
2011

OJSC
Siberian
Coal Energy
Company

Annual Report



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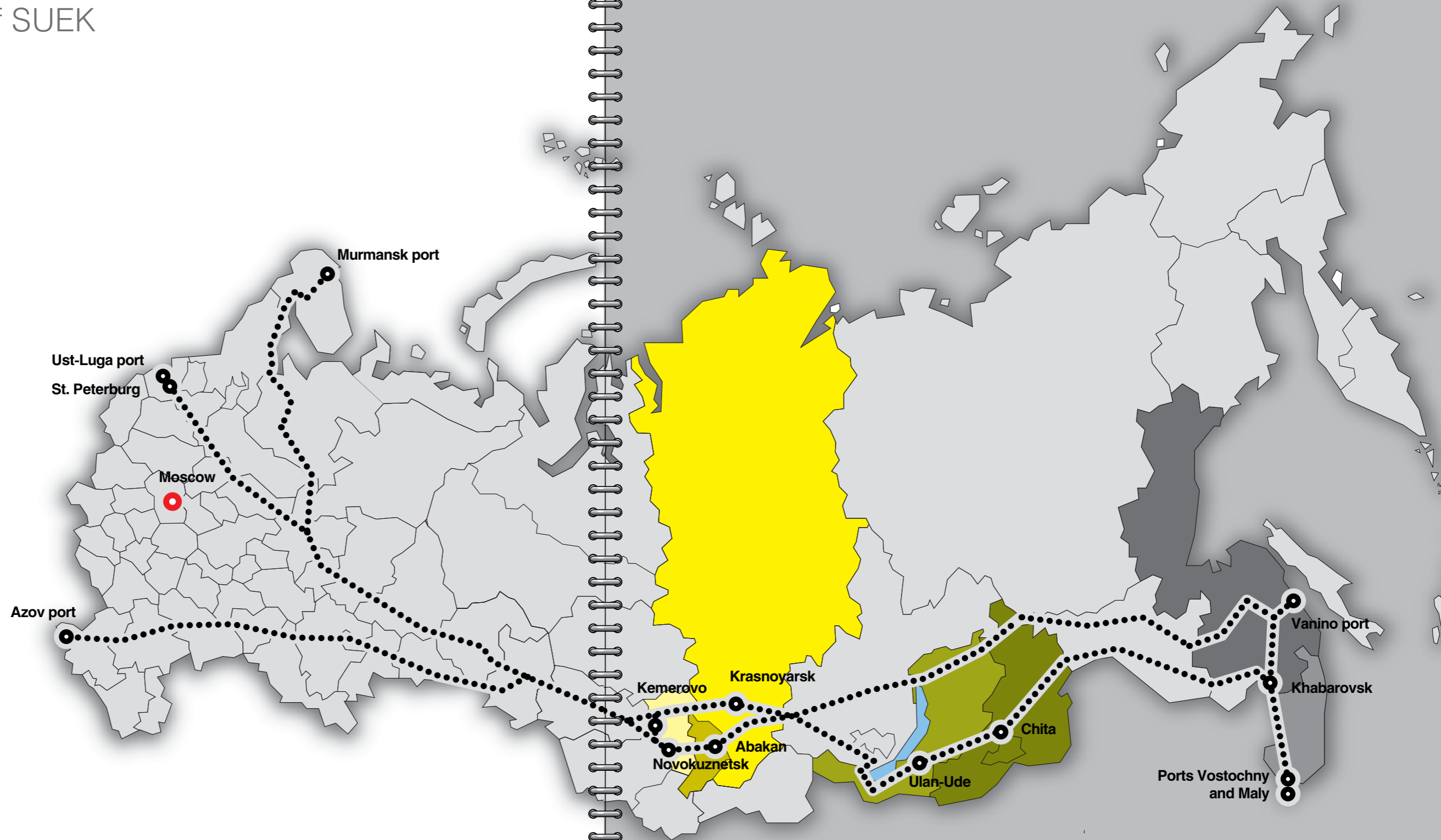
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1. SUEK today

Open Joint Stock Company "Siberian Coal Energy Company" (SUEK) is one of the largest private companies in Russia, playing a fundamental strategic role in the fuel and energy sector of the Russian economy. Of particular importance is SUEK's significance to the socio-economic development of Siberia and Far East, where the Company's principal production, logistics and service facilities are located.

Geography of SUEK

- Kemerovo Region
- Krasnoyarsk Territory
- Republic of Khakassia
- Republic of Buryatia
- Zabaykalye Territory
- Khabarovsk Territory
- Primorsky Territory



SUEK is one of the top coal mining companies in the world and the largest coal producer in Russia.

SUEK¹ is:

- The largest Russian coal company with a 27.5% share (92.2 million tonnes) in Russian total coal production and a 26% share in Russian thermal coal exports in 2011.
- The company that covers 42% of thermal coal demand from the domestic energy generation industry.
- The 8th coal mining company worldwide in terms of coal production, and the 6th – in terms of international seaborne thermal coal sales.
- The 5th coal company worldwide by proven and probable coal reserves.
- 29 mines (17 open-pit and 12 underground mines), 7 preparation plants, a bulk terminal at the Vanino port, and other industrial transportation and maintenance facilities.

