation of Mining Operations

The following equipment is to be used mining operations:-

- Walking excavators ESh-10/70 with bucket capacity 10 m^3 and ESh-13/50 with bucket capacity 13 m^3 for waste stripping,
- Face power shovels P&H 2300 XPA and EKG-5A with bucket capacity 23 m^3 and 5.2 m^3 respectively, will be used for auxiliary operations,
- Back hydraulic diggers Komatsu PC300, PC400, PC1250, PC1250SP and PC3000 with bucket capacity of 1.6 m^3, 1.8 m^3 4.2 m^3, 6.7 m^3 and 15 m^3 respectively, used for auxiliary operations,
- Transportation of overburden is to be carried out using dump trucks BelAZ-7547, BelAZ-7555B, BelAZ-75131 and BelAZ-7530 with load-carrying capacity 45, 55, 130 and 220 tonnes.
- Coal transportation is to be performed by coal carriers BelAZ-7555D with working capacity 55 tonnes.

4.4.6 Mine Planning Schedule

The site is fully opened up and ready for operation with increased output. The business plan has more conservative estimations and envisages reaching design capacity only by the year 2015.

Starting from 2011, it is planned to separate the DRC from overall overburden. This material is being produced from seams clean-up process, and its ash content is about 50%. Presently this material is being dumped and forms a large part of operational losses. After commissioning of a simplified version of a steeply inclined separator plant, the diluted material will be washed to produce additional amount of saleable product. IMC have considered the future mining projections and consider them to be achievable.

4.5 Blasting Operations

Drilling and blasting is required locally where hard rocks are encountered. Rock mass blasting is carried out by a contracting specialist organization called Znamya Limited.

The project specifies the use of SBSh-200-60 and Ingersoll-Rand DML drilling rigs to drill 216 mm diameter drillholes for charging with explosives. The following explosives are to be used: Granulite UP, Emulsol A-20, P-Emulin and Sibirit 1200.

Short-delay (0-176 millisecond) blasting is the principal method to be used. Electrical blast initiation will be used with the help of instantaneous detonation fuses. Blast hole patterns will vary according to mining conditions, but typically will be 5.5-6.5 m by 6.5-8.0 m. Holes will be 15.8 m deep with 0.8 m sub-depth.

Specific consumption of explosives varies between 0.3-0.8 kg/m3, depending on the type of excavator employed in rock mass excavation, strata types, and length of blast hole.

4.6 Mining Machinery and Equipment

4.6.1 Available Machinery and Equipment

A list of principal available machinery is presented in Table 4-5.

Table 4-5 Available Mining Equipment

Equipment description	Performance data	Year of manufacturing*	Number
Shovel			
EKG-5A	Bucket 5 m^3	1983-1993	19
P&H – 2300	Bucket 23 m^3	2008	2
PC-400	Bucket 1.8 m^3	2004-2008	6
PC-1250	Bucket 4-7 m^3	2004-2007	4
PC-3000	Bucket 15 m^3	2007	1
EO-5126	Bucket 1.2 m^3	2004	1
EO-33211	Bucket 0.85 m^3	2004-2007	2
ESH-10/70	Bucket 10 m^3	1978-1981	4
ESH-11/70	Bucket 11 m^3	1988	1
Bulldozers			
B-10	Power - 180 hp	2004	2
T-3501	Power - 520 hp	2004-2005	8
T-2501	Power - 380 hp	2005-2008	6
D-275A	Power - 410 hp	2007	1
D-375A	Power - 525 hp	2008	2
WD-600-3	Power - 492 hp	2005	1
T-150	Power - 170 hp	2005	1
K-703	Power - 215 hp	2008	1
Loaders			
PK-534	Bucket 3.4 m^3	2004-2008	20
WA-600	Bucket 11 m^3	2005	
Electric mules			
TEM-1M	Diesel-electric locomotive weight - 120 t	1963-1976	2
TEM2	Diesel-electric locomotive weight - 120 t	1976-1987	3
2TE-10M	Diesel-electric locomotive weight - 276 t	2004	1
Drill Rigs			
DML-7906	Diameter 152-270 mm	2004	1
DML-8862	Diameter 152-270 mm	2007-2008	2
3SBSH-200-60	Diameter 200-250 mm	2002	1
Motor graders			
DZ-98	Heavy grader	2004-2008	5

* Some equipment fully overhauled / Some equipment commissioned after the official year of manufacture.

Coal and overburden is transported by the following dump trucks: BelAZ 7547 (45 t) -29 units, BelAZ 7555 (55 t) -13 units, BelAZ 75131 (135 t) - 18 units, BelAZ 75306 (220t) -7 units. Some overburden transportation has been done by contractor; in 2009 this amounted to 46.3 million m^3.

Most of the Company's equipment is shared between all three mining sites. Available mining equipment is in good condition and can service existing production operations.

It should be noted that the Company has a policy of purchasing the best available equipment. In some cases, equipment is replaced before completion of its operation life. For example, in 2009 the Company bought a P&H-2300 shovel with bucket capacity of 23 m^3 that allowed decommissioning of five smaller EKG-5A type shovels. A similar situation relates to haulage trucks where the Company has successfully introduced 220 tonne dump trucks; one of the first companies in Russia to do so. Focus on high performance equipment facilitates an increase in labour productivity and decreases operating expenditure.

4.6.2 Mining Equipment Productivity

Factually achieved productivity of the main mining equipment is described as a high. After elimination of the redundant equipment down time, average values of utilisation factors for 2009 are as follows:-

- 73% for shovels;
- 78% for dozers;
- 91% for loaders.

The Company maintains a high level of spare parts and consumables in its stores with the result that equipment downtime due to a lack of spare parts is minimised.

4.6.3 Programme of Mining Equipment Renovation and Procurement

IMC consultants have reviewed the equipment requirements stipulated in the design according to the long-term development plan, included in the Company's business plan. The programme includes employment of the existing list of mining equipment. The equipment renovation and procurement programme incorporates realistic service life of different machines.

A summary of the main mining and transport equipment required by 2015 to reach the design capacity of 11 Mt per annum is presented in Table 4-6. Equipment productivity was reasonably estimated during calculation of equipment requirements.

Table 4-6 Equipment Procurement List

Equipment description	Type (brand) of equipment	Performance data	Number
Shovels	P&H – 2300	Bucket 23 m^3	3
	PC-400	Bucket 1.8 m^3	5
	PC-1250	Bucket 4-7 m^3	10
	PC-3000	Bucket 15 m^3	2
	ESH-10/70	Bucket 10 m^3	3
	ESH-11/70	Bucket 11 m^3	2
Dozers	T-3501	Power - 520 hp	3
	D-275A	Power - 410 hp	2
	D-375A	Power - 525 hp	18
	WD-600-3	Power - 492 hp	3
Trucks	BelAZ 7555	Capacity - 55 t	18
	BelAZ 7547	Capacity - 45 t	10
	BelAZ 75131	Capacity - 135 t	47
	BelAZ 75306	Capacity - 220 t	20
Loaders	PK-534	Bucket 3.4 m^3	17
	WA-600	Bucket 11 m^3	12
Drill Rigs	DML	Diameter 152-270 mm	4

5 COAL PROCESSING

5.1 Introduction

In general, ROM coal quality across the sites is adversely affected by in-seam dirt bands which are present in varying numbers in most seams.

ROM ash content is variable and the ability to produce consistent high quality products is compromised by the lack of suitable coal cleaning technology. This limits the Company's ability to expand its sales outside of the Russian domestic market and other CIS countries where the industrial infrastructure is geared to utilise high ash, low CV coals.

The Company's Business Plan revolves around a significant expansion of sales into the Western/Eastern European and Asian export markets.

In order to access these markets, the Company has recognised its limitations and has commenced a major development programme which will involve the construction of three new coal preparation plants.

5.2 Current Processing Facilities

At the present time, the 'dry' preparation of coal from the three sites is by a combination of crushing and screening of the raw coal for size control of the different product grades, together with selective blending of coals with varying CV to meet current market requirements.

IMC understand that current marketable size grades are:

- 200mm - 50mm
- 50mm – 5mm
- 25mm – 0

Preparation is carried out utilising portable systems which are located in the immediate vicinity of the coal stocking areas adjacent to the rail loading points.

The Company Business Plan envisages 'dry' processing of coal through these systems continuing at a level of around 3.0 to 3.5mtpa (dependant on production profile and market demand) through to 2020 and reducing thereafter. The Company's investment plans reflect this and include provision for plant renovation/replacement.

5.3 Coal Preparation Development Plans

In addition to the production of consistent quality products targeted at the wider export markets, the Company's Business Plan includes for increasing yield from its mining operations by processing high ash diluted raw coal (DRC) which to-date has been disposed of with the overburden. This material consists of near seam material cleaned up prior to seam extraction and is currently included in mining losses.

The Company has developed a strategy for the expansion of its coal processing activities based on the construction of three new processing plants. Two of the plants will utilise relatively simple, locally developed technology (KNS upward current, water only Inclined Separators), the third plant will utilise highly efficient, heavy media, large and small coal processes to maximise yields of high value, low ash, high CV products.

To increase its processing flexibility and to meet potential variations in market demand, the Company also plans to supplement one of the KNS plants by incorporating within it a heavy media processing system.

5.4 Coal Quality

The mining sites have been comprehensively explored over a number of years and in general, as described in Section 2, all the coals have similar inherent quality characteristics.

In summary, the inherent characteristics of the coal produced by the Company classify it according to the Russian Coal Classification System as Grade 'D' (Long Flame Coal).

The principal markets for this coal are electric power generation and industrial, agricultural and home heating.

5.5 Washability Characteristics

The washability data necessary to enable the Company to progress the expansion of its processing facilities has been generated from three principal sources:

- Technical Report: Samples from Vinogradovsky open pit (Production Block №2) produced by the Centre for New Coal High-Level Processing Technologies and Certification, Kemerovo, 2008.

- Technical Report: Samples of saleable coal from Seam 2, Cheremshansky Open Pit (Production Block №3) produced by Centre for New Coal High-Level Processing Technologies and Certification, Kemerovo, 2009.

- Geologic Description and Estimates of Coal Reserves as of 1973, Karakansky Vostochny Open Pit, Yerunakovsky Field of Kuzbass. /West-Siberian Geologic Administration – KuzbassUgleGeologia Trust, Leninsk-Kuznetsky, 1973.

The 2008 and 2009 test reports are based on the results of the analysis of in-situ seam samples and operational samples taken from a pile of saleable coal, the 1973 report is based on core samples obtained at the stage of geological investigation of the coal deposit.

The 2008 and 2009 investigations were carried out by an independent, externally accredited organisation with the work being carried out in accordance with the appropriate Gost standards.

With regard to the 1973 report, the methods and systems employed throughout the exploration of the coalfield area would have been based on Standards laid down by the Ministry of Coal of the former USSR. A review of the specific methods employed to generate the information under review has not been carried out. However, the level of detail and the method of reporting of the information reviewed are consistent with that found on many other projects throughout the FSU which have proved to be comprehensive, detailed and reliable.

The coal quality and washability investigations carried out at Vinogradovsky and Cheremshansky involved a comprehensive sampling exercise with samples being taken from numerous seams over varying periods of time, a summary of the sampling programme is given in Tables 5-1 and 5-2.

The data generated for the detailed technical design of the proposed coal preparation facilities has been based on the analysis results from these investigations together with mining plans for Vinogradovsky and Cheremshansky opencast sites.

Samples were subjected to size analysis and ash on fractions, together with float and sink analysis on a range of individual size fractions. Table 5-3 below shows the results of the float and sink analysis on samples from seam 3 at Cheremskansky and are included here as an example of the analysis carried out across the full suite of samples.

