



API Voting Recommendations for Annual General Meeting

Company:	PJSC KTC
Meeting date:	May 25, 2017
Record date:	May 2, 2017

Company Overview

PJSC KTC is one of the leading producers and exporters of power-generating coal in Russia. The Company's production assets include three currently operating and one designed production sites at the Vinogradovsky open-pit mine in Kemerovo region, two coal preparation plants and own rail infrastructure integrated with the mining assets into a single industrial cluster. The company operates a retail network in 4 regions of Western Siberia and a wholesale sales network in Poland. The Company's headcount exceeds 4,400 employees. KTC's shares are listed on the MICEX, the free float is 33.15%.

The authorized capital of PJSC KTC is RUB 19,851,671. It consists of 99,258,355 ordinary shares with a face value of 0.2 rubles each.

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No.	AGM agenda item	API recommendation
1.	Approval of the annual report of PJSC KTC for 2016	FOR
2.	Approval of the annual accounting (financial) statements, including the profit and loss statement (income statement) of PJSC KTC for 2016	FOR
3.	Approval of annual consolidated financial statements of PJSC KTC for 2016	FOR
4.	Distribution of the profit and losses of PJSC KTC, including the payment (declaration) of dividends based on the 2016 financial year	FOR
5.	Election of members of the Board of Directors of PJSC KTC	API recommends voting FOR Alexander Arthur John Williams (independent director supported by the API)*
6.	Approval of the amount of remuneration payable to members of the Board of Directors of PJSC KTC	FOR
7.	Election of the Internal Audit Commission of PJSC KTC	ABSTAINED**
8.	Approval of the amount of remuneration payable to members of the Internal Audit Commission of PJSC KTC	FOR
9.	Approval of the auditor of PJSC KTC	ABSTAINED***

* The API recommends that the shareholders vote FOR Alexander Williams nominated by the minority shareholders of

the Company. The issue is subject to cumulative voting.

** Most of the proposed candidates to the Internal Audit Commission – even without considering the head of the Company's Internal Audit Division – are employed by the KTC group of companies. Given a potential conflict of interests, we cannot make an affirmative voting recommendation on this issue.

*** There are not enough materials available for an affirmative voting recommendation to the shareholders on this issue; the resolution shall be passed by a simple majority of votes.

In-depth AGM agenda review:

1-3.	AGM agenda item	API recommendation
1.	Approval of the annual report of PJSC KTC for 2016	FOR
2.	Approval of the annual accounting (financial) statements, including the profit and loss statement (income statement) of PJSC KTC for 2016	FOR
3.	Approval of annual consolidated financial statements of PJSC KTC for 2016	FOR

AGENDA ITEMS 1-3 DETAILS:

The annual report of PJSC KTC for 2016 contains information on the key performance indicators achieved by the Company in that year, development prospects, information on related party transactions (**21 deals for a total amount of RUB 5,936.6 million**), as well as a report on compliance with the recommendations of the Corporate Governance Code recommended for application by the Bank of Russia.

The reliability of accounting (financial) statements of PJSC KTC is confirmed by an audit report provided by audit firm JSC KPMG and the Internal Audit Commission of PJSC KTC.

The key factors influencing the 2016 financial result is the growth of railway tariffs at the end of the year and problems with railcars in the second half of the year, entailing higher transport expenses of the Company. The negative factors were offset by the coal price growth in the 3rd quarter, which enabled the Company to post a profit for the year.

Please see below the key financial and operational performance indicators according to IFRS standards:

Item	2015	2016	Change, year-on-year
Revenue, million rubles	24,994	26,863	7%
Cost of production, million rubles	20,932	23,220	11%
Gross profit, million rubles	4,062	3,643	-10%
Gross margin ratio, %	16.3	13.6	-2.7 p.p.
Commercial, administrative and other expenses, million rubles	2,508	2,341	-7%
Operating profit, million rubles	1,554	1,302	-16%
Operating margin ratio, %	6.2	4.8	-1.4 p.p.
EBITDA, million rubles	2,697	2,628	-3%
EBITDA margin, %	10.8	9.8	-1.0 p.p.
Net profit, million rubles	37	647	1,649%
Net margin, %	0.1	2.4	2.3 p.p.

DRAFT RESOLUTION ON AGENDA ITEMS 1-3:

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No. 1. Approve the annual report of PJSC KTC for 2016

No. 2. Approve the annual accounting (financial) statements, including the profit and loss statement (income statement) of PJSC KTC for 2016

No. 3. Approve the annual consolidated financial statements of PJSC KTC for 2016 prepared according to the International Financial Reporting Standards (IFRS).