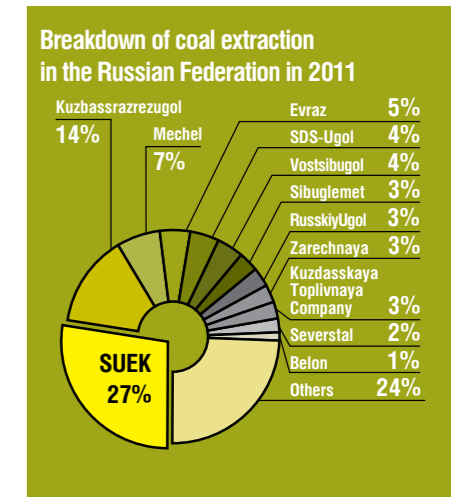
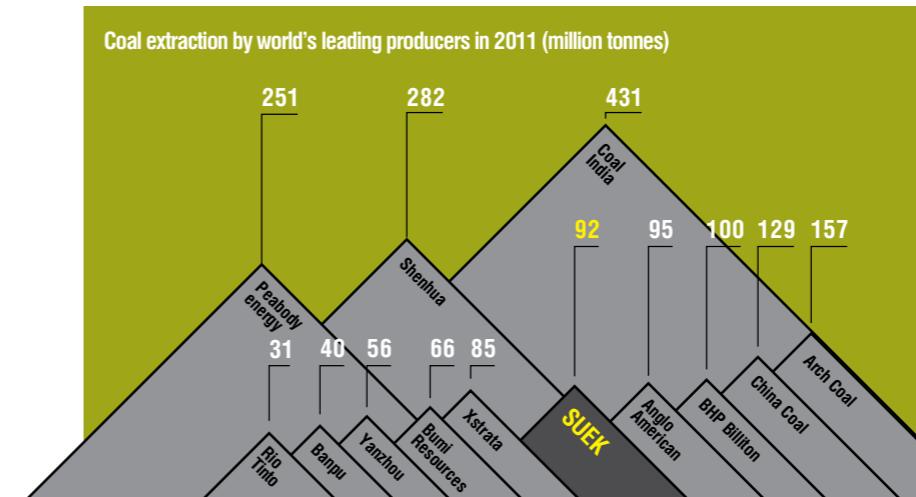
2011 Achievements

- Productivity at SUEK mines is 1.8 times higher than the Russian coal industry average.
- SUEK set new records for the volume of coal extracted from a single mine face.
- SUEK's international sales made up 33.7 million tonnes, an increase of 16% against 2010.
- Sales in the Asia-Pacific region comprised more than a half of all SUEK's international sales (54%).
- SUEK's revenue totaled RUR167 billion, an increase of 27% against 2010. EBITDA was RUR52 billion, an increase of 58% against previous year.
- Over RUR660 million have been allocated to 50 different programs aimed at developing social infrastructure, supporting education and health care, creating new jobs, and developing opportunities for small businesses.

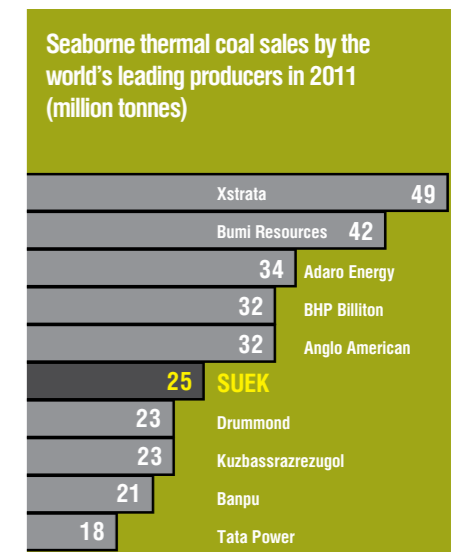
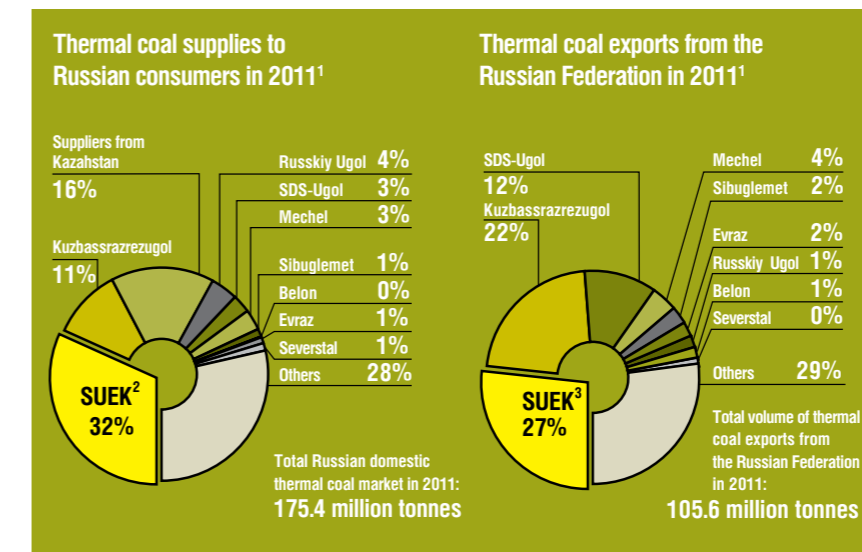
¹ Hereinafter, "SUEK", "company", "SUEK enterprises", or "Company's enterprises" shall denote OJSC SUEK and companies that are a part of OJSC SUEK's group of legal entities; "OJSC SUEK", or "Company" shall denote OJSC SUEK.

