

Investor Protection Association

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IPA GM Vote Recommendations

Company: **Kuzbasskaya Toplivnaya Kompaniya (KTK)**

Meeting date: April 15, 2013

Record date: March 13, 2013

Meeting Agenda and IPA Recommendations:

| # | Agenda Item | IPA Recommendation |
|---|---|---|
| 1 | Approve Annual Report | FOR |
| 2 | Approve Financial Statements | FOR |
| 3 | Approve Consolidated Financial Statements | ABSTAIN* |
| 4 | Approve Distribution of Profits and Losses, Including Dividends | FOR |
| 5 | Elect Board Members | Vote FOR Alex Williams (Independent Director)** |
| 6 | Approve Compensation of Board Members | FOR |
| 7 | Elect Members of Audit Commission | ABSTAIN*** |
| 8 | Approve Compensation of Members of Audit Commission | FOR |
| 9 | Approve KPMG as Auditor | FOR |

* The company's consolidated financials were not disclosed at the time of writing of this report, therefore

we recommend abstaining on this item.

*** Of all the candidates, Alex Williams is the IPA-backed independent director for whom we are seeking to cumulate all of the minority shareholders' votes. Please do not vote for other IPA-affiliated candidates, such as Denis Spirin or Denis Kulikov.*

**** Candidates to the audit commission were all proposed by the controlling shareholder and will be elected by simple majority voting, so factually with the votes of the controlling shareholder.*

Brief Company Description

Kuzbasskaya Toplivnaya Kompaniya (KTK) specializes in the extraction of coal for the energy generation industry. In terms of volume extracted, the company was sixth among the largest Russian coal producers in 2012; the volume of coal extracted in 2012 was 8.7 million tons. The company owns the three coal mines: Karakansky-Yuzhny, Vinogradovsky and Cheremshansky, as well as two enrichment plants.

As of Jan. 1, 2013, the company had JORC-classified resources of 391 million tons of ordinary energy coal, and proven and likely reserves planned for extraction in the period from 2013 to 203 of 174 million tons.

The company has strong positions in the regions, supported by a developed network of retail sales, located in the Kemerovo, Novosibirsk, Omsk and Altay regions. The company has 70,000 retail locations, making it one of the largest coal suppliers for Western Siberia.

Detailed Analysis of Meeting Agenda Items

Agenda Items 1-4: Approve Annual Report, Financial Statements, Consolidated Financial Statements and Distribution of Profits & Losses, Including Dividends

IPA Recommendation:

| | | |
|---|---|---------|
| 1 | Approve Annual Report | FOR |
| 2 | Approve Financial Statements | FOR |
| 3 | Approve Consolidated Financial Statements | ABSTAIN |
| 4 | Approve Distribution of Profits and Losses, Including Dividends | FOR |

Our vote recommendations are:

- Items 1, 2 and 4 (approve annual report and financial statements; approve dividends): Vote FOR, because the company's financials are sound and the proposed dividends are appropriate in our view;

- Item 3 (approve consolidated financials): vote ABSTAIN, because the consolidated financials have not yet been disclosed as of the time of writing of this report. The report is planned for disclosure on April 5, 2013. While we recognize the difficulty of consolidating financial statements, we encourage the company to recognize the often aggressive deadlines facing its shareholders, and to disclose such information well advance of the AGM, to allow shareholders to make an informed decision.

Item Description:

Under these items, shareholders are asked to approve the company's annual report, financials, and dividends.

Below, we present highlighted financial and operating information about the company:

| Metric | 2011 | 2012 | % change |
|--|--------------|--------------|-------------|
| Revenue* (\$ millions) | 642 | 637 | -0,8% |
| Production Vol. (million tons) | 8.73 | 8.71 | 0% |
| Avg. Price/Ton (\$/ton) | 38 | 39 | 1% |
| Total Costs (\$ millions) | 199 | 220 | 4% |
| Net income (\$ millions) | 64 | 59 | -13% |
| Assets (\$ millions) | 404 | 554 | 37% |
| Net assets (\$ millions) | 232 | 280 | 20% |
| Return on Assets | 18.3% | 12.0% | -34% |
| Capitalization** (\$ millions) | \$481 | \$323 | -33% |

* The reason for the decrease in revenues was a weakening in export markets, which led to decreased exports of coal.

** The drop in the company's capitalization is first and foremost due to the ongoing global financial crisis. The Russian markets are particularly volatile as global liquidity flows change.

The company’s liquidity position has improved during the last year and is overall good. Based on the demonstrated liquidity ratios, the company’s likelihood of default appears low.

Dividends

It is proposed to pay out 28% of net income in dividends (496 million RUB in dividends, based on net income of 1.8billion RUB). The total dividend payout will decrease by 17% compared to last year; given the 13% reduction in net income, this appears reasonable. The dividend record date is March 13, 2013, the same as the record date for voting in this AGM.

Of the remaining sum of 1.3 billion RUB, it is proposed to use 90% for investments and 10% for the “consumption fund”.