Table 5-1 Cheremshansky Sampling Schedule

Date of Sampling	Seam
07.08.09	К-1
11.08.09	1
13.08.09	4
14.08.09	5
17.08.09	3
18.08.09	Н-2
21.08.09	В 1-2

Table 5-2 Vinogradovsky Sampling Schedule

Date of Sampling	Seam
19.10.2007	К7
19.10.2007	К5
19.10.2007	К2 (1)
23.10.2007	К8
23.10.2007	К5 (1)
23.10.2007	К5 (2)
23.10.2007	К8
26.10.2007	К7
14.11.2007	К3
14.11.2007	К4
14.11.2007	К4
21.11.2007	К2 (1)
21.11.2007	К2 (1)
21.11.2007	К3
05.03.2008	К-2(1)
07.03.2008	К-1
07.03.2008	К-2(2)
14.03.2008	К-2(3)
14.03.2008	К-4
18.03.2008	К-3
18.03.2008	К-5
06.05.2008	К-1

Table 5-3 Float and Sink Test Results from Seam 3 Cheremshansky

RD	50 - 100 мм						25 - 50 мм					
	Total Yield of Fractions						Total Yield of Fractions					
	Floats		Cumulative		Sinks		Floats		Cumulative		Sinks	
	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %
<1.3	23,61	2,86	23,61	2,86	76,39	13,00	22,00	2,84	22,00	2,84	78,00	11,87
1.3-1.35	40,40	6,67	64,00	5,26	36,00	20,11	63,16	6,81	85,17	5,78	14,83	33,43
1.35-1.4	26,40	13,86	90,41	7,77	9,59	37,30	4,85	13,42	90,01	6,20	9,99	43,13
1.4-1.45	1,48	21,67	91,89	8,00	8,11	40,15	2,82	22,39	92,83	6,69	7,17	51,30
1.45-1.8	7,27	36,13	99,16	10,06	0,84	74,91	4,95	37,29	97,78	8,24	2,22	82,50
>1.8	0,84	74,91	100,00	10,61	-	-	2,22	82,50	100,00	9,88	-	-

RD	13 - 25 мм						6 - 13 мм					
	Total Yield of Fractions						Total Yield of Fractions					
	Floats		Cumulative		Sinks		Floats		Cumulative		Sinks	
	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %
<1.3	21,64	2,44	21,64	2,44	78,36	10,45	16,36	2,16	16,36	2,16	83,64	8,83
1.3-1.35	61,23	5,23	82,87	4,50	17,13	29,09	69,32	4,62	85,69	4,15	14,31	29,23
1.35-1.4	4,85	14,16	87,73	5,04	12,27	35,00	5,78	13,29	91,47	4,73	8,53	40,04
1.4-1.45	3,54	19,97	91,27	5,62	8,73	41,10	1,95	20,67	93,42	5,06	6,58	45,78
1.45-1.8	7,07	32,01	98,34	7,51	1,66	79,94	4,81	35,21	98,23	6,54	1,77	74,42
>1.8	1,66	79,94	100,00	8,71	-	-	1,77	74,42	100,00	7,74	-	-

RD	1 - 6 мм					
	Total Yield of Fractions					
	Floats		Cumulative		Sinks	
	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %
<1.3	57,68	2,47	57,68	2,47	42,32	14,89
1.3-1.35	24,98	7,56	82,66	4,01	17,34	25,45
1.35-1.4	8,19	12,22	90,85	4,75	9,15	37,29
1.4-1.45	2,68	19,02	93,53	5,16	6,47	44,85
1.45-1.8	4,69	33,61	98,21	6,52	1,79	74,37
>1.8	1,79	74,37	100,00	7,73	-	-

RD	+ 6mm						+ 1mm					
	Total Yield of Fractions						Total Yield of Fractions					
	Floats		Cumulative		Sinks		Floats		Cumulative		Sinks	
	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %	Yield %	A^d %
<1.3	19,90	2,49	19,90	2,49	80,10	10,34	34,08	2,48	34,08	2,48	65,92	11,44
1.3-1.35	62,56	5,40	82,46	4,70	17,54	27,98	48,46	5,81	82,54	4,44	17,46	27,03
1.35-1.4	7,44	13,69	89,91	5,44	10,09	38,51	7,72	13,11	90,26	5,18	9,74	38,08
1.4-1.45	2,57	20,82	92,48	5,87	7,52	44,56	2,61	20,13	92,87	5,60	7,13	44,66
1.45-1.8	5,79	34,49	98,27	7,55	1,73	78,20	5,38	34,20	98,25	7,16	1,75	76,74
>1.8	1,73	78,20	100,00	8,78	-	-	1,75	76,74	100,00	8,38	-	-

The following Tables 5-4 and 5-5 summarise the above referenced data based on the mining plan:

Table 5-4 Fractional Distribution for Coal Seams of Low Ash Group

Seam	Yield/ash content	Fraction density, kg/m3				Seam proportion in the blend
		<1,400	1,400-1,800	>1,800	Total	
2	Y, %	92.3	5.1	2.6	100.0	18.5
	Ad, %	5.6	23.9	68.6	8.17	
4	Y, %	92.4	6.0	1.6	100.0	7.9
	Ad, %	4.4	28.1	69.7	6.87	
5	Y, %	90.5	5.7	3.8	100.0	5.6
	Ad, %	4.9	29.0	78.7	9.08	
K1	Y, %	92.3	4.2	3.5	100.0	18.4
	Ad, %	5.4	27.2	79.8	8.92	
K2	Y, %	83.3	10.1	6.6	100.0	38.6
	Ad, %	6.5	24.9	83.5	13.44	
K4	Y, %	91.54	7.76	0.70	100.0	3.0
	Ad, %	6.05	28.94	70.83	8.28	
K3	Y, %	86.2	8.7	5.1	100.0	8.0
	Ad, %	6.6	32.9	74.8	12.37	
Total	**Y, %**	**88.22**	**7.34**	**4.44**	**100.0**	**100.0**
	Ad, %	**5.84**	**26.29**	**79.87**	**10.63**	

Table 5-5 Fractional Distribution for Coal Seams of High Ash Group

Seam	Yield/ash content	Fraction density, kg/m3				Seam proportion in the blend
		<1,400	1,400-1,800	>1,800	Total	
8, 8a, 8b, K7	Y, %	85.22	10.43	4.35	100.0	2.30
	Ad, %	7.78	27.84	77.05	12.78	
K6	Y, %	79.5	13.9	6.6	100.0	23.19
	Ad, %	7.6	27.8	81.1	15.25	
K5	Y, %	82.6	12.4	5.0	100.0	5.71
	Ad, %	7.6	26.6	80.0	13.58	
K3-K2	Y, %	72.2	14.6	13.2	100.0	3.07
	Ad, %	6.5	25.3	79.7	18.91	
Verkhny/Upper	Y, %	70.1	9.3	20.6	100.0	12.04
	Ad, %	6.8	28.7	81.3	24.18	
Novy/New	Y, %	73.1	18.0	8.9	100.0	13.03
	Ad, %	7.0	27.3	80.2	17.17	
P1	Y, %	84.3	13.3	2.4	100.0	27.74
	Ad, %	7.0	23.5	72.3	10.76	
K4-K5	Y, %	81.8	11.5	6.7	100.0	12.92
	Ad, %	7.3	23.7	79.6	14.03	
Total	**Y, %**	**79.25**	**13.26**	**7.49**	**100.0**	**100.0**
	Ad, %	**7.20**	**25.98**	**79.90**	**15.14**	

To complement the above data, further test work has been carried out on samples of DRC and High Ash raw coal. The results of these tests incorporated adjustments in size distribution following crushing of +150mm, together with further adjustments for slurry formation and shale breakdown through the process. Summary results of these tests are shown in Tables 5-6 and 5-7.

Table 5-6 Adjusted Size Distribution and Ash Content for Diluted Raw Coal

Size, mm	Yield,%	Ash,%	Slurry (10% of initial coal)		Initial Material adjusted for degradation	
			Yield,%	Ash,%	Yield,%	Ash,%
100-150	0.6	44.8	0.1	44.8	0.6	44.8
50-100	8.4	49.5	0.8	49.5	7.6	49.5
25-50	12.3	49.2	1.2	49.2	11.0	49.2
13-25	13.3	53.6	1.3	53.6	12.0	53.6
6—13	28.6	49.4	2.9	49.4	25.8	49.4
3—6	8.8	46.3	0.9	46.3	7.9	46.3
1—3	10.4	46.6	1.0	46.6	9.4	46.6
0,5-1	3.3	50.7	0.3	50.7	2.9	50.7
0,2-0,5	1.8	55.2	1.8	55.2	2.9	50.0
0,14-0,2	0.4	57.6	0.4	57.6	0.7	53.2
0-0,14	12.0	78	12.0	78	19.2	68.0
Total	**100**	**53**	**22.8**	**65.1**	**100**	**53.0**

Table 5-7 Adjusted Size Distribution and Ash Content for High Ash Coal

Size mm	Yield%	Ash%	Slurry (10% of initial coal		Initial Material adjusted for degradation	
			Yield%	Ash%	Yield%	Ash %
100-150	0.9	10.3	0.1	10.3	0.8	10.3
50-100	8.4	17.9	0.8	17.9	7.6	17.9
25-50	11.3	23.1	1.1	23.1	10.1	23.1
13-25	12.4	21.2	1.2	21.2	11.2	21.2
6—13	27.5	23.8	2.8	23.8	24.8	23.8
3—6	8.9	16.9	0.9	16.9	8.0	16.9
1—3	9.9	19.1	1.0	19.1	8.9	19.1
0,5-1	2.6	21.3	0.3	21.3	2.3	21.3
0,2-0,5	2.1	27.3	2.1	27.3	3.0	22.9
0,14-0,2	0.6	31.2	0.6	31.2	0.9	25.0
0-0,14	15.5	77.1	15.5	77.1	22.5	60.1
Total	**100**	**30.0**	**26.4**	**54.8**	**100**	**30.0**

The results of test work on the fractional composition of DRC and High Ash Raw Coal are shown in Tables 5-8 and 5-9.

Table 5-8 Fractional Composition of DRC

	Elemental Fractions		Summary Fractions			
	Yield %		Cumulative Floats		Cumulative Sinks	
SG	To size (mm)	Ash %	Yield %	Ash %	Yield %	Ash %
Raw Coal						
<1.4	26	5	26,0	5,0	100,0	53,0
1.4-1.5	8.9	10	34,9	6,3	74,0	69,8
1.5-1.6	1.2	35	36,1	7,2	65,1	78,0
1.6-1.8	1.8	45	37,9	9,0	63,9	78,8
>1.8	62.1	79.8	100,0	53,0	62,1	79,8
Total	100	53				

Table 5-9 Fractional Composition of High Ash Raw Coal

	Elemental Fractions		Summary Fractions			
	Yield %		Cumulative Floats		Cumulative Sinks	
SG	To size (mm)	Ash %	Yield %	Ash %	Yield %	Ash %
Raw Coal						
<1.4	55.9	5	55.9	5,0	100,0	30
1.4-1.5	8.9	11	64.8	5.8	44.1	61.7
1.5-1.6	1.7	35.8	66.5	6.6	35.2	74.6
1.6-1.8	4	52.3	70.5	9.2	33.5	76.5
>1.8	29.5	79.8	100,0	30	29.5	79,8
Total	100	30				

Float and sink analysis was also carried out on a range of individual size fractions.

In addition, to gain further confidence in the data and the yield/quality predictions, the Company has carried out a full scale trial (test wash) of DRC at a processing plant utilizing similar KNS technology.

The data indicates that in general, the washability of the coals vary from easy to average in the low ash seams and average to difficult in the high ash seams.

Selective mining will be necessary to provide the potential to achieve the high yields and product quality parameters outlined in the Business Plan.

The data also supports the Company's decision to incorporate two stage heavy media cleaning systems as the main part of its development plans. The production of low ash, high CV concentrate will require accurate, low gravity separation which can only be achieved using the proposed technology.

5.6 Planned Beneficiation Processes

5.6.1 KNS Steeply Inclined Separator

Following an evaluation of the quality and washability data and the results of a full scale washing trial of High Ash Raw Coal and DRC carried out at a plant utilising KNS steeply inclined separators, the Company is currently constructing a new 2.0 mtpa processing plant adjacent to the Kaskad rail loading facility.

The KNS Separator is a development of the Institute of Solid Fossil Fuel Preparation and is marketed through the Innovation, Research and Designing Company 'KENES'.

IMC understand that this technology was developed specifically to enable mining losses to be reduced by upgrading (de-shaling) near seam, coal bearing overburden. The plants are relatively inexpensive when compared to conventional coal cleaning technology which is one of the principal attractions.

A number of such plants have been installed in the Kemerovo region and it appears that in general, the use of the technology is limited to this region.

Figure 5-1 provides a general description of the separator and describes the basic principle of operation which is a simple, upward current system which relies on a combination of density differential between particles, an adjustable counter-current water flow and defined separator angle to effect a controlled separation.

These processes have inherent limitations in terms of their ability to maximise yields of low ash products and in order to increase efficiency of recovery when treating DRC and high ash ROM two stage systems are utilised for the cleaning of 150mm – 1.0mm material

The two KNS plants will utilise the following process stages:

- Primary sizing to 150mm
- Processing of 150mm-0mm in primary KNS separator
- De-watering at 1.0mm aperture, and sizing to produce 150mm-25mm saleable concentrate
- Rejects from the primary processor are de-watered in the elevator and out-loaded to stock
- Re-cleaning of 25mm -1.0mm in secondary KNS processor
- Sizing of secondary concentrate at 13mm and the -13mm de-watered by centrifuge before joining the 25-13mm concentrate.
- Rejects from secondary processor are re-circulated back to the primary separator feed.
- The -1.0mm material is processed through a combination of multi-stage hydro-cyclones and a further KNS upward current separator for coarse slurry cleaning. The nominally +0.2mm concentrate being de-watered on high speed screens and centrifuge before joining the -25mm concentrate. The nominally +0,2mm reject from this system is de-watered on high speed screens before passing to the reject stockpile.
- The nominally -0.2mm material passes to a thickener from where the thickened material is then de-watered on a series of belt filters before passing to the reject stockpile.