² According to a report by SRK Consulting, as of 01/04/2011, SUEK's proven and probable reserves totaled 5.9 billion tonnes; including extraction between April and December of 2011, as of 12/31/2011, this number stands at 5.8 billion tonnes.

SUEK and its competitors



SUEK and its competitors (by seaborne thermal coal sales)



¹ Sources: SE "CDU TEK", SUEK.

² Excluding volumes of purchased coal.

³ Excluding volumes of purchased coal and international trading.

Chairman's and CEO's Statements

2. Chairman's Statement



OJSC SUEK in 2011 continued to develop at a fast pace demonstrating the high growth of key business indicators. This corresponds with the trends observed in the coal industry worldwide. Coal consumption is growing faster than that of any other source of energy on a global scale. In 2011 it increased by more than 450 million tonnes. The basis of this is found in the world's growing demand for electricity, especially given the development of the economies and industries of the Asia-Pacific region, and the successful dissemination of effective and environmentally friendly technologies for both the extraction and the use of coal. Our company's task is to ride the crest of this wave, to strengthen our presence in the most dynamic and promising markets, and prove to be a trustworthy and reliable partner and supplier.

To achieve our strategic goals much has been done in previous years. Today, OJSC SUEK firmly holds the position of absolute leader in the Russian coal sector. In 2011 the company extracted 92.2 million tonnes of coal, which made up 27.5% of all coal mined in Russia. SUEK has the highest in our country for labor productivity, cost-effectiveness and the most efficient supply chains.

In order to strengthen our position in a growing market, we still have much to do in the coming years. To compete successfully and be the preferred supplier for our customers, we must always provide both operational efficiency

and the highest level of industrial safety in all our mines and pits, improve our transportation infrastructure, improve product quality through coal preparation and conversion, and develop enterprises which are located closer to the major markets of consumption. SUEK investment priorities are built in line with these objectives.

In 2011, a series of major new projects was launched that will be important factors in the accelerated growth of the company's future. Among these are, for example, the increased coal extraction and construction of a preparation plant in Ural (Khabarovsk Territory), the modernization and expansion of mining and preparation facilities in the Kuzbass and Khakassia, almost a two-fold increase of transshipment through the Vanino bulk terminal, the beginning of the development of the Apsatskoye coal field, and others.

An important factor in our success is the reinforcement of our corporate governance. The model of the Board of Directors of SUEK, the organization of interaction between shareholders, directors and management has long been one of the best in Russia and meets the most advanced international standards. In 2011 we continued further. In particular, the Board of Directors introduced the position of the Senior Independent Director. The functions of the Strategy Committee and the Nomination and Compensation Committee were expanded and made

more clearly delineated and specific. New standards were introduced for management reporting and internal control procedures.

At the same time, we are working to improve our company's business model. In 2011, power assets were demerged from SUEK, which allowed us to optimize our capital structure and focus entirely on enhancing operational efficiency of our coal mining business. We have also continued to optimize the management and corporate structure of SUEK.

I would especially like to note the important social role that our company plays in the life of the communities in the regions where our enterprises are located. An extensive program of public-private partnership, the creation of new development institutions in the regions, projects to support local communities allow the company to make the whole system of social investment more effective. In 2011, emphasis was placed on a gradual transition from subsidizing social sphere objects to investing in the development of human capital.

In my opinion, in 2011 the company has managed to strengthen its position as the industry leader, and also take important steps to develop its potential and increase its influence in both global and Russian fuel markets.

Andrey Melnichenko,
Chairman of the Board of Directors, SUEK

3. CEO's Statement



2011 was an important period in strengthening the position of SUEK as the leader among Russian and global fuel and energy sector players. We continued to increase coal production (by 3.5% against 2010) and have achieved record levels of revenue (more than RUR167 billion) and net profit (nearly RUR24.9 billion).

The improved performance in 2011 had resulted from increased volume of international sales, by 16% against 2010, which totaled almost 33.7 million tonnes. Today, coal remains an attractive and economically efficient source of energy; the demand for it, especially in Asia, continued to grow throughout the year, despite the ongoing problems in the global economy.

Many of SUEK's production units demonstrated outstanding performance in 2011. In particular, all-time production records were established by enterprises in Khakassia, the Tugnuisky opencast in Buryatiya, the Urgalugol mines in the Khabarovsk Territory, the Vostochnoye mine in Primorye. Many of our Kuzbass mines have also demonstrated outstanding achievements, including Taldinskaya-Zapadnaya-1, Taldinskaya-Zapadnaya-2, Polysaevskaya, and others. The Tugnuisky coal preparation plant and a processing facility at the Vostochnoye performed well ahead of their plans. The volume of coal transhipped through Vanino bulk terminal increased by 26% compared to 2010.