4.	AGM agenda item	API recommendation
	Distribution of the profit and losses of PJSC KTC, including the payment (declaration) of dividends based on the 2016 financial year	FOR

AGENDA ITEM 4 DETAILS:

The new dividend policy of the Company was approved by the Board of Directors on March 16, 2015. Under the new policy, the company intends to earmark more than 25% of its IFRS net profit for dividends. Based on its performance in 2016, the Company suggests paying RUB 595.6 million in dividends, which is 92% of its IFRS net profit.

DRAFT RESOLUTION ON AGENDA ITEM 4:

Distribute the net profit amounting to RUB 600,405,000 (Six hundred million four hundred and five thousand rubles) earned by PJSC KTC from its operations in the 2016 financial year as follows:

1. Earmark a portion of the net profit amounting to RUB 550,130,595 (five hundred and fifty million one hundred and thirty thousand five hundred and ninety five rubles) earned by the Company from its operations in 2016 for dividends on placed shares.

Set the dividend payable on the placed shares based on the Company's performance in 2016 equal to 6 (six) rubles 00 kopecks per ordinary registered share with a face value of 0.2 (zero point two) rubles each.

Set June 5, 2017 as the 2016 dividend record date.

The dividend payment deadline shall not exceed 10 business days following the dividend record date for the nominal holder and the custodian qualifying as a professional participant of the securities market which are registered as the Company's shareholders, 25 business days following the dividend record date for other persons on the register of shareholders.

2. Retain the remaining net profit amounting to RUB 4,870,854 (four million eight hundred and seventy thousand eight hundred and fifty-four rubles) earned by the company in 2016.

5.	AGM agenda item	API recommendation
	Election of members of the Board of Directors of PJSC KTC	API recommends voting FOR Alexander Arthur John Williams (independent director supported by the API)*

AGENDA ITEM 5 DETAILS:

According to clause 9.10 of the Company's Charter, the number of members of the Board of Directors is subject to resolution by the general shareholders meeting and cannot be below 5 and more than 7. If no resolution on the size of the Board is passed at the general shareholders meeting, the size of the new Board shall be equal to the size of the Board in the period of the Board's previous mandate. Seeing as the 2017 AGM agenda does not suggest determining the size of the Board, it should be assumed that 5 Board members will be elected at the meeting, just as in 2016.

Five of the eight candidates nominated by the shareholders currently sit on the Company's Board of Directors. The election of a candidate nominated by minority shareholders to the Board of Directors requires at least 13.5% of the voting power. Therefore, minority shareholders can theoretically elect only one independent director by their votes. The election of two candidates requires 33.5% of the votes for both candidates, which exceeds the Company's current free float.

No.	Nam	Candidate office / position (at the primary place of employment)	Nominated by	Status
1.	Vladimir Baskakov	Chairman, Technical Committee 269 "Mining", JSC "NC VostNII"	undisclosed	non-executive director
2.	Vadim Danilov	Deputy CEO, PJSC KTC	undisclosed	executive director
3.	Igor Prokudin	President, PJSC KTC	undisclosed	executive director
4.	Yuriy Fridman	Chief of the Kemerovo Laboratory of Economic Research, Institute of Economics and Industrial Engineering, Siberian Branch of the Russian Academy of Sciences	undisclosed	non-executive director
5.	Alexander Arthur John Williams	Director, Taiga Capital (UK) Limited (United Kingdom of Great Britain and Northern Ireland)	undisclosed (nominated by an API member)	independent director
6.	Igor Repin	Deputy Executive Director, Association of Institutional Investors	undisclosed (nominated by an API member)	independent director
7.	Denis Spirin	Director for Corporate Governance, representative office of Prosperity Capital Management	undisclosed (nominated by an API member)	non-executive director
8.	Nikolay Sosnovskiy	Director Metals & Mining, Chemicals, representative office of Prosperity Capital Management	undisclosed (nominated by an API member)	non-executive director

Members of the Board of Directors are elected by cumulative voting.

* The API officially supports this candidate at the AGM. Igor Repin, Denis Spirin, Nikolay Sosnovsky are nominated by the shareholders as backup candidates.

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Details on the API liaison with independent directors are provided on the official API website at:

<http://api-russia.org>.

All independent directors backed by the API are open to direct contact with shareholders; please contact us for further information.

DRAFT RESOLUTION ON AGENDA ITEM 5:

Elect the Board of Directors of Public Joint Stock Company Kuzbasskaya Toplivnaya Company from the following candidates:

Vladimir Baskakov;

Vadim Danilov;

Igor Prokudin;

Yuriy Fridman;

Alexander Arthur John Williams;

Igor Repin;

Denis Spirin;

Nikolay Sosnovskiy.