Agenda Item 5: Elect Board Members

IPA Vote Recommendation:

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|---|---------------------|--|
| 5 | Elect Board Members | Vote FOR Alex Williams (Independent Director) |
|---|---------------------|--|

The IPA recommends that shareholders vote FOR the incumbent IPA-approved independent director Alex Williams, for the following reasons:

1. He is fully independent, as evidenced by a long history of cooperation with IPA as an independent director;
2. He is highly qualified, possessing extensive experience working in financial markets and on the boards of Russian companies;
3. He is an incumbent director, who was shown himself well on the company’s board;
4. Based on the company’s ownership structure and free float, minority shareholders can elect a maximum of only one independent director. It therefore makes sense for all shareholders to cumulate their votes for one agreed-upon candidate, to maximize that candidate’s chances of being elected. Of all the candidates, we believe Alex Williams is the best fit for KTK.

We recommend that shareholders vote AGAINST the remaining candidates, including the other independent candidate, Denis Kulikov, and the two fund representatives, Denis Spirin and Denis Evstratenko.

Item Description:

The company's board consists of five members.

The following nine candidates have been proposed:

| # | Name | Position |
|---|--|--|
| 1 | Eduard Vladimirovich Alekseenko | OAO KTK, first deputy general director |
| 2 | Ivan Vladimirovich Gepting | OAO KTK, deputy general director for commercial activity |
| 3 | Vadim Vladimirovich Danilov | OAO KTK, deputy general director |
| 4 | Denis Viktorovich Evstratenko | Prosperity Capital Management Ltd, co-director for the natural resource, transport, chemicals, construction and agro chemicals industries |
| 5 | Denis Viktorovich Kulikov | Investor Protection Association, executive director |
| 6 | Igor Yuryevich Prokudin | OAO KTK, general director |
| 7 | Denis Aleksandrovich Spirin | Prosperity Capital Management Ltd, director for corporate governance |
| 8 | Alexander Arthur John Williams (Alex Williams)* | Solibey Investments Ltd, consultant |
| 9 | Yury Abramovich Freedman | Scientific research facility "Institute of Economics and Organization of Industrial Production of the Siberian Branch of the Russian Academy of Sciences", head of the Kemerovo economic research laboratory |

* This candidate is officially endorsed by the IPA at this meeting. We believe that the maximum impact for minority shareholders on the board could be achieved by cumulating all votes for Alex Williams to ensure his election.

You can get more information about the IPA's work with independent directors on our website, at <http://ipa-moscow.com/content/independent-directors>. All of the independent directors endorsed by the IPA are available for direct contact with shareholders; just [contact us](#) for details.

Agenda Items 6 and 8: Approve Compensation of the Board and Audit Commission

IPA Recommendation:

| | | |
|---|---|-----|
| 6 | Approve Compensation of Board Members | FOR |
| 8 | Approve Compensation of Members of Audit Commission | FOR |

We recommend voting FOR these items, because both are non-contentious.

Item Description:

Under these items, shareholders are asked to approve the compensation of members of the board of directors and audit commission in the following amounts:

- With respect to directors, it is proposed to set their monthly remuneration at \$10 000. As part of the compensation package, it is also proposed to compensate the directors' various travel expenses as necessary;
- With respect to audit commission members, it is proposed to set their remuneration for the entire year at RUB 60 000 (\$1 950) for each of the members and RUB 70 000 (\$ 2 272) for the chairman. We note that these amounts are extremely low and in our view do not adequately compensate the members of the audit commission for their work. However, because in this case none of the audit commission members are independent (see Item 7) and thus none can adequately perform the independent auditing function required, the low compensation amount is justified.

Item 7: Elect Members of Audit Commission

IPA Vote Recommendation:

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|---|-----------------------------------|---------|
| 7 | Elect Members of Audit Commission | ABSTAIN |
|---|-----------------------------------|---------|

We recommend that shareholders vote ABSTAIN on this item, because all of the candidates are closely affiliated with the company, and none can perform the function of an independent auditor that is required.

Item Description:

The company's audit commission is composed of three members. It is proposed to elect the following three candidates:

| # | Name | Position |
|---|--------------------------------|--|
| 1 | Zoya Nikolaevna Osmanova | OAo KTK Consulting, deputy general director |
| 2 | Ivan Aleksandrovich Artemenko | OAo KTK, deputy general director for economics and finance |
| 3 | Sedunov Aleksey Aleksandrovich | OAo KTK, head of the economics department |

In Russia, audit commission members are elected via simple majority voting.

All of the candidates have been proposed by the controlling shareholder, and all are executives at either the company itself or its subsidiary; all are therefore affiliated and are unable to perform auditing functions with the necessary independence.

Item 9: Approve KPMG as Auditor

IPA Vote Recommendation

| | | |
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| 9 | Approve KPMG as Auditor | FOR |
|---|-------------------------|-----|

We recommend that shareholders support the candidacy of KPMG as the company’s auditor for both IFRS and Russian Accounting Standards, for the following reasons:

1. KPMG is a highly respected global firm with a strong position in Russia, and can thus be expected to be both competent and independent;
2. There are no known controversies over KTK’s financials that would cast doubt over the auditing situation.

Item Description

Shareholders are asked to approve the candidacy of KPMG as the company’s auditor for both IFRS and Russian Accounting Standards.

KPMG is a highly respected global firm that has operated in Russia since 1990. It has been KTK’s auditor for IFRS since 2007.

We note that while we support KPMG’s candidacy, KTK did not provide any information regarding why KPMG was selected, whether there was an open tender, etc.

While we have done our best to collect the most accurate information, our report is not meant to replace original sources of information; we are not responsible for errors or incongruencies in the report.

With any comments or questions, please call us at +7 (495) 510-5306 or email us at igp@corp-gov.ru.