The guarantee for the strengthening of SUEK's leadership position is in the implementation of a large-scale investment program, which is aimed at increasing the volume of export-quality coal mined in Kuzbass, modernization and expansion of preparation and transportation facilities in this region, the development of export-quality coal production at mines located relatively close proximity to the markets in the Asia-Pacific Region (capacity expansion of Urgalugol by building a new preparation plant, continued development of the Tugnuisky opencast, development of the Nikolskoye and the Apsatskoye coalfields); modernization and capacity expansion in Khakassia to increase production of sized coal, and further development of SUEK's rail and port infrastructure.

The growth of investments is based on the sound and stable financial state of the company. Despite manifestations of the crisis in the world's financial markets, SUEK has sustained its status as both a reliable borrower and a reliable contractor with balanced financial indicators. A significant challenge for us in 2011 was the difficult situation with rail freight, which affected shipments of coal, especially from Kuzbass and Khakassia. However, being Russia's largest freight consignor, SUEK actively collaborated with Russian Railways (OAO RZHD) and freight operators, and together we have made progress and stabilized the situation in coal shipment.

Industrial safety, health, and quality of life of our miners has been invariably the most important issue for us. The overall number of workplace injuries at SUEK enterprises decreased by 30% compared with 2010. Over and above the significant investments in the acquisition of equipment and technologies to provide the maximum level of industrial safety, we pay particular attention to the improvement of workplace discipline and cultivating responsibility among our employees.

Our employees (SUEK employs more than 30,000) are our greatest asset. Not without a reason, at the First All-Russian competition of professional skills in the coal industry, which was held in August 2011 in Kuzbass and Khakassia, our miners were the first place winners in the most nominations.

Our social policy is first and foremost aimed at improving the well-being of our employees and their families, by the comprehensive development of the areas where SUEK businesses are located. In 2011, several dozen programs were implemented throughout all regions where SUEK operates.

Overall, 2011 can be viewed as productive for our company. We have been able to strengthen our market position, continue to work on the further development of SUEK as one of the leading coal companies in the world.

Vladimir Rashevsky,
Chief Executive Officer, SUEK

What is Coal?

Coal is an organic, flammable substance, the main component of which is carbon. It is formed by slow decomposition of a moss, coniferous plants and deciduous trees underwater without air access. The key parameters that determine the quality characteristics of various types of coal are its age and the conditions of the accumulation of carbon in the Earth's crust – the pressure, temperature, and tectonic activity. In the course of accumulation, peat consistently turns into lignite (brown coal), and then into hard coal and anthracite. The process of changing the qualitative characteristics of coal is called metamorphism.

The Russian classification system divides coal into three groups: brown coal, hard coal, and anthracite. Brown coals are characterized by a low degree of metamorphism and low calorific value (heat of combustion), anthracite possesses high degree of metamorphism and low emission of volatile substances. Hard coals are somewhere in between these two and have a variety of grades.

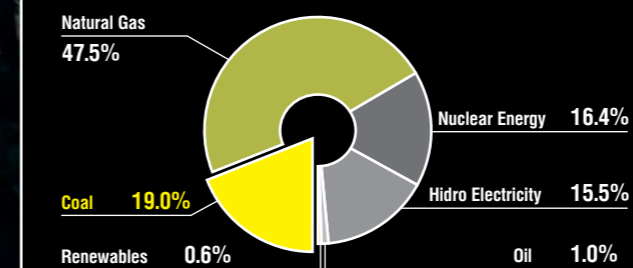
Some coals have the ability to sinter and form a solid residue when heated without air. These are called coking coals, and the resulting solid residue is called coke. Coke is used in steel industry for iron smelting in blast furnaces.

The majority of hard coals are used for power production and called thermal coals. These coals are mostly burned at Combined Heat and Power plants or steam boilers to produce heat and electricity. Some part of thermal coals with low content of volatile substances and anthracite is also used in the metallurgy, production of cement, water purification and in some other areas.

Coal has been known to mankind since time immemorial. In Ancient China coal was used for the porcelain baking and for salt evaporation. Ancient Romans used coal to heat multi-storey buildings and public baths (therms). In Russia coal began to be used during the reign of Peter the Great.

Today SUEK produces brown and hard coals. Almost all of the company's coals are thermal coals, but some of those after preparation can be supplied to steel markets, as an additive to the coke charge.

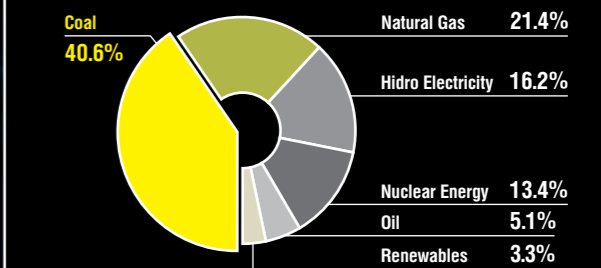
Balance of electricity generation in Russia in 2010¹



The major consumers of thermal coal in Russia are the largest thermal power stations in Siberia, the Urals, and the Far East. Thermal coal is also consumed by communal utilities, boiler houses at certain enterprises, cement plants and has other industrial uses.