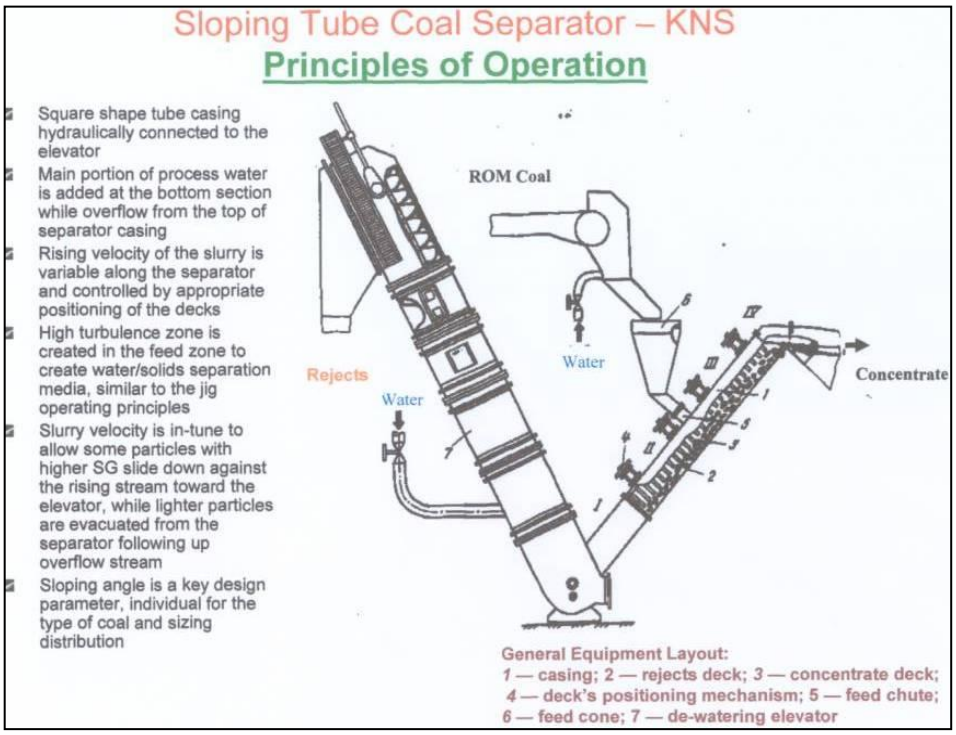


Figure 5-1 Schematic of KNS Separator

5.6.1.1 Anticipated Yields

The Company has estimated the possible mix of products which could be produced when treating DRC and high ash raw coal, these are shown in Tables 5-10 and 5-11.

Table 5-10 Anticipated Yields from DRC

Product Name	Yield, %	Productivity, t/h		Productivity, '000 t per year		Ash, %	Moisture, %
		Dry basis	Wet basis	Dry basis	Wet basis		
Feed:	100,0	268,8	320,0	504,0	600,0	53,0	16,0
Concentrate 25-100mm	8,2	22,0	25,6	41,2	47,9	7,8	14,0
Concentrate 0-25mm, including:	25,8	69,4	81,1	130,1	152,1	9,6	14,5
Concentrate 13-25mm	11,7	31,4	36,6	59,0	68,6	7,6	14,0
Concentrate 1-13mm	6,9	18,5	21,7	34,8	40,7	7,9	14,5
Concentrate 0,2-1mm	7,2	19,4	22,8	36,4	42,8	14,5	15,0
Total Concentrate	34,0	91,4	106,7	171,4	200,0	9,2	14,4
Stone waste +300mm	1,2	3,2	3,9	6,0	7,2	79,0	16,5
KNS-168L rejects	47,4	127,4	155,4	238,9	291,3	78,4	18,0
KNS-40/60 rejects	0,7	1,9	2,5	3,5	4,7	65,6	24,2
Cake of belt press-filter	16,7	44,9	70,1	84,2	131,5	67,7	36,0
Total wastes	66,0	177,4	231,9	332,6	434,7	75,6	23,5
Total	100,0	268,8	338,5	504,0	634,7	53,0	-

Table 5-11 Anticipated Yields from High Ash ROM

Product Name	Yield, %	Productivity, t/h		Productivity, '000 t per year		Ash, %	Moisture, %
		Dry basis	Wet basis	Dry basis	Wet basis		
Feed:	100,0	268,8	320,0	1176,0	1400,0	30,0	16,0
Concentrate 25-100mm	18,1	48,6	56,5	212,5	247,1	7,4	14,0
Concentrate 0-25mm, including:	46,3	124,6	145,8	545,0	638,1	9,6	14,7
Concentrate 13-25mm	18,0	48,4	56,4	211,7	246,7	7,6	14,2
Concentrate 1-13mm	9,5	25,5	29,9	111,7	130,7	8,0	14,5
Concentrate 0,2-1mm	18,8	50,6	59,6	221,6	260,7	12,4	15,0
Total Concentrate	64,4	173,1	202,3	757,5	885,1	9,0	14,6
Stone waste +300mm	1,6	4,3	5,1	18,8	22,4	79,0	16,0
KNS-168L rejects	13,0	34,9	42,6	152,9	186,4	78,3	18,0
KNS-40/60 rejects	0,6	1,6	2,1	7,1	9,2	51,7	23,7
Cake of belt press-filter	20,4	54,8	85,6	239,8	374,7	61,0	36,0
Total wastes	35,6	95,7	135,5	418,5	592,7	68,0	
Total	100,0	268,8	337,8	1176,0	1477,9	30,0	-

IMC considers these estimates to be reasonable based on the data reviewed.

Whilst the above information is indicative, as a general comment relating to all of the proposed processing plants, yields and concentrate quality will be affected by many different influences including:

- Seam mix in ROM;
- Degradation through the ROM transportation and handling system;
- Dilution effect of high ash ROM and DRC.

5.6.2 Dense Medium Processing

5.6.2.1 KNS No 2 Supplementary Dense Medium Process:

The second KNS plant will incorporate a second independent process line utilising an SKVP-32 Heavy Media processor and associated equipment to provide the flexibility to produce low ash, high CV products to meet market demand. The capacity of the combined plant will be based on treating 2.0 mtpa.

5.6.2.2 Vinogradovskaya Dense Medium Plant:

This plant will process coal from the Vinogradovsky and Cheremshansky mines and will be designed to process coal at an annual rate of 4,5mtpa.

The plant will be based on two independent processing streams.

The principal processes will include:

- Primary screening and crushing of ROM to -100 mm,
- Secondary screening at 25 mm,

- Tertiary screening of the -25 mm material at 6.0 mm to produce a -6.0 mm raw fines,
- Wet screening of the +6 mm raw coal at 25 mm size,
- Cleaning of the +25 mm raw coal in a SKVP 32-380 Heavy Media separator,
- De-sliming of -25 mm raw coal at 1.0 mm,
- Low density cleaning of 25 mm -1.0 mm by cyclones to produce low ash concentrate,
- Second stage high gravity cleaning of rejects from 1st stage cyclone to produce higher ash concentrate and middlings,
- Multistage hydro-cyclones for recovery of nominally +0.1 mm material,
- Product de-watering systems including high speed screens, vibrating centrifuges, decanter centrifuges and belt presses for thickened tailings.

Provision will also be made for the installation of a spiral plant for upgrading of the -1.0 mm product should it prove necessary.

The plant will be designed to be fully automated using plc's and will incorporate automated medium control and in-line nucleonic measurement of ash and moisture on the raw coal feeds.

This plant will have the flexibility to produce the range of products envisaged in the Company's Business Plan. However, the quality of the -6.0 mm raw coal fraction will be influenced by the mine mix and production of a consistent product at <10% ash may prove difficult.

Similarly, screening of high moisture content raw coal at 6.0 mm may also create difficulties in achieving high efficiencies at the finer sizes (-1.0 mm). It is recommended that the Company recognises this in the detail plant design and incorporate the necessary capacity in those sections of the plant which would be affected.

5.7 Yields of Saleable Products:

Yields will be affected by variations in ROM quality and by the mode of operation of the plant which will be influenced by market demand.

Based on the available data, indicative yields are shown in Table 5-12.

Table 5-12 Indicative Final Product Yields

Product	Yield,%	Ash, %	Moisture, %
Concentrate-1	64.5	9.0	13.2
Concentrate-2	13.6	4.9	13.5
Middlings	12.2	16.3	16.6
Sub-total	90.3	9.4	13.7
Rejects	9.7	58.8	26.8
Total	100.0	14.2	15.0

5.8 Quality Control

IMC note that on the proposed manning schedule for the Kaskad Plant there is no provision for sampling and analysis of the product range. It is recommended that the Company provides suitable resources to carry out the sampling and analysis which will be required to meet the expectations of its expanded customer base.

In addition, it is recommended that the Company put in place the necessary steps to achieve external accreditation across all of its processing and quality control activities.

5.9 Capital Expenditure

The Company has detailed costs for the first KNS plant which is currently under construction.

The costs for the Vinogradovskya plant has been derived from a design and budget price study carried out by CETCO.

IMC understand that the cost of the second KNS plant with the additional heavy media processing stream and additional infrastructure works has been calculated based on the cost of the first plant with adjustments based on costings obtained from the CETCO budget price exercise, for the heavy media section.

IMC consider that the proposed capital costs for the proposed three plants are realistic.

6 INFRASTRUCTURE

6.1 Administrative Buildings and Facilities

Administrative and domestic services for the employees are provided at the Company's central administration building located on the mine site. The administration building includes services for sterilisation, laundry, dry-cleaning and repair of working clothes. Changing rooms for workers are compartmentalised to keep clean and dirty industrial clothing separate.

The administration building has adequately equipped premises for deploying the Company's operational services and engineering and technical personnel. It also houses training facilities, an assembly hall, first aid station, dispatcher office, a canteen and cooking area. Portable toilets, warm up shelters and other facility required for sanitary needs are deployed from the building.

In the future when additional processing plants are constructed and operational, another administrative and amenity building will be constructed for processing staff.

6.2 Electric Power and Heat Supply

Power to mining areas, coal loading points and other production facilities of the Company is fed by 6 kV overhead transmission line to the transformer stations and mobile transformer substations where voltage is stepped down to working values suitable to power consumers. The length of 6 kV lines supplying power to mining areas is 100 km. The total power consumption in 2009 was 25,650 MWh.

Power to Vinogradovsky pit is supplied from a 110/35/6 kV KeNoTEK substation (2 transformers by 16 MVA) via 6 kV high voltage line and via 35 kV high voltage line from 35/6 kV Cheremshansky substation (2 transformers by 10MVA).

The licensed maximum electric load to be consumed is 6.5 MW, whereas average actual maximum consumption is 5.0 MW. Therefore, loads generated by electric consuming systems are supported by the Company's current power supply system with acceptable level of fail-safety.

Heat to production facilities, workshops and offices is supplied from the Company's own KMT-10 heating boiler house which burns coal produced by the company. This is a module type boiler plant which consists of eight KSV-1.25 VK-3 units. The capacity of each unit is 1.25 MW. Workmen's shelters, cabins and other minor premises are heated by electric heaters.

6.2.1 Water Supply

Water to the Company's offices and service buildings is supplied via a centralised water supply system. Part of technical water shall be recycled. Drinking water is stored in 19 liter plastic bottles and delivered to the areas of mining operations.

6.3 Repair Workshops and Industrial Premises

Repairs and maintenance of coal mining and coal processing equipment are made in the workshops owned by the Company which is located in close proximity to the administration building. The repair and storage business unit includes the following key elements:

- Fleet of trucks, tractors and dozers ;
- Workshop for mechanical repairs of mining equipment;
- Equipment depot where LVIs are also kept;
- Fuel and lubricant storage.

The construction of a bay for parking 220 tonnes heavy duty trucks is currently being completed. These are heated, spacious and adequately lighted workshops suitable to repair and maintain the equipment. The workshops have all the required equipment including shaving/milling benches, lathes, drilling machines, presses, (drop) hammers, lifting equipment and gear and tyre tools.

Current repairs and maintenance operations on the mining equipment are also done directly at the production districts, by travelling repair staff and by equipment operators. To facilitate with prompt repairs a technical aid vehicle is used which is equipped with an electric generator, electric welding device, washer, and compressor and specialist repair appliances.

Overhaul on complex aggregates is done at the manufacturer's premises or by their local agents under one-time agreements. It should be emphasized that Kemerovo region has a developed network of agent's offices from global manufacturers of mining equipment.

6.4 Communication and Signalling System

The following arrangements are envisaged to support the Company's future communication requirements:-

- Internal automatic telecommunication (PATS) connected to the public network;
- Local Telephone Services available for public use;
- Dispatcher connection;
- Bilateral park communications (DPS);
- Station radio communications (RS);
- Inter-station communications;
- Accurate time synchronized network;
- Firefighting alarm system, connection with Mine Rescue Detachment (VGSCh).