6.	AGM agenda item	API recommendation
	Approval of the amount of remuneration payable to members of the Board of Directors of PJSC KTC	FOR

AGENDA ITEM 6 DETAILS:

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It is proposed that the remuneration payable to members of the Company's Board of Directors for the period of their service in this capacity be set as follows: USD 10,000 per month to a member of the Board of Directors; USD 5,000 per month to the Secretary of the Board. Compared with the previous year, the remuneration payable to members of the Company's Board of Directors has not changed. The list of expenses incurred by members of the Board of Directors while on duty compensated by the Company has also remained unchanged.

DRAFT RESOLUTION ON AGENDA ITEM 6:

Set the remuneration payable to members of the Board of Directors of the Company for the period of their service in this capacity as follows:

USD 10,000 per month to a member of the Board of Directors;
USD 5,000 per month to the Secretary of the Board.

Reimburse members of the Board of Directors at the expense of the Company for the following expenses related to their service as Board members:

- cost of travel in Russia, proceeding from economy class ticket prices;
- cost of travel in Russia, proceeding from business class ticket prices;
- cost of stay in VIP lounges at airports;
- cost of stay in suite rooms at hotels.

7.	AGM agenda item	API recommendation
	Election of the Internal Audit Commission of PJSC KTC	ABSTAINED on all candidates

AGENDA ITEM 7 DETAILS:

It is proposed that the shareholders elect a new Internal Audit Commission consisting of three members. Two of the three nominated candidates (Andrey Vasechko, Zoya Osmanova) are current Internal Audit Commission members. It should be noted that the Company does not disclose information on the persons nominating the candidates to the Internal Audit Commission. Most of the Internal Audit Commission members are employed by the Company. This, in our view, indicates a formal approach to the Commission's activity, given a potential conflict of interest as the auditor is employed by the audited entity.

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No.	Name	Candidate office / position (at the primary place of employment)
1.	Andrey Vasechko	Deputy CEO, KTC Consulting LLC
2.	Maria Kuznetsova	Head of the Internal Audit Service, PJSC KTC
3.	Zoya Osmanova	Head of the Economic Department, PJSC KTC

Internal Audit Commission members are elected by a simple majority of votes.

DRAFT RESOLUTION ON AGENDA ITEM 7:

Elect the Internal Audit Commission of PJSC KTC from the following candidates:

Andrey Vasechko;
Maria Kuznetsova;
Zoya Osmanova.

8.	AGM agenda item	API recommendation
	Approval of the amount of remuneration payable to members of the Internal Audit Commission of PJSC KTC	FOR

AGENDA ITEM 8 DETAILS:

It is proposed that the remuneration to members of the Company's Internal Audit Commission payable for the period of their service in this capacity be set as follows: RUB 70,000 to the Chair of the Company's Internal Audit

Commission, RUB 60,000 to a member of the Company's Internal Audit Commission; compared with the previous year, the proposed remuneration payable to members of the Internal Audit Commission has not changed.

DRAFT RESOLUTION ON AGENDA ITEM 8:

Set the remuneration payable to members of the Company's Internal Audit Commission for the period of their service in this capacity as follows:

Chair of the Internal Audit Commission of the Company: RUB 70,000
Member of the Internal Audit Commission of the Company: RUB 60,000

9.	AGM agenda item	API recommendation
	Approval of the auditor of PJSC KTC	ABSTAINED

AGENDA ITEM 9 DETAILS:

It is proposed that the shareholders approve JSC KPMG as the Auditor of PJSC KTC for 2017 to audit the accounting (financial) statements of the Company prepared according to Russian Accounting Standards (RAS) and the consolidated financial statements of the Company prepared according to the International Financial Reporting Standards (IFRS). The AGM-related materials do not disclose information on competitive auditor selection procedures, do not provide recommendations of the Audit Committee, the results of voting by the Board of Directors / the Audit Committee on recommendations to the general shareholders meeting, as well as information on the cost of services and the scope of non-audit services required for assessing factors potentially affecting the audit firm's independence. Therefore, we do not possess sufficient information for an affirmative voting recommendation to the shareholders on this agenda item. Our recommendation is that the Company's Board of Directors should revise its policy of disclosing materials for the general shareholders meeting.

DRAFT RESOLUTION ON AGENDA ITEM 9:

Approve JSC KPMG (tax number: 7702019950, location: Olimpiysky prospectus, 18/1, office 3035, 129110 Moscow) as the Auditor of PJSC KTC for 2017 to audit the accounting (financial) statements of the Company prepared according to Russian Accounting Standards (RAS) and the consolidated financial statements of the Company prepared according to the International Financial Reporting Standards (IFRS).

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The AGM Voting Recommendations are based, among other things, on the Annual General Meeting reference materials published on the website of PJSC KTC. For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: polovnev@api-russia.org