¹ The Agency for Forecasting of Electric Energy Balance (RF); SUEK's estimations.
² IEA.

Balance of the world electricity generation in 2009²



The share of coal in electricity production in Russia is now about 19%. In the production of electricity in the world coal plants occupy 40.6%, due to the predominance of coal in power generation in the major economies – the USA and China. Coal remains the fastest-growing source for electricity production in the world.

4.SUEK's Strategy

SUEK is one of Russia's leading fuel and energy companies, the largest coal producer in the country and one of the top coal producers and suppliers in the world.

SUEK's strategic priorities include the maintaining the leadership position in the domestic market, increasing coal exports, especially to the rapidly growing markets in the Asia-Pacific region, as well as increasing the share of high-value grades in the portfolio of coals supplied. In the next five years, SUEK aims to increase its coal production by 15 to 20 million tonnes and to expand coal exports by 10 to 15 million tonnes, depending on market conditions and the pace of the development of railway infrastructure. The core of sustainable growth of the company is in effective capacity enhancement of existing mines and opencasts and investments in the transportation infrastructure to provide for coal exports. Total investment in coal mining and processing, and transportation infrastructure in 2012–2016 will make up approximately RUR100 billion excluding VAT.

In export markets SUEK plans to gradually increase the volume of supply in line with the development of rail and port infrastructure. First and foremost, it is expected to increase deliveries to the Asia-Pacific region, where SUEK coals are supplied mainly to Japan, South Korea, China and Taiwan. To increase deliveries to these markets, SUEK is investing substantially in assets in East Siberia and the Far East of Russia.

SUEK also intends to maintain its position as one of the main suppliers of thermal coal to the Atlantic market. Volumes of coal supply to this region are expected to remain stable, given the lower rates of economic growth and power consumption in the region and the tightening of environmental requirements for coal-fired power generation. The Atlantic market will remain the key export market for SUEK's mines in Kuzbass, given their geographical location and coal quality characteristics.

In the domestic market, SUEK intends to increase at the account of growth in electricity consumption, the commissioning of new generating capacities.

Improvement of coal quality is one of the priorities for the company. To ensure the achievement of export targets, it is planned to increase the volume of processed coal by 14 to 15 million tonnes in the next five years at the account of newly constructed and modernized coal preparation plants. Development and modernization of coal-preparation capacities will enable SUEK to increase the volume of supplies of grade G coal concentrate to steel markets, expand sales of sized coal, improve the quality of export coal produced in Kuzbass.

The company also plans to gradually increase the share of high-value coal grades in its coal products portfolio. Improving the quality and changing the coal grade structure will allow SUEK to diversify markets and increase sales margins.

In order to ensure the sustainability of the growth in exports, the company is developing its own logistical capacities. SUEK is investing in the development of junction railway stations, access roads and its own rolling stock. The company is consistently increasing the capacity of its major coal terminal in the port of Vanino, which is projected to reach 22 to 24 million tonnes per year. SUEK is also considering investment in new port facilities for supplies to the West.

One of the important strategic goals for SUEK is the enhancement of the operating efficiency. The company is continuously investing in the expansion of capacity and modernization of primary mining equipment, introducing advanced technologies for the development of coal fields, motivating staff to achieve efficiency and productivity goals. SUEK is the leader in productivity among the Russian coal companies.

SUEK is investing heavily in the improvement of industrial safety and health standards. The company is actively introducing new methods of mine degassing and ventilation, communication and warning systems, improving the explosion safety at mines. The number of workplace injuries in recent years has been steadily decreasing.

SUEK maintains a high standard of social responsibility. Wherever SUEK operates, it provides training and professional skills upgrade opportunities for its employees, participates in community projects, and works to implement new technologies in order to minimize harmful emissions and discharges and to improve environmental compatibility of mining.

SUEK is currently exploring opportunities for coal processing – primarily, brown coals in the Kansk-Achinsk basin. Processed products could be sold both in the traditional for SUEK energy markets and in newer metallurgical and oil and petrochemical markets.

By focusing our efforts on the improvement of operational efficiency, expansion of our own logistical capacities, efficient allocation of resources and development of new markets, we can pursue all of our strategic goals.

5. Coal Market Overview



5.1 The International Coal Market

Asia-Pacific Region

In 2011, the Asia-Pacific thermal coal market was driven by the following factors:

Increase in demand

- Thermal coal imports by China increased by 40 mln tonnes against previous year.
- Imports by South Korea increased by 7–8 mln tonnes due to increased consumption, commissioning of new facilities and switching to coals with low calorific value.
- Imports by India increased by 15–20 mln tonnes due to commissioning of new facilities.

Decrease in demand

- Earthquake in Japan (annual thermal coal imports down by 5%, i.e. by 6 mln tonnes).

Decrease in supply

- Exports from China reduced due to re-orientation toward the domestic market.
- Exports from Queensland (Australia) reduced due to adverse weather conditions (floods in the first quarter of 2011) and a reorientation toward the metallurgical sector.