The connection between mining blocks, production supervision managers and the administrative and amenity building is conducted via radionet.

The company is equipped with a satellite telephone and internet systems. For on-site communication Motorolla short-wave radios are used.

6.5 Transportation of Saleable Product

All railway transportation is carried out by Meret forwarding company which is a subsidiary of KTK. Meret owns two railway stations; Uba station and Vinogradovskaya station. Other railway stations are owned by KTK. The Meret company has connecting tracks to the Federal Railway System (RZhD). In accordance with Technical Provisions approved by the RZHD, the total annual volume of loads that RZhD's tracks are capable to accept amounts to 19.7 Mt of coal, and the agreed share of KTK will be 13 Mtpy, increasing from 8 Mt in 2010 to 10 Mt in 2011 and 13 Mt in 2013.

The Company has its own fleet of locomotives and rail maintenance equipment. The Company owns one hundred wagons and additional wagons are ordered, in accordance with established procedure, from the federal railway company - RZHD.

Coal is loaded into rail wagons at Karakansky South, Vinogradovsky, and Kaskad stations. Throughput capacity of loading stations is shown in Table 6-1. With allowance for increasing performance of the coal mines and with a view to minimize raw coal transportation distances, there are plans to retrofit Kaskad station to enhance the throughput capacity of the station.

Table 6-1 Capacity of Loading Stations

Station	No. of loading tracks	Loading capacity (number of rail wagons)	Maximum daily loading capacity, number of rail wagons	Loading time per rail wagon (minutes)	Annual loading capacity (Mt)
Karakansky South	3	20	55.5	16	4.4
	4	25	69.5	16	
	5	20	55.5	16	
Vinogradovsky	7	15	41	26	2.3
	9	20	55	26	
Kaskad	5	35	97.5	16	4.8
	6	35	97.5	16	
Total	**39**	**170**	**471.5**	**132**	**11.5**

7 MANAGEMENT AND MANPOWER

7.1 Operating Schedule

The production units work at their full capacity on a continuous schedule of two 12-hour shifts per day and 365 days per year. Surface employees and managment staff work five days a week and eight hours daily.

7.2 Current and Projected Manpower

Currently the total personnel on the payroll supporting all three operations amounts to 1,693. Details are shown in Table 7-1.

Table 7-1 Personnel on Payroll

Breakdown by Business Units	Manpower, men
Payroll - total	**1,693**
Including :	
Managers, specialists , office workers	217
Workers	1,476
Broken down by functional units	
Mine production unit №1 (Karakansky South)	103
Mine production unit №2 (Vinogradovsky)	73
Cheremshansky production unit	82
Loading facility	155
Road maintenance unit	16
Delivery service	21
Mine production &transportation unit №1	185
Mine production &transportation unit №2	173
Motor transport repair shop	93
Household lorries	151
Mechanical repairs	42
Surface infrastructure	57
Power supplies	28
Fleet of trucks, tractors and dozers	245
Quality Control	60
Stock of materials	11
Administrative and household unit	70
Management	115
Non-productive personnel (first aid station)	13

The age distribution of the work force is considered to be fairly balanced. 53% of employees are under 35 years old and the average age of employees is 36 years.

Due to a shortage of qualified personnel in the immediate area the mine has been unable to fill all vacancies. At present the company is short of about 50 people or 2.9% of the total. The Company identifies the shortage of human resources as a key problem area to be addressed. To mitigate this problem a budget provision has been made for personnel training including modern teaching aids.

The management plans to increase output from 6 Mtpa to 11 Mtpa, and that to achieve this they will require an additional 500 employees. Manpower growth will take place in the following categories:-

- Personnel serving the coal processing plant with steeply inclined conveyors – 95 men, including 80 workers;

- Personnel involved in serving the coal processing plant – 219 men, including 205 workers;
- Technological transport drivers/operators – 148 men.

7.3 Employee Turnover

The turnover rate of personnel in 2008 was 25.8%, whereas in ten months of 2009 it was 17.2%. The high rate of staff turnover is explained by the fact that there are many coal mines operating locally and this promotes a continuous rotation of labour among the operations. The reduced rate of personnel turnover in 2009 is an encouraging sign.

7.4 Organisational Structure

The Company's organisational structure is departmental and business units have been set up to ensure most effective performance with minimum possible personnel. Support and management of the mine is carried out by specialist services as follows:-

- The Administration office is in charge of arranging the required documentation and provides legal support of the mine's activities;
- The Technical division is responsible for technical activities of the mine, labour protection, industrial safety and environmental protection;
- The Production unit is responsible for production and commercial activities of the mine;
- The Economics department deals with financial and economic activities of the mine;
- The Personnel and social security division is responsible for personnel and social issues and caters for routine needs of the staff;
- The Security service is responsible for the mine economic security, civil defence and emergency actions.

The company development will lead by necessity to an improved organizational structure, in particular to include the operation dealing with mineral resources treatment and processing. The organisational chart of KTK is comparable to that of similar operations in Russia and is represented in Figure 7-1.

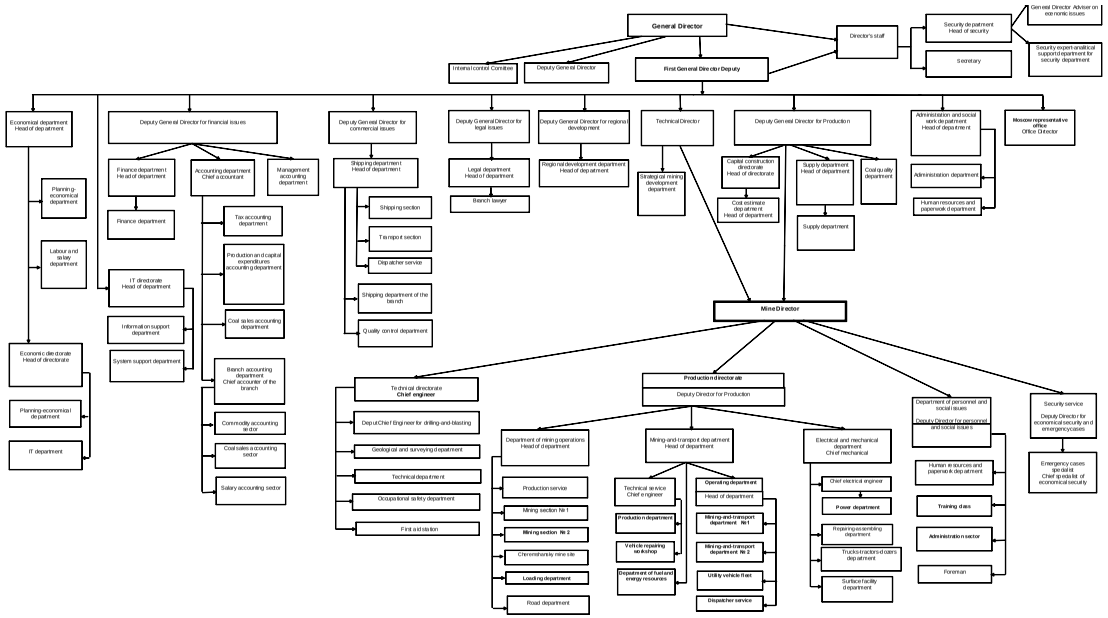


Figure 7-1 KTK Company Organisational Chart (as at December 2009)

8 LABOUR AND INDUSTRIAL SAFETY

8.1 Legal Framework

The legal basis of labour and industrial safety in Russia is regulated by the Federal Law on Safety Standards in Hazardous Industrial Objects. The law includes definitions of hazardous industrial operations, including mining and processing of mineral resources and storage and use of explosive materials. Some industrial activities in Russia, in particular blasting operations in surface mines specially developed safety standards and rules. In general, regulations and control methods for occupational health and safety are comparable with approaches accepted in international practice.

Federal Law on sanitation and epidemiologic well being of the population regulates such issues as the size of sanitary protection zones, air quality, levels of noise and vibration, and other negative impacts on the workforce and local population.

The supervisory body, Rostekhnadzor, controls and approves design documentation as well as carrying out regular checks on mining companies in order to control their fulfillment of measures on labour, and industrial safety.

Accidents in Russian industry are classed based on the severity (minor, serious or fatal) and type of injury caused and duration of working disability. All severe and fatal accidents are investigated by a State Commission that is set up especially to investigate the causes of the accident and to find corrective actions. Victims of accidents and their families receive compensation.

Accidents that involve more than one person, so called group accidents, are registered separately. At the same time accidents with injuries requiring no medical aid and care are not registered, except for those cases when they cause a stoppage of operations.

8.2 Geological and Mining Conditions

Most of coal reserves in Russia occur in areas of methane weathering and therefore mining is associated with insignificant methane emission. Coal in recoverable seams is characterized by coal dust explosiveness.

Coal bearing strata have the potential to cause silicosis. Unconsolidated SiO_2 content may be as high as 70% in sandstone and 45% in mudstone and siltstone. Annual monitoring of lung disease is carried out on workers exposed to this hazard.

No spontaneous combustion of coal was registered over the period mining has been carried out although these coals are categorized as “liable for spontaneous combustion” according to laboratory findings. In this connection special measures are required in the course of mining and dumping of waste.

8.3 Hazardous Facilities

The following hazardous facilities owned by the Company have been registered in the State Register:-

- Surface coal mine (Vinogradovsky pit);
- Transportation department;
- Business unit tackling hazardous substance matter;
- The administrative and amenity building;
- Waste heap maintenance facility;
- Tailings maintenance facility;

- Coal Processing Plant.

The Company has currently valid insurance certificates to compensate for damages involved in exploitation of hazardous facilities.

8.4 Occupational Health and Safety Measures

To carry out mining operations in the pit the mine has received an official permit from the State Mine Inspection and Certificate of conformity with regulations. The Company also has a Contract with Mine Rescue Detachment (VGSCh).

All measures on labour protection and occupational health and safety are carried out in accordance with the Manual on Supervision over Occupational Health and Safety Compliance as well as with design solutions that comply with current requirements on safe industrial performance.

Mining plans have special provisions for fire fighting measures, procedures on mining operations in dangerous areas and other provisions aimed at ensuring safe labour conditions and industrial sanitation and control over stability of pit slopes.

For the purpose of securing operational safety, the Company's department of Labour Protection and Industrial Safety organises internal inspections on a regular basis. 311 inspections have been carried out by Industrial Safety teams in 2009. As a result, 1671 violations of safety rules have been identified. Consequently, 169 employees were summoned for disciplinary liability.

Multi-purpose inspections undertaken by the State Mine Inspection authorities in August 2009 found a range of infringements, including lack of worker's performance appraisal, inadequate size of protective berm, some of the documents did not completely match the prescribed standards and other minor violations that can be easily resolved.

All the workers who are employed for mining operations attend a full time training course on safety. Engineering and technical jobs are occupied by personnel who have adequate education, certificates and permits.

Employees, whose functions imply high degree of operational risks, attend a mandatory health check prior to the start of the shift. This procedure is carried out by the Company's medical staff with the purpose to make sure they are not under alcohol or drug intoxication. In the near term the intoxication free state of employees shall be monitored by automatic control system.

8.5 Injury Rate and Working Environment

The safety record of KTK is good especially considering the annual production level and scale of operations. Statistical data on accidents and injuries from 2007 to 2009 is shown in Table 8-1.

Table 8-1 Statistical Data on Accidents and Injuries

Index	2007	2008	2009
Injury severity index	1.21	2.81	2.35
Incidents	79	82	127
Accidents	1	1	0
Injury frequency rate	0	2	4
Fatalities	0	1	0

Injury frequency rate is a measure of the number of accidents per 1000 men per year. Injury severity index is a measure of the number of accident related absence days per injury.

The materials made available to IMC on the investigation of the fatal case in 2008 demonstrated that the cause of the accident was personal negligence of the man whose task was vehicle maintenance.

Procedures specifying mining operations as well as the Company's internal regulations prescribe integrated measures aimed at dust control, noise and vibration suppression, as well as control over the conditions of working places. The key parameters showing the condition of working places are defined with the aid of samples and the points of sampling and frequency is set by the schedule signed up by the Company's Technical Director.

9 ENVIRONMENTAL ISSUES

9.1 Legislation

9.1.1 Legal Framework

The primary legislation governing the exploitation of mineral deposits is the Federal Law on Subsoil, which establishes the basis for issuing exploration and mining licences and defines the concept of the rational use of resources. Environmental regulation applied through all phases of exploration, mining and processing is established in the Federal Law on Environmental Protection 2002 (last amended 2009) and administered by the Ministry of Natural Resources (MNR). Regulatory procedures, quality standards and requirements for land restoration are provided in Primary articles of legislation, the most relevant of which include Federal Laws and their amendments on:-

- Protection of the Air, 1999.
- Waste production and Consumption, 1998.
- The Water Code, 2006.
- The Land Code, 2001.
- The Forest Code, 2006.
- Production and Consumption of Waste, 1998.
- Protection of the Sanitary, Epidemiological and Health of Citizens, 1999.
- Licensing of Activities.