Increase in supply

- Exports from Indonesia increased by 50 mln tonnes due to dry weather conditions.
- Growth in deliveries from the USA and South Africa due to lower freight rates and price shifts in the Atlantic region.
- Growth in deliveries from Russia due to the development of port capacities in the Russian Far East.

The above factors have had an overall positive effect on the selling price of thermal coal in the region: according to the global COAL® NEWC Index, the average annual price of thermal coal was \$121.42/t, which is 23% higher than in 2010 (\$98.91/t)

Atlantic Region

In 2011 the Atlantic thermal coal market was driven by the following factors:

Increase in demand

- Long, cold winter in Europe and a low level of hydropower generation in Norway significantly affected the demand in the first two quarters of 2011. The main spot consumers were Denmark, Finland and the UK.
- UK import of thermal coal grew significantly (approximately 8 mln tonnes). The main reason was the substitution of coal with gas-fired generations driven by relationship between the prices for natural gas and coal and relatively low prices for CO2 certificates.

Факторы снижения спроса

- After the earthquake in Japan, German government took an important decision to decommission a number of old nuclear power plants. However, due to the rapid growth of renewable sources of energy (wind, solar) this decision did not lead to substantial growth in coal-fired generation in 2011.
- Technical delays in launching new coal-fired power plants in Germany.
- Increased hydropower generation in Norway in the second half of 2011.

Decrease in supply

- Reduction in coal output for domestic consumption in Germany, Poland, Spain.

Increase in supply

- Increased exports of thermal coal from Colombia, due to an overall increase of the country's exports and a redirection of shipments from destinations in the Asia-Pacific region.
- The volume of thermal coal supplies the United States to the Atlantic region has more than doubled due to low demand in the U.S. and because of the low price for shale gas. Logistical constraints in the U.S., as well as high sulfur content in coal in 2011 were factors which limited further growth of exports from the country.
- In total, Russian coal producers increased their seaborne exports to the Atlantic region by 5.5 million tonnes in 2011.

The above factors have had an overall positive effect on the selling price of coal in the region: the average annual price (API 2 Index) in 2011 was \$121.54/t, which is 32% higher than in 2010 (\$91.99/t).

5.2 The Domestic Coal Market

Volumes of supplies of thermal coal to Russian consumers in 2011 totaled 175.4 million tonnes, which is 1.4 million tonnes (0.8%) lower than in 2010. The decline in demand was due to the following factors:

- Reduced electricity consumption (1.6%) in Siberia, which is the major thermal coal-consuming region in Russia (resulting from reduced level of energy-intensive aluminum production in Khakassia).
- Reduced coal consumption by power generating plants (down by 1.5%) in light of increased gas consumption (up by 1.8%).
- Excessive stocks of coal in storage at power plants at the beginning of 2011.
- Resumption of Sayano-Shushensky Hydroelectric Plant, which led to a lower demand for and output at various Combined Heat and Power Plants in Siberia, and thus reduced coal consumption.



6. Operational and Financial Performance¹

Most key performance indicators of SUEK demonstrated positive trends in 2011:

- revenue increased by 27% to RUR167 billion;
- EBITDA increased by 58% to RUR52 billion;
- EBITDA margin was 31.1%.

One of the major factors underlying the growth in revenues, EBITDA and operating cash flows was the increase in international sales and sales prices.

Key indicators:

	Unit	2011	2010	Δ	Δ%
Revenue	RUR mln	167,013	131,200	35,814	27%
Cost of sales	RUR mln	122,885	106,518	16,367	15%
EBITDA	RUR mln	51,960	32,977	18,983	58%
EBITDA margin		31.1%	25.1%	6.0 bps	
Net profit	RUR mln	23,971	9,385	14,586	155%
Net margin		14.4%	7.2%	7.2 bps	
Operating cashflows	RUR mln	23,924	21,232	2,692	13%
Capital expenditures	RUR mln	27,604	18,465	9,139	49%
Net debt	RUR mln	91,407	77,935	13,472	17%
Sales	mt	88.9	90.4	(1.5)	-2%
Production	mt	92.2	89.1	3.1	3%

¹ The information in this section is derived from SUEK's annual consolidated financial statements (IFRS) as included in Section 7 of this Annual report.

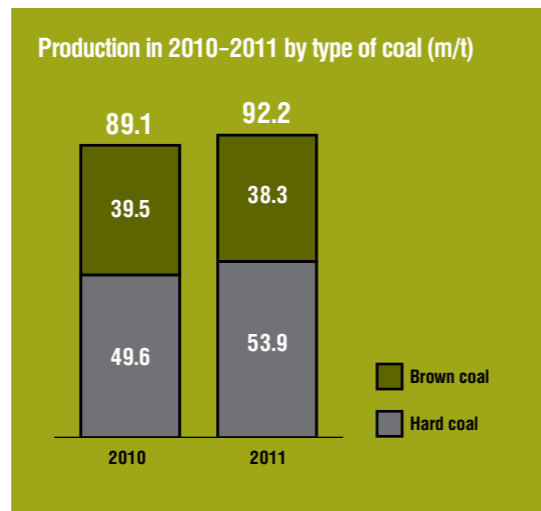
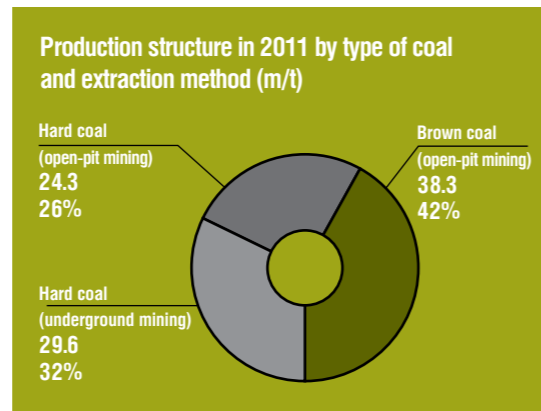
6.1 Production

In 2011 SUEK enterprises produced 92.2 million tonnes of coal; compared to 2010, the volume of production increased by 3.1 million tonnes (3.5%). Approximately 58% of SUEK production in 2011 was hard coal and 42% – brown coal. Hard coal is extracted by both open-pit and underground mining; brown coal is extracted exclusively by open-pit mining.

In 2011, overall production of hard coal increased by 4.3 million tonnes (8.7%), and production of brown coal decrease by 1.2 million tonnes (3%), which is in line with the Company's strategy aimed at increasing production of hard coals with qualities suitable for export markets.

The level of the production in 2010–2011 was affected by the following factors:

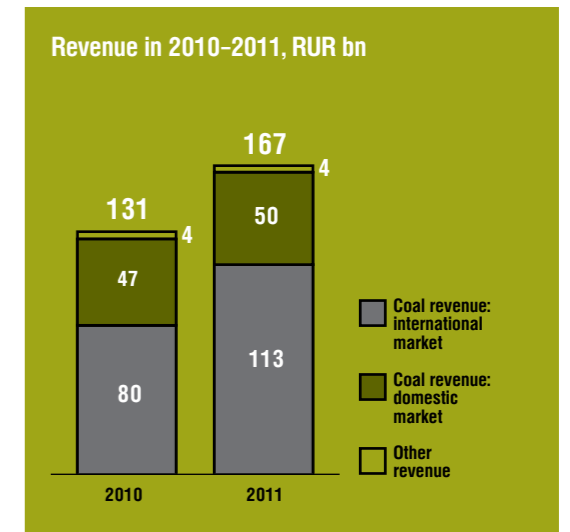
- Growth in demand for thermal coal in the Asia-Pacific region;
- Increased transshipment capacity in Far Eastern ports (primarily, at SUEK's bulk coal terminal in the Vanino port);
- Reduction in demand for thermal coal in Russia resulting from lower levels of electricity consumption in Siberia – the major coal consumer – which was partly due to the reduction of electricity generation by thermal power plants (TPP) as operations at the Sayano-Shushenskaya GRES were resumes; decreased share of coal in fuel mix at power sector due to growing gas consumption; significant surplus of coal stocks at power plants in early 2011.



6.2 Revenue

Revenue

In 2011 SUEK's consolidated revenue amounted to RUR167.0 billion, it is by RUR35.8 billion (27%) higher than in 2010 (RUR131.2 billion). In 2011 coal revenue amounted to RUR162.8 billion (97% of consolidated revenue), it is by RUR35.6 billion (28%) more than in 2010. The main growth factors were the increase in both export and domestic selling prices, and a significant increase in SUEK's international sales in 2011.



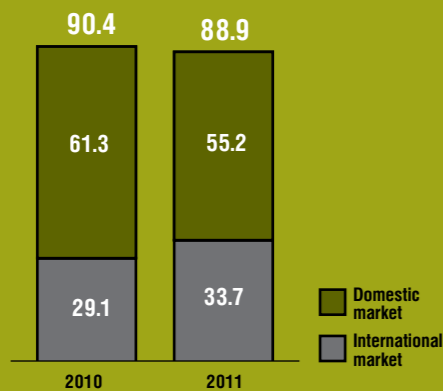
6.2 Revenue

Sales volume

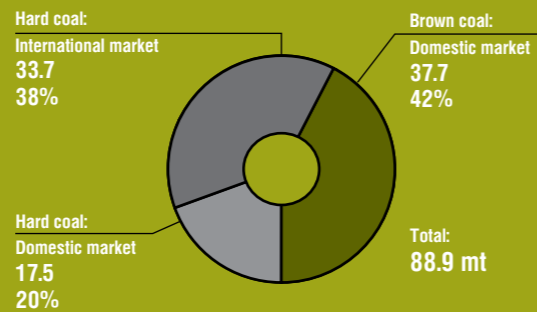
In 2011 the total coal sales amounted to 88.9 million tonnes. In 2011 SUEK's international coal sales amounted to 33.7 million tonnes, it is by 4.6 million tonnes (16%) higher than in 2010; the increase was due to higher volumes of sales in the Asia-Pacific region. The volume SUEK's domestic sales in made up 55.2 million tonnes, it is by 6.1 million tonnes (10%) lower than in 2010, due to reduced demand for thermal coal in Russia and the growing SUEK's international sales.