Numerous Decrees and subsidiary regulations support the primary legislation. Of particular relevance is the Federal Decision concerning the norms for payments for use of the environment in terms of emissions to air from stationary and moveable sources, discharge of polluting matter into water objects and the production and placement of dangerous waste material.

A key element of the project initiation phase is the OVOS process as defined in the Regulation on Environmental Impact Assessment of Planned Economic and Other Types of Activity, 2000; equivalent to the international Environmental and Social Impact Assessment (ESIA) procedure. The draft OVOS is subjected to peer review before implementation according to the Federal Law on Ecological Expertise, 1995 (last amended 2008).

To IMC's knowledge there are no forthcoming changes or additions to the existing legislation likely to have material effect on the current and proposed operations.

9.1.2 Environmental Protection Administration

Licences provide a general right to utilise natural resources, including emission or discharge of controlled substances whereas permits give detailed conditions relating to the emission or discharge. The terms and conditions attached to each mining licence generally specify the need to conform to statutory procedures, to ensure adequate environmental protection and safety measures and for rehabilitation of the site after cessation of mining. Breach of these conditions may in theory lead to suspension of the license or difficulty in renewal.

The overall regulation of environmental issues at regional level, including approval of permits and licenses, is under the authority of Roztechnadzor, the Federal Department for Ecological, Technical and Atomic Supervision. Planned environmental management and monitoring activities must be submitted annually by the mines and approved by Roztechnadzor.

Permissions to discharge polluting substances to the atmosphere and water objects, the generation and placement of waste materials are issued on the basis of Technical Projects prepared by specialist companies which establish the normative discharge levels of a wide range of substances for a particular operation. Any substantial modification to the operational design must be supported by an amended Project, which in any case must be revised every 5 years.

Monitoring is undertaken to assess compliance with the permit conditions and environmental taxes are paid each quarter according to the actual emissions, discharges and waste and their hazard classification. Exceeding the permit conditions does not necessarily constitute a legal offence, nor does it necessarily result in an adverse environmental impact; minor transgressions merely incur additional taxation based on a higher unit rate for the excess.

9.2 Status of Compliance

9.2.1 Compliance with Environmental Laws of the Russian Federation

In the course of the site visit in March 2010, IMC reviewed the permitting, regulating, reporting and environmental documents, environmental measures, plans, monitoring programme and environmental impact assessment results. As a result of this review, IMC considers that in general, the Company's activities comply with the requirements of the environmental laws of the Russian Federation.

Permits for activities producing a negative environmental impact are available (licences for mining, including underground water extraction, permits for emission of polluting substances into the air, licence for hazardous waste handling).

IMC's review indicates that the company is complying with the requirements of its permits with respect to:-

- Statements of the State expert appraisal approving technical designs are available;
- The mineral deposit is protected against flooding and water intrusion;
- Statistical reports are prepared;
- Instructions of the Environmental authorities are fulfilled;
- Plans for environmental measures are available and reports on the implementation of the plans are produced;
- Environmental monitoring is arranged;
- The amount of waste water is reduced through re-use of waste water for technical needs;
- Water consumption and discharge are registered;
- Payments for natural resources use and emission of polluting agents into the air are made duly.

Insignificant shortcomings were revealed in the Environmental Monitoring Programme in regard to the scope of sampling at air pollution sources. In addition, the following violations were identified:-

- exceeding the limit for discharge of polluting substances into Yelovka river at one of the outlets,
- exceeding the limit for emission of inorganic dust into the air,
- absence of a heavy duty truck washing facility.

To remedy the violations, the Company has taken relevant measures which are included in the investment programme and the environmental measures plan for 2010. The excess of inorganic dust emission is on the basis of limits established for a lower mine output. A project to revise the limits for air emissions is underway.

9.2.2 Compliance with International Finance Corporation (IFC) Requirements

The following IFC Performance Standards on social and environmental sustainability are applicable to activities of the Company under review in regard to environmental protection:

- Performance Standard 1: Social and Environmental Assessment and Management Systems,
- Performance Standard 3: Pollution Prevention and Abatement,
- Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management.

Evaluation of environmental activities of the company shows that activities of KTK presently comply in general with the requirements of these standards.

9.3 Brief Description of Assets Location

Karakansky South and Vinogradovsky mining sites are located in Belovo district, Kemerovo region, and Cheremshansky site is located in Prokopyevsk district, Kemerovo region. The major part of the area where assets of KTK are located is disturbed by open mining operations carried out by other coal mining companies which are in close proximity.

The land adjoining the opencasts is classified as agricultural with high fertile soil, and is used for cereal crops, haymaking and pasture. The content of heavy metals in the soil does not exceed the threshold limit.

The nearest community is Karakan village, 0.7 km from the Vinogradovsky mine site, and other communities are located at a distance of over 1 km.

Surface water bodies are represented by Yelovka river, a left tributary of Inya river.

The water bearing characteristics of rocks at the mining sites is assessed as low.

9.4 Significant Environmental Impact

The environmental effects associated with the KTK mining and processing are typical of similar open cast mining operations. Significant negative environmental impacts include:-

- Withdrawal of land from agricultural and industrial use for construction of the production facilities. All of the land affected is owned by the company;
- Disturbance of the land and natural landscape in the course of mining and dumping of large amounts of overburden. This represents a cumulative effect on an area which is already impacted by industrial development and mining;
- Soil and vegetation cover disturbance;
- Pollution of the Yelovka river due to discharge of insufficiently treated domestic waste water. IMC understands that the river is under development pressure from other mining and industrial sources.

The company is taking actions to reduce the negative impact and improve the environmental management. IMC reviewed the investment programme which includes the projected costs of environmental measures. These measures include reconstruction of water treatment facilities at Vinogradovsky mine site, construction of heavy duty trucks maintenance station and washing facilities, commissioning of modern processing facilities with improved environmental parameters at Cheremshansky opencast.

Some other potential effects of the mining and processing activities are limited by good design and management:-

- Disturbance of hydrodynamic conditions of underground water in the course of mining, intake of underground water for domestic needs, potential pollution of underground water in the course of production activities.

- Pollution of atmospheric air by emission of solid and gaseous substances in the course of stripping and mining (including blasting), dumping, coal and overburden transportation, material handling operations, vehicles operation, and from the coal fired boiler.

The final depth of mining is bounded in order to minimise intersection of groundwater and appropriate measures are taken to prevent pollution of the groundwater.

KTK is one of a number of operations having the potential to contribute to air pollution in the region and therefore it is difficult to assess whether there is any significant contribution from KTK mines. There is no data on ambient air quality in the nearby communities but air measurements taken at the boundary of the sanitary zones of KTK operations are below the maximum concentration limits for a range of substances.

9.5 Environmental Management

The environmental management system of KTK comprises the following components:-

- Assessment of the impact of the planned activities;
- Environmental justification of design solutions;
- Annual environmental measures plans and control over their implementation;
- Assignment of persons responsible for environmental issues;
- Training, certification and professional development of personnel;
- Environmental control arrangement;
- Submission of reports to State authorities in compliance with the valid laws.

The shortcomings of the environmental management system include the following:-

- Insufficient equipment of environmental service personnel work places;
- Lack of internal regulations on environmental control procedures;
- Absence of monitoring of environmental laws requirements;
- Insufficient analysis of environmental monitoring results.

However, in general, the environmental impact management system operates on a highly professional level.

9.6 Disturbed Land Restoration

According to the company's data as of 1st January 2009, the area of disturbed land occupied by KTK mines is 1,040 ha, including 962 ha disturbed in the course of coal deposit development:-

- 339 ha at Karakansky South site;
- 324 ha at Vinogradovsky site;
- 276 at Cheremshansky site.

Restoration activities in the mines are split into the on-going activities and activities at the end of operations. The on-going activities are part of the annual mine plans and include:-

- Formation of dumps,
- Reclamation contouring,
- Storage of top soil.

These costs are allocated in the mining operations costs.

After completion of operations at the licence areas all disturbed land will be restored. The area of disturbed land to be restored, types of restoration, schedule and scope of restoration works are defined in the relevant sections (Disturbed Land Restoration) of the design documents on reconstruction of opencasts. Restoration at the end of operations includes:-

- Open pit leveling operations,
- Bringing the slopes to long-term stability parameters,
- Water resources based projects for open pit envelopes,
- Forest based restoration of the dumps,
- Demolition of unrequired structures, dismantling of infrastructure.

The open-pit restoration schemes include detailed estimates for each component that are annually adjusted to current prices and the total is currently assessed as 524 million roubles.

10 SALES AND MARKETING

10.1 Quality

According to the Russian classification system, coal produced by KTK is D grade (long-flame coal). Potential areas of application for this coal include the following two uses which are considered the most important for KTK:

- Power generation: in recent years the trend has been positive and further growth is anticipated in the post-crisis period. KTK have excellent relationships with Kemerovo regional administration and this is expected to continue. This should provide a stable market opportunity. Further, KTK have a well-established distribution network.

- Electric public utility: a major portion of the domestic steam coal market is electric public utility (coal provision for private households, local boiler-houses) and the agricultural sector.

There is no quality standard on the Russian local market; most power plants use ROM coal (with high ash content and low CV). For these customers, the required CV usually does not exceed 4,500-5,000 kcal/kg. This situation is replicated in CIS countries (eg Ukraine, Moldova). Thus, now and in the near future (2010-2011), the Company will supply most of it's coal to the local market and to consumers in Eastern Europe.

Entry to Western European markets requires higher quality product than is currently produced and so, over the next five years, intensive development of processing facilities is planned. As the planned coal preparation facilities develop, coal from KTK sites will become acceptable for export and this will become the main outlet for sales.

10.2 Prices

Traditional indicators of international coal prices are the largest ports which export and import coal. The situation in these reflects the current situation of the coal market. It is worthy of note that, for the most part, the steam coal market is represented by current spot deliveries.

Currently, prices for Russian steam export coal are, according to Platts, November 2009, of the order of:

- US$64 per tonne for the European market (FOB Russia Baltic);

- US$81 per tonne for the Asian-Pacific countries (FOB Russia Pacific).

One of the major factors that dominates the competitiveness of Russian coal is the railway tariff rate for coal delivery to Black Sea or Baltic ports. This tariff for coal transportation from Kuzbass to Far Eastern ports (eg Vostochny, Nahodka, Posyet) is about US$35 per tonne. Harbor expenses are equal to US$7-10 per tonne. Thus, the coal price on FCA Kuzbass terms is equivalent to US$36-39 per tonne.

In general, analysts predict growth of export coal prices during the period 2010-2011 as 39%, for export sales, and 56%, for the domestic market. IMC's view is more conservative; while prices on the internal and external markets will grow during the coming two years, growth rates will be of the order of 10% above inflation in 2011 and some 5% in 2012. In comparison, therefore, IMC estimates that prices will rise by some 15% because of coal market growth.

Allowing for transport tariffs and harbour expenses, the prices of KTK coal at Meret dispatch point adopted for cash-flow calculations are shown in Table 10-1.

Table 10-1 Coal prices used in cash flow calculations

Product	Market	2010	2011	2012
		RUR/tonne (excl. VAT)		
ROM	Domestic	860	946	993
Screenings	Domestic	770	847	889
Oxidised coal	Domestic	572	629	661
Sorted coal	Domestic	1,100	1,210	1,271
ROM	Export	1,144	1,259	1,322
Sorted coal	Export	1,716	1,888	1,982
Screenings (5,500 kcal/kg)	Export	1,110	1,221	1,282
Screenings (5,700 kcal/kg)	Export	1,209	1,330	1,369
Screenings (5,750 kcal/kg)	Export	1,234	1,357	1,425

11 FINANCE

11.1 Historic performance

KTK has maintained the number of operating sites at three and aims to do so for the foreseeable future. KTK operates the three locations as one combined site and has reported performance as such. For each year, actual performance is reported in comparison to budget. Performance from 2007 to 2009 is shown in Table 11-1.

Table 11-1 KTK performance 2007-2009

	2007	**2008**	**2009**
Saleable Output ('000 tonnes)	4,079	5,391	6,078
Production (US$/t)	13.08	15.18	13.81
Transportation (US$/t)	2.04	2.15	1.88
Administrative Expenses (US$/t)	2.64	2.62	1.93
Total Cash Cost/ Tonne (US$/t)	**17.76**	**19.95**	**17.62**
Capital expenditure (US$ '000)	36,053	59,334	49,720

Despite maintaining only the three sites, a significant increase in output (of the order of 33%) has already been achieved by the purchase of additional equipment. This is reflected in the increased levels of capital expenditure as larger and more machinery is purchased.

However, there has been a general increase in operational cost/tonne which, in many ways, is against expectations in terms of economies of scale. Any decrease in cost/tonne has been countered by two main effects:

- General inflation.
- An increase in the use of contractors to increase the amount of pre-stripping of overburden which enables major output increases to be achieved.

11.2 Capital Expenditure

KTK have provided a detailed list of capital equipment required to continue the increases in output up to the target of about 11 million tonnes per annum. Further, additional processing facilities have been estimated to deal with the increased throughput and improve the quality of the saleable output. Finally, allowance has been made for regular replacement of capital equipment to maintain output as per the business plan.

Significant expenditure is planned in the next three years as more and larger equipment is purchased and the processing plants are installed and commissioned. Thereafter, the amounts allowed are based upon regular replacement and maintenance of the fleet.

In the opinion of IMC, the estimated spend is adequate to increase production, maintain production as planned, and improve the quality of the output by processing.

11.3 Operational Expenditure

For the twenty year period from 2010 to 2029, KTK have provided detailed expenditures and related staffing levels. Higher cost/tonne in 2010 and 2011 reflect the continued use of contractors on pre-stripping to facilitate

the increases in output planned. In later years, the increase in cost per tonne is due to a reduction in output as the Karakansky South site ceases to operate.

An itemised breakdown of operating costs is shown in Table 11-2. This breakdown is not unusual for open cut mining, especially where there is significant mechanisation. In terms of the ratio of fixed to variable costs, an analysis reveals that at KTK the ratio is 40:60. If only cash cost is considered, and depreciation is excluded from the calculation, this ratio changes to 20:80. Again, this reflects a normal situation.

In the opinion of IMC, these costs reflect achievable performance.

Table 11-2 Costs Breakdown

item	%
Material costs	43
Salary	12
Depreciation	17
Other expenses	10
Social charges	4
Other expenses	1
Non-production costs	14
Total costs	**100**

11.4 Valuation

KTK have provided a model which projects future cashflows. This is based upon basic inputs, outputs and costs at each location and the related capital expenditure. Calculations of working capital are also included and have been accepted as accurate without any review. Adjustments to the business plan considered necessary by IMC have been made.

Income has been assumed on the basis of all output being sold at the prices scheduled in the marketing section of this report. These are dispatch point prices and assuming an open market spot price. There are no stocks at the end of each period.

Operating costs and outputs were based on the current business plan and modified where required as agreed between IMC and the Company. IMC recognise that there are sufficient reserves available to continue operations at these levels for some time after the valuation period of twenty years (2010 – 2029). However, beyond a twenty-year time horizon, it is difficult to have any certainty about markets, output and environmental conditions in general.

Other key valuation parameters used in the valuation include the following:

- The valuation is as at 1st January, 2010 and is based upon a pre-tax calculation.
- Cash flows are expressed at 2009 price levels and have been discounted according to end of year convention,
- Cash flows are forecasted for the mine lives based on available reserves, and reflect the downturn in output when Karakansky South mine is exhausted.
- US$:Ruble exchange rate is assumed to be Ruble30.01:US$1 for all years from 2010 to 2029 inclusive.
- The base case NPV was calculated using a real discount rate of 10%.

It is worth considering this last point in more detail. As at 5 November 2009, analysts estimated the Weighted Average Cost of Capital (WACC) for KTK as 12.2%. Assuming a long-term annual inflation rate for foreign currency of 3-3.5% per annum, this would mean a discount rate of around 9%. However, the purpose of this

exercise is an issue of more shares which will probably change the WACC. It is therefore thought to be prudent to use 10% as the base case.

On the basis of the financial projections detailed above, the base case valuation of KTK operations is RUR m. 47,553 (US$ m. 1,585) when discounted at a rate of 10%. In fact, KTK is projected to generate positive net present values when discounted at a range of discount factors between 8% and 12% as indicated in Table 11-3.

Table 11-3 KTK Net Present Value

Discount Factor (DF)	NPV at DF	
	RUR m.	US$ m.
8%	55,987	1,866
9%	51,530	1,717
Base case 10%	47,553	1,585
+11%	43,994	1,466
+12%	40,860	1,360

11.5 Sensitivity

While IMC concludes that the NPV of the KTK operations, as presented above, is realistic relative to the life of mine plans (based on reserves but not resources), a sensitivity analysis has been prepared for the following variables.

Potential variables include those directly associated with the mining and processing operations, such as cost and production levels, as well as those that are external to the mining and processing operations, such as market prices. A sensitivity analysis for cash flow and net present value (NPV) has been undertaken with respect to variation in sales prices, output, operating and capital investment costs. Mining and marketing of coal contain variables that are not always predictable.

11.5.1 Selling Price

Selling price is very much dictated by market supply and demand; both domestic and export. As outlined earlier, the export market is significant for KTK and this is very much affected by the spot market. IMC have calculated the effect of a 10% reduction in sales price.

11.5.2 Operating Cost

This could vary as a result of changes in component costs, such as labour or supplies, or from variances in productivity. IMC has calculated a sensitivity of plus 10% in operating cost.

11.5.3 Production

Production level can be affected by variances in productivity or market place demands. As previously discussed, the operations at KTK are mostly virile in nature so that the loss of income from reduced sales will be mitigated by a reduction in operating costs. IMC has calculated a sensitivity of minus 10% in production.

11.5.4 Capital Cost

Variances in capital costs could result from quantity or market prices of capital items. IMC has calculated a sensitivity of plus 10% in capital costs.

A summary of the effect of sensitivity of the valuation of reserves to these variables is given in Table 11-4.

Table 11-4 KTK Sensitivity Analysis

NPV (USD million) Based on pre tax results	Base Case	Selling Price (-10%)	Operating Cost (+10%)	Production (-10%)	Capital Cost (+10%)
RUR m.	47,553	38,255	43,785	40,607	46,529
USD m.	1,585	1,275	1,459	1,353	1,550

12 SPECIAL FACTORS

Risks likely to impact on KTK's forecast production, capital and operating costs by less than 10% are not considered significant. Any significant risks not adequately addressed in KTK's production plans are considered to be "material" and are normally listed under "Special Factors" but IMC has not identified any such risks.

13 CONCLUSIONS

IMC concludes from the independent technical review that:

- KTK management's geological and geotechnical knowledge and understanding is of a satisfactory level to support short, medium and long term planning as appropriate and operations are well managed at an operating level;
- KTK is currently reporting reserves and resources to Russian GKZ reporting criteria. There are no plans for these to be recalculated according to another system such as JORC;
- the mine plans appropriately consider geological and geotechnical factors to minimise mining hazards;
- natural threats to the mining are known to the mine management and that plans are in place to mitigate their potential effects;
- mining licences are in place to mine all the available industrial reserves in the three mining fields;
- KTK mining equipment (either in place or planned in the capital forecasts) is suited to its mine plans and is adequate for the production plans;
- the capacity of the equipment will allow for the planned increase in production;
- KTK's technical proposals for the surface minerals handling and coal preparation facilities would appear adequate to meet the requirements of the Business Plan;
- processing yield projections are reasonable but they will fluctuate dependent on ROM quality and final product quality requirements;
- product quality projections are considered to be achievable based on the data reviewed and the proposed beneficiation systems employed;
- given that the plants are designed to operate on a closed circuit basis, in its detailed design process for the CPP's, the Company is recommended to review in detail the potential loadings on the fines cleaning and tailings de-watering sections of the plants to ensure adequate processing capacity is included;
- capital expenditure provision for the three plants is considered realistic;
- environmental issues are managed and there are no issues that could materially impede production nor are any prosecutions pending;
- KTK's policy for ongoing rehabilitation is to restore completed areas rapidly following the completion of mining operations;
- the assumptions used in estimating both capital and operating costs are appropriate and reasonable;
- capital and operating costs used in the financial models reflect the mine plans and development schedules and the forecast production levels;
- risks and opportunities identified by IMC are understood by senior corporate management and appropriate action to mitigate these risks is already being taken. Further, the mine plans and cost forecasts appropriately account for these risks;

- management operates a management accounting system and is able to monitor and forecast production and cost parameters.

Yours Faithfully,

IMC Group Consulting Ltd
Innovate Office Building
Lake View Drive
Sherwood Park
Nottingham, NG15 0DT
United Kingdom



John S Warwick B Sc (Hons) FIMMM, C Eng, Eur Ing

Managing Director

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Kuzbasskaya Toplivnaya Company Mineral Expert Report

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Key Words: Mining, Coal, Russia, MER

	Signature	Name / Designation
Production:		S R Pepper Principal Geologist
Verification:		P Robinson Director of Projects
Approval:		J S Warwick Managing Director

Date: April 2010

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Annex A

QUALIFICATIONS OF CONSULTANTS

John S Warwick - Project Director

B Sc Electrical Engineering (Hons), Newcastle University (1973); B Sc Mining Engineering (Hons), Nottingham University (1975); Mine Manager's 1st Class Certificate; Fellow Institute of Materials, Minerals and Mining; Chartered Engineer; European Engineer (Eur Ing).

35 years experience in the precious and base metals, coal and industrial minerals mining industry and 8 years of directing Competent Person's Reports, Due Diligence and Mineral Expert's Reports.

Simon Pepper - Project Manager/Geology

M.Sc Mining Geology, BSc (Hons) Geological Science, South African Mine Manager's Certificate of Competency

25 years experience as a geologist, project manger and operational manager that includes holding the position of CEO of a mining company in the FSU. He has wide international experience in mineral operations and is experienced in a wide range of mining related functions including engineering, metallurgy, environmental management and financial planning,

Michael George - Process/Environmental Engineer

BSc (Hons) Applied Chemistry

A practical understanding of the potential risks to the environment, human health and safety posed by mining and metal processing gained during 30 years in operations management and consulting. An in depth knowledge of environmental legislation and standards and the management techniques, control systems and best practice used in the mitigation of environmental risk.

Maria Skolova - Environment

Sokolova Maria Aleksandrovna is an environmental specialist. The work experience in the area of environmental protection is 9 years. She is a graduate of Moscow Ordzhonikidze Geological Exploration Academy and is a certified engineer specializing in eco-geology. From 2000 to 2008 she worked in the Monitoring and Forecast Centre at the RF Emergency Committee and held a position of the main specialist at the Environmental Emergencies Monitoring Division. There she acquired Russia-wide work experience in the area of environmental protection, including the area of environmental safety at industrial enterprises. Currently she holds position of an environment protection consultant in IMC. She is engaged in making environment impact assessments and assessment of compliance of the mine operations with the local Environmental Law and international standards.

Olga Salnikova - Environment

She is a water pollution specialist, an environment audit specialist of the EBRD, head of ROO InEkA Environment project unit. She has a wide experience in environmental assessments of coal mines in Kuzbass basin, development of environment sections of reports and EIA.

Winsor Lewis - Economics and Marketing

Winsor Lewis has a very wide range of skills and experience. Originally a research scientist and qualified accountant, he is a Fellow of the Chartered Institute of Management Accountants. He worked for British Coal Corporation as a scientist, auditor and finally as Regional Director of a job creation organisation which operated a loan and equity investment fund. He is entirely familiar with structuring and negotiating funding packages and has supported as an investor a number of privatisations and spin-offs. He is also very familiar with mining operations and has completed many financial assessments and evaluations.

His final post in the industry was in British Coal Enterprise as Privatisation Manager. After BCE had dealt with the social aspects of what must be the largest restructuring activity ever completed in western Europe, it was completely privatised in three separate parts. Winsor was closely involved in this process from the beginning - contributing to the Information Memorandum, operating the data room, continuing to operate the business as the negotiations were finalised and becoming closely involved in a web of difficulties and potential liabilities which had to be resolved prior to completion.

Over the past 8 years Winsor has undertaken numerous consultancy assignments, mainly in the fields of enterprise restructuring (including the social effects), job creation expert, trainer and corporate funding. He has worked in many of the transition economies and is totally familiar with the constraints on development opportunities of SOEs and how these may be relieved or exacerbated. In China, Ukraine, Bosnia and Russia, he

has worked on projects helping companies from very disparate sectors to restructure and prepare for privatisation.

Andrey Tverdov - Mining Engineer

Andrey is a specialist in mining equipment and technology. He graduated from Moscow State Mining University (BSc (Hons), equipment and technology in the area of mining, mining engineer (Hons). After a first degree, he obtained a PhD in Mining Engineering at Moscow State Mining University. Before joining IMC Andrey had had experience in construction of underground facilities and open-pit mining of minerals. During his work in IMC Andrey took an active part and managed lots of projects related to resources and reserves evaluation, estimates resources and reserves to international standards, optimization of mining and production processes in surface and underground mines developing solid minerals.

Ruslan Mershiev Economics/Marketing

Ruslan is an IMC specialist in economics. He graduated from a higher school of economics and specialized as a mining engineer-economist. He has over 10 years of work experience in Russian coal mining companies: OAO Corporation Kuzbassinvestugol, OAO Holding company Sokolovskaya, OAO Coal-mining company Kuzbassugol, OAO Coal-mining company Kuzbassrazrezugol. He is a specialist in coal-mining company economics in the areas of: economic assessment of investments, development and expert's opinion on investment projects, business planning, analysis of economic and business activities, budgeting, marketing.

Sergey Nikishichev - Infrastructure

Sergey Nikishichev is an experienced Project Manager and a mining economist with ten-year experience of working in mining companies. He held various positions, including the executive ones, e.g. the Vice-president in Economics in Sokolovskaya Holding Company a big holding company in Kiselevsk, Kemerovo Oblast, engaged in mining, processing, construction and other related activities. Sergey is an experienced specialist in the areas of finances, company economics, business planning, company and organization systems management, mining company operations structure, including infrastructure facilities, attracting and placing investments. Currently Sergey works in Moscow office of IMC and heads the company work in the area of development cooperation and projects implementation in mining companies in Russia and CIS.

Alexey Zhura - Marketing specialist

Alexey Zhura is a mining specialist in marketing, logistic and economics. After a first degree, he obtained a PhD in Economics at Moscow State Mining University. He has twelve years experience working in the Russian mining industry as an expert in marketing and economics. Within the Coal Market Research Institute, he was responsible for material supply systems for mineral processing and metallurgical plants and also took part in development of policy of freight tariffs for rail mineral transportation in Russia. He was marketing and economics specialist in a holding company which had its own transport company, mining assets and processing facility. He is now an employee of IMC as mining economist and marketing and logistical expert.

Alla Vydysh - Processing

PhD (Engineering). Engineer of Metallurgy

13 years of work experience as a specialist in the area of minerals concentration and processing. Participation in projects developing new processing technologies, developing balance process designs and concentration circuits for different minerals. Participation in analysis and enhancing efficiency of the operating processing plants. Preparation and implementation of experimental work.

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Annex B

SCOPE OF WORK

Scope of Work

Prepare a Mineral Expert's Report (MER) for coal mining assets of OAO Kuzbass Fuel Company located in the Western Siberia, Kemerovo Oblast, Russia. It is intended to use the MER in conjunction with the company IPO on the Russian Stock Exchange

The principal objective of the MER is to restate the Client's reserve and resource base on the license areas in compliance with JORC, and to fulfill the requirements of the UKLA listing rules and the CESA provisions of the EU Prospectus Directive for listing. This will be wholly dependent on the detailed business plan and detailed mine plans that demonstrate that the reserves can be economically extracted. If the Company includes new mining operations within its business plan or reviews technical and economic parameters of mining the available areas, then these should be supported by feasibility or pre-feasibility studies.

Key Issues

The principal objectives of this report will be to address the following issues:

- Confirmation that all relevant exploration and mining licences are in place and valid for the duration of the business plan;
- The adequacy and quality of historic and future exploration programmes and laboratory assay determination;
- Comment on the local geological setting of the deposit and the constraints imposed by the geology on mining operations;
- The method and accuracy of the reserves and resources quantification (JORC);
- Comment on the robustness of the mining plan and its adequacy to sustain projected production schedules and productivity;
- Assess ore beneficiation at the mine to determine its adequacy to process the projected future output;
- Comment on the effect of infrastructure and environmental constraints on mining operations
- Undertake a financial analysis of the overall operation.

Data Requirements

The Client should ensure that the following documentation is readily available to the Consultants at the commencement of their deployment to Russia. The Company's official:-

- Reserves and Resources Statement;
- Mining Plans and Schedules; and
- Business Plans.

These should be presented in sufficient detail to establish base-line physical parameters, operating costs and capital costs to verify factual accuracy. It is assumed that all data will be in the Russian language.

Reporting

A draft final report will be submitted to the Client after the return of the IMC team to the UK, for verification of factual accuracy.

Proposed Programme

In order to fully comply with the requirements for a CESA-compliant MER, it will be necessary to visit the coal opencasts and infrastructure facilities of the company. This visit would be undertaken by two UK and three Russian team members, and would take place during the initial week of the project. Part of the team (two UK and two Russian experts) will work in the office without visiting the site based on the data collected by the other part of the team. Andrey Tverdov (the project mining engineer) has visited the coal mining assets of the company previously and will provide liaison between the IMC engineers and the company officials.

Annex C

MINE AND LOCATION PLANS

Plate 1: General Plan of KTK Mines Area



Plate 2: Typical Cross-Section of Karakansky South Deposit

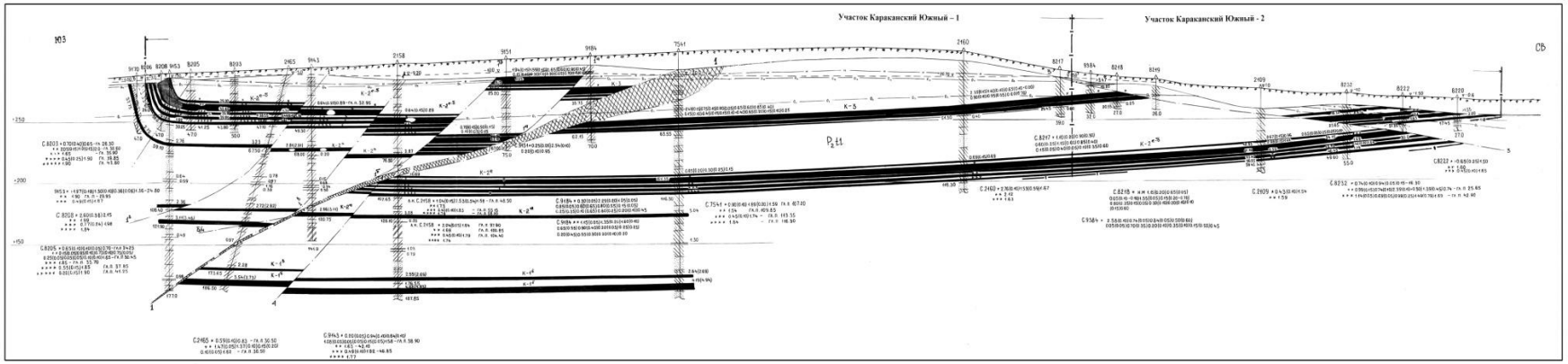


Plate 3: Typical Cross-Section of Vinogradosvsky South Deposit

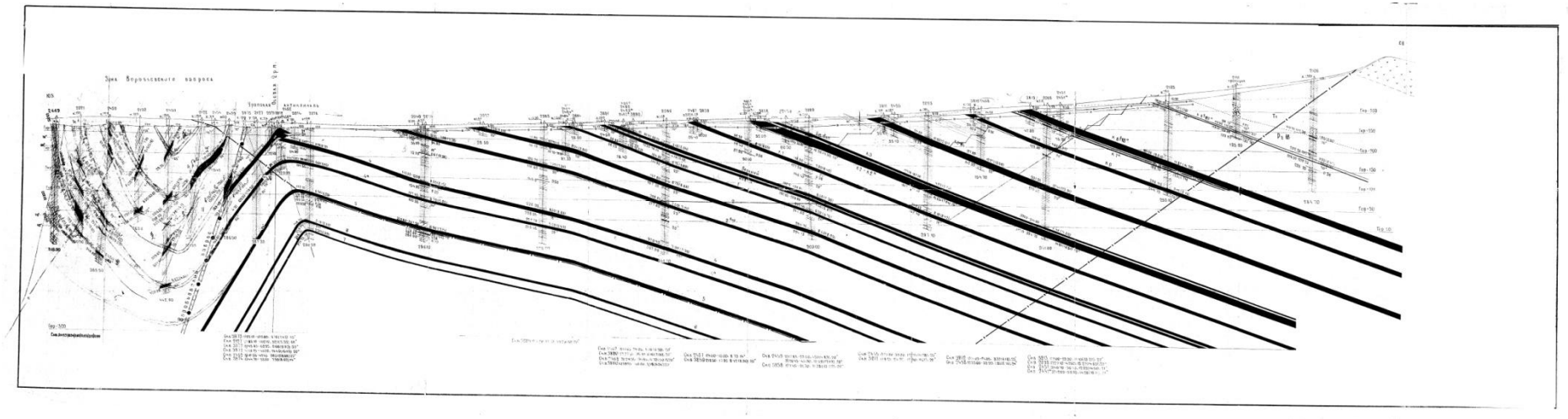
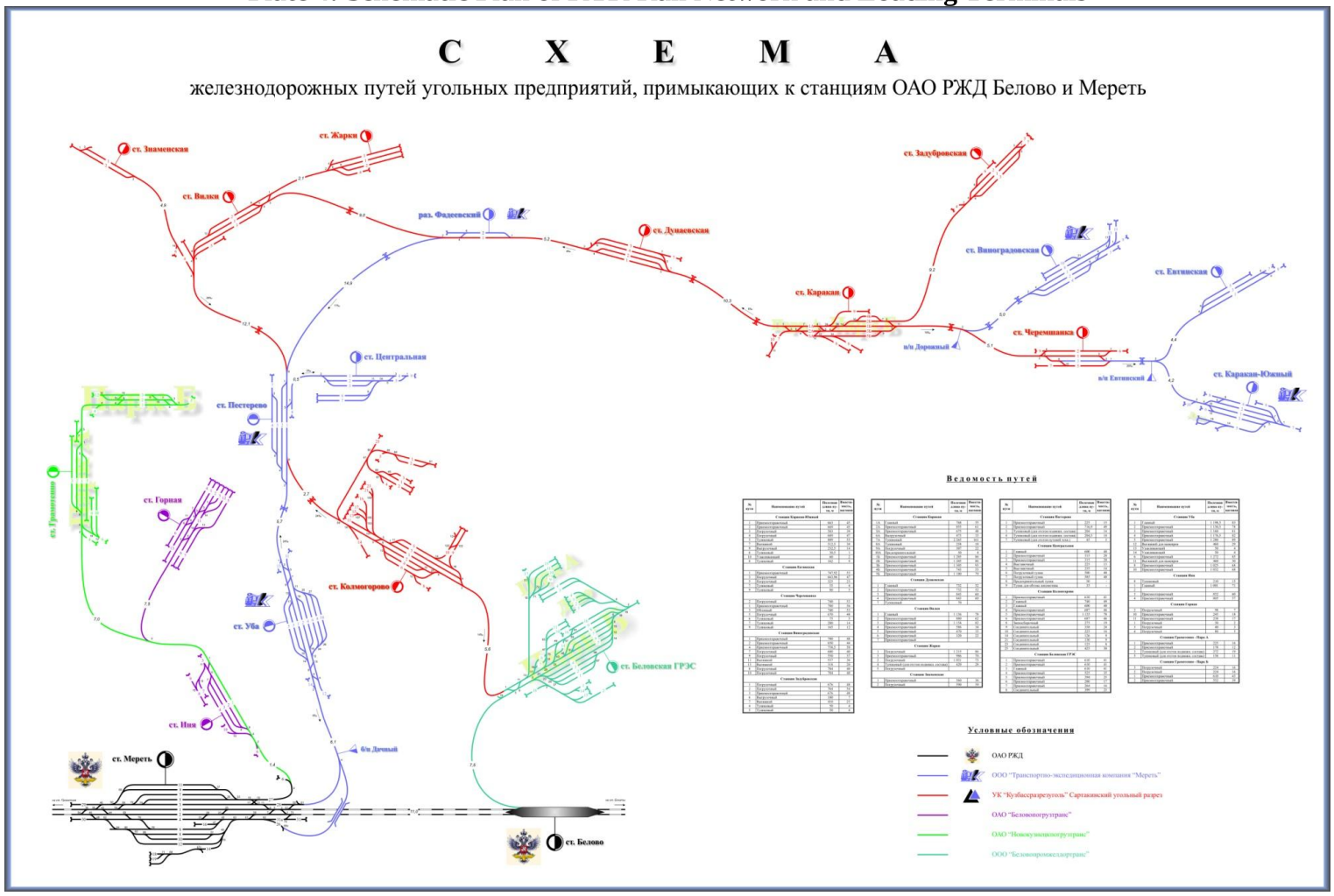


Plate 4: Schematic Plan of KTK Rail Network and Loading Terminals



Annex D

GLOSSARY OF TERMS

Ash	The incombustible residue from mineral matter contained as either contamination (rocks) or inherent within the coal. On combustion the mineral matter is reduced to ash the refractory component of mineral matter. Some minerals dissociate on heating to release carbon dioxide or moisture.
Ash content	The inert percentage of a laboratory sample of coal remaining after incineration to a constant weight under standard conditions.
Bench	A near horizontal working area in a mine at least one side of which is defined by a significant vertical drop.
Berm	A horizontal site between bench slopes of the pit spoil bank. Haulage and safety berms are differentiated.
Best Practice	Operating procedures that are recognised in the international mining community which maximise productivity and return on investment commensurate with stewardship of the assets.
Blending	Mixing two or more materials together to give a mixture of the desired quality.
Borehole or bore hole	A hole made with a drill, auger or other tool for exploring strata in search of minerals.
Bunker	An excavation made to store coal or ore, usually to provide a buffer facility.
By-product	Material, other than the principal product, that is generated as a consequence of an industrial process.
Calorific value, (CV)	The heat value of coal per unit weight. This is normally reported in kilocalories per kilogram, (kcal/kg).
Capex	Capital expenditure
CESR	The Committee of European Securities Regulation.
Coal	A readily combustible rock containing more than 50% by weight and 70% by volume of carbonaceous material, including inherent moisture. It is formed from plant remains that have been compacted, indurated, chemically altered and metamorphosed by heat and pressure during geological time.
Conveyor	A rubberised belt running on rollers transporting the coal or other material from the faces to the endpoints. They can be reversed and used for manriding (carrying personnel to their working places).
Core	A cylindrical sample taken using a diamond drill.
CV	see Calorific value.
Deposit, Deposits	An area of coal resources or reserves identified by surface mapping, drilling or development.
Development	(i) The initial stages of opening up a new mine, and/or (ii)Removal of overburden, or tunnelling to prove the location and value, and allow the extraction of ore.
Dilution	The contamination during the mining process of excavated coal by non-coal material from the roof, floor or in-seam partings.
Dip	The angle that a structural surface, i.e. a bedding or fault plane makes with the horizontal measured perpendicular to the strike of the structure.
Discounted Cash Flows (DCF)	The present value of future cash flows after applying cumulative discounts.
Disposal	Final placement or destruction of toxic, radioactive, or other wastes; surplus or banned pesticides or other chemicals; polluted soils; and drums containing hazardous materials from removal actions or accidental releases.
Dissolved	Organic and inorganic material taken into solution. An excessive amount in water usually makes water unfit for drinking or for use in industrial processes.
Dragline	A bucket excavator with flexible rope boom-bucket connection
Dump	A site used to dispose of solid wastes without environmental controls.
Environment	The sum of all external conditions affecting the life, development, and survival of an organism.
Exploit	Make use of and derive benefit from a resource.
Exploitation	Method of deriving benefit from a resource.
Exploration	Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.

Fault	A structural discontinuity in the earth's crust formed by movement between adjacent blocks resulting from tectonic forces.
Fault Throw	The amount of vertical displacement in an upward or downward direction produced by a fault.
Feasibility Study	A comprehensive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the technical and economic viability of a project and to support the search for project financing.
Floor (seam)	The bottom of the seam.
Fold	Any bending or wrinkling of rock strata.
FOB	Free on board – refers to payment terms where the price negotiated is free of any charges until the mineral is on-board of the vessel.
Fractured - relating to geology	Breaks in rock formations due to intense faulting or folding.
Geotechnical Conditions	The engineering behaviour of rocks as a result of an excavation.
GKZ	the RF State Committee on Reserves of Minerals. The GKZ objective is holding (in compliance with the Russian Law) state expert's appraisal of reserves of minerals based on results of geological exploration and estimation of the deposit reserves and determining reliability of, tonnages and quality data of explored reserves, the deposit commercial value as well as geological information on the sub-soil area projected for use not related to mining of minerals.
Grade	The classification or value of coal. The relative quality.
Groundwater	The supply of fresh water found beneath the Earth's surface (usually in aquifers), which is often used for supplying wells and springs. Because groundwater is a major source of drinking water, there is growing concern about areas where leaching agricultural or industrial pollutants or substances from leaking underground storage tanks are contaminating it.
In Situ	In place, i.e. within unbroken rock.
Interburden	Sterile soil and rock material lying between coal seams.
Joints - relating to geology	A fracture or parting that cuts through and abruptly interrupts the physical continuity of a rock mass.
JORC	The "Australasian Code for Reporting Mineral Resources and Ore Reserves" (2004 Edition) published by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "JORC Code").
kcal/kg	Kilocalories per kilogram of coal, the energy content of coal used in the countries that do not conform to SI units. In countries where SI units are adhered to, the measure of energy is in mega joules per kilogram or MJ/kg.
KJ/kg	Kilojoules per kilogram, the energy content of coal used in the countries that do conform to SI units..
km	Kilometre.
KNS seperator	A type of coal washing plant developed by the KENES research and development company, also referred to as a "steeply inclined separator".
kt	Kilotonne or one thousand metric tonnes
Kuznetsky Basin	one of the major coal basins of Russia comprising the largest deposits in the south of the Eastern Siberia, mainly on the territory of Kemerovo Region in a shallow pit between mountain groups of Kuznetsk Alatau, Highland Shoria and not high Salair Ridge.
kV	Kilovolt.
Lease	Contract between two parties enabling one to search for and/or produce minerals from the other's property.
LOM	Life Of Mine.
Losses - Geological	Ore lost due to unpredictable geological phenomena.
Losses - Mining	Ore lost due to less than perfect mining operations.
M	Million.
m^3	A unit of volume defined as one metre length times one metre width times one metre height
Mine	Any operation where mineral is extracted from the ground. This may be by opencast or underground mining methods.
Mineable	Capable of being mined under current mining technology and environmental and legal restrictions, rules and regulations.

Mineable	That portion of a resource for which extraction is technically and economically feasible.
Mineral Deposit	A mineral occurrence of sufficient size and grade to have potential or existing commercial value; sometimes referred to as mineralisation.
Mining Licence	Permission to mine minerals from a Mineral Rights area.
Mining Permit	Permission to mine minerals from a Mineral Rights area.
Mitigation	Measures taken to reduce adverse impacts on the environment.
Monitoring	Periodic or continuous surveillance or testing to determine the level of compliance with statutory requirements or pollutant levels in various media or in humans, animals, and other living things.
Mt	Million metric tonnes.
Mtpa	Million metric tons per annum.
MW	Megawatt.
No.	Number.
Nos.	Numbers.
Opencast	Method of extracting coal where the overburden is completely removed before extracting the coal or lignite, also known as and Open Pit.
Overburden	Sterile soil and rock material overlying the coal.
P	Phosphorus
Parting	A layer or stratum of non-coal material in a coal bed which does not exceed the thickness of coal in either the directly underlying or overlying leaves.
Permit	An authorisation, license, or equivalent control document issued by an approved agency to implement the requirements of an environmental regulation; e.g., a permit to operate a wastewater treatment plant or to operate a facility that may generate harmful emissions.
Pillar(s)	An area of ore left during mining to support the overlying strata.
Pit	A hole in the ground – an excavation below original ground level – a surface mine may comprise one or more pits.
Pit (mining)	Abbreviation of Open Pit Mine.
Plant	Fixed or moveable equipment required in the process of winning or processing the ore.
Pollutant	Generally, the presence of matter or energy whose nature, location, or quantity that contaminates air, soil, or water.
Pre-treatment	Processes used to reduce, eliminate, or alter the nature of wastewater pollutants from non-domestic sources before they are discharged into publicly-owned treatment works.
Prevention	Measures taken to minimize the release of wastes to the environment.
Rehabilitation	Land restored to its former condition.
Reserve(s)	Refer to the assets review report included in Appendix A of this prospectus, prepared by IMC, for definitions.
Resource(s)	Refer to the assets review report included in Appendix A of this prospectus, prepared by IMC, for definitions.
Reclaimer	A Reclaimer can be used to recover stockpiled material.
Rights - Surface Rights	The ownership of the surface land under which minerals occur.
Roadways	An excavation to access a working area which subsequently may supply services or a conveyor.
ROM	Run of mine.
Rosnedra	The Federal Agency of Sub-Soil Use. This is a federal body of the RF executive power at the auspices of the Ministry of Natural Resources exercising the functions of providing state services and the state property management in the area of sub-soil use. It incorporates a number of territorial divisions, e.g. Kuzbassnedra.
Rosprirodnazdzor	The Federal Service for Surveillance of Natural Resources Use. This is a federal body of the RF executive power at the auspices of the Ministry of Natural Resources. It exercises the functions of control and surveillance in the area of natural resources use and protection of environment.
Rostekhnadzor	The Federal Service of Environmental, Technological and Nuclear Surveillance. It exercises the functions of enforcing regulatory legal acts, control and surveillance in the area of environmental protection.
Run-of-Mine (ROM)	The grade and tonnage of material produced at the pit rim or shaft collar, stated on a dry basis.
S	Sulphur.

Sample	A representative fraction of a coal seam collected by approved methods, guarded against contamination, and analysed to determine the nature, chemical, mineralogical or petrographic composition, percentage content of specified constituents, and heat value.
Sampling	Taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content).
Seam	A layer or bed of coal or lignite. Correlated seams of coal are normally assigned a name, letter or number. A single seam can contain one or more non-coal partings resulting in a sub-division into leaves.
Seam outcrop	A manifestation of a coal seam at the Earth's surface.
Seam splitting	When a coal seam splits into two or more leaves or subsidiary seams.
Sedimentary	Formed by the deposition of solid fragmental material that originates from weathering of rocks and is transported from a source to a site of deposition.
Sedimentation	Letting solids settle out of wastewater by gravity during wastewater treatment.
Sediments	Soil, sand, and minerals washed from land into water, usually after rain. Sediments pile up in reservoirs, rivers, and harbours, destroying fish-nesting areas and holes of water animals and clouding the water so that needed sunlight may not reach aquatic plants. Careless farming, mining, and building activities will expose sediment materials, allowing them to be washed off the land after rainfalls.
Settling tank/ponds/lagoons	A holding area for wastewater in which heavier particles sink to the bottom for removal and disposal.
Sewage	The waste and wastewater produced by residential and commercial establishments and discharged into sewers.
Shovel	A type of a mechanical bucket excavator with rigid boom fixing
Smoke	Particles suspended in air after incomplete combustion of materials.
Split	An in-seam parting which attains a thickness such that the resultant leaves of coal are considered as separate seams from a mining point of view.
Spontaneous combustion	The propensity of some types of coal to oxidise rapidly on contact with air. The oxidation reactions produce heat that increases the rate of oxidation to the point that the coal ignites. Low-rank coals are the most prone to spontaneous combustion.
Stacker	A stacker is large a machine used in mining applications to stack bulk material such as coal or lignite onto a stockpile
Stockpile	An accumulation of ore or mineral.
Strata	Layers of sedimentary rock.
Stripping ratio	The tonnage or volume of overburden per unit of extracted mineral under a deposit surface mining.
Surface water	All water naturally open to the atmosphere (rivers, lakes, reservoirs, streams, impoundments, seas, estuaries, etc.); also refers to springs, wells, or other collectors that are directly influenced by surface water.
Sustaining Capital	Periodic capital expenditures required to replace or overhaul equipment. Also known as replacement capital.
Syncline	A fold in bedded or stratified rocks which opens upward like the trough of a wave.
Syncline / synclinal	A downward-curving fold, with layers that dip toward the centre of the structure.
t	Metric tonne
Tectonic influence	The influence of geological activity on an area.
Trenches	Lines excavated to a pre-determined depth to establish the geological structure of a deposit.
Underground Mining	Extraction of mineral whereby the overburden is not removed in order to extract the mineral.
V	Volts.
Volatile Matter	That portion of the coal comprising both gases and liquids that is released following heating it from 105°C to 800°C. The amount of volatile matter in a coal is a function of the rank of the coal (thermal maturity) and of the coal type.
Waste	Rock or material of no commercial value residing within the seam, above the seam or below the seam.
Waste - related to mining	Rock or material of no commercial value.
Waste Parting	Rock or material of no commercial value residing within the ore horizon/reef.

Wastes	1. Unwanted materials left over from a manufacturing process. 2. Refuse from places of human or animal habitation.
Waste water	Spent or used water from individual homes, communities, farms, or industries that contains dissolved or suspended matter.
Workable	See mineable.

REGISTERED OFFICE OF THE COMPANY

OJSC "Kuzbasskaya Toplivnaya Company"
4 50-let Oktyabrya Street
650000 Kemerovo
Russian Federation

SELLING SHAREHOLDERS

Laycraft Limited
Themistokli Dervi, 3
JULIA HOUSE, P.C. 1066
Nicosia
Cyprus

Mr. Igor Prokudin
19A Nogradskaya Street
650000 Kemerovo
Russian Federation

JOINT GLOBAL COORDINATORS, JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

TD Investments Limited
2-4 Arch. Makarios III Avenue
Capital Center 9th Floor
Nicosia 1065
Cyprus

UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

LEGAL ADVISERS TO THE COMPANY

As to English and U.S. Law

Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

As to Russian Law

Cleary Gottlieb Steen & Hamilton LLP
(CGS&H Limited Liability Company)
Paveletskaya Square 2/3
Moscow 115054
Russia

LEGAL ADVISOR TO LAYCRAFT

As to certain matter of Cypriot Law

S. A. Evangelou & Co LLC
Jacovides Tower, 6th Floor
81-83 Gr Dighenis Avenue
Nicosia CY-1090
Cyprus

LEGAL ADVISERS TO THE JOINT GLOBAL COORDINATORS, JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

As to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Russian law

Linklaters CIS
Paveletskaya Square 2
Building 2
115054 Moscow
Russia

AUDITORS TO THE COMPANY

ZAO KPMG
Naberezhnaya Tower Complex, Block C
10 Presnenskaya Naberezhnaya,
Moscow 123317
Russia