The sales of hard coal made up 51.2 million tonnes (58% of total sales), brown coal – 37.7 million tonnes (42% of total sales).

Coal sales in 2010-2011 (mt)



Coal sales structure in 2011 (mt)



Sales volume

International sales

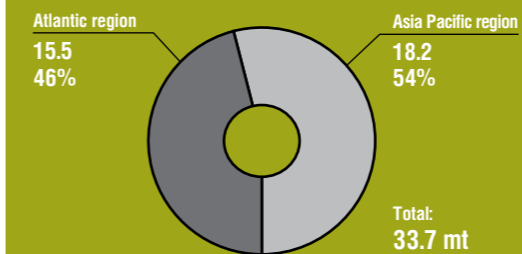
In 2011, SUEK sales in the Asia-Pacific Region for the first time exceeded those in the Atlantic Region, making up 54% of the total SUEK's international sales. In the recent years, growth in world thermal coal market was mainly driven by the Asia-Pacific region. Stemming from the rapid development of Asian economies and, consequently, a relatively high demand for coal, prices became more attractive as compared to the Atlantic region. Growth in SUEK sales to the Asia-Pacific region resulted also from the development of port facilities in the Far East and investment in Asian-Pacific market-oriented production facilities.

The most significant markets for SUEK in the Asia-Pacific region are South Korea, China and Japan, which together made up 14.0 million tonnes, or 77% of SUEK sales in the region in 2011:

Structure of international sales in the Asia-Pacific region in 2011 (mt)

Thouth Korea	5.4	30%	14.0 mt (77%)
China	4.4	24%	
Japan	4.2	23%	
Taiwan	2.3	13%	
India	1.1	6%	
Other countries	0.8	4%	
Total	18.2	100%	

Structure of International sales in 2011 (mt)



In 2011 the most significant markets for SUEK in the Atlantic region were the UK, Poland, Germany, Finland and France, which together made up 10.9 million tonnes, or 70% of SUEK sales in the region in 2011:

Structure of international sales in the Atlantic region in 2011 (mt)

UK	4.5	29%	10.9 mt (70%)
Poland	2.2	14%	
Germany	1.4	9%	
Finland	1.4	9%	
France	1.4	9%	
Morocco	1.0	6%	
Denmark	0.7	5%	
Turkey	0.5	3%	
The Netherlands	0.3	2%	
Other countries	2.1	14%	
Total	15.5	100%	

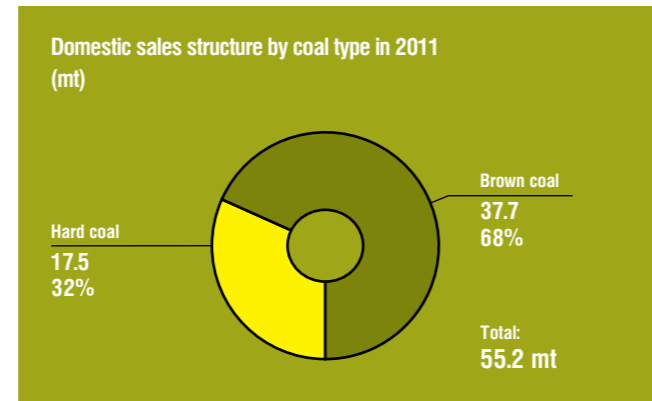
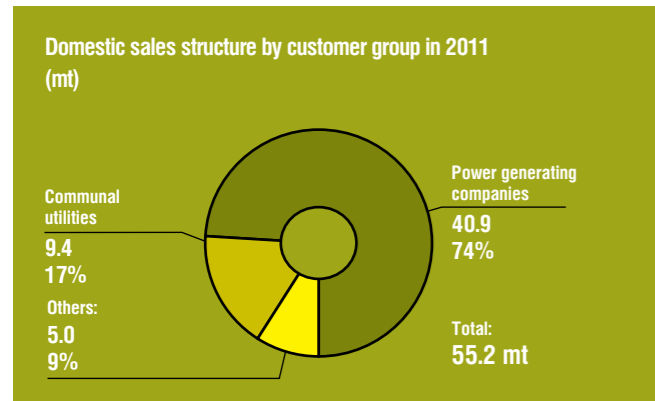
6.2 Revenue

Sales volume

Domestic sales

In 2011 power generation companies account for the major share in SUEK domestic sales: SUEK delivered 40.9 million tonnes of coal to power plants (74% of SUEK sales in the domestic market).

Sales of hard coal accounted for 32% of total domestic sales. As a rule, hard coal specifications on the domestic market are less tight as compared to the international market. In particular, the calorific value of export-quality coal should be at least 5 500 kcal/kg, while lower calorific value (at least 4 000 kcal/kg) is acceptable for the domestic market. Calorific value specifications on the Asia-Pacific market can be less tight, however such supplies are economically reasonable only for those mines which are located not too distant from transshipment sea ports.



Prices

International Sales

The selling prices depend on general market conditions, the specific market, means of transportation and terms of delivery, and other factors. The main volume of international supplies of coal is delivered by sea, on CIF or FOB terms.

See section 6.3.2 Transportation costs.

In 2011, the average price of SUEK international sales¹ was \$114/t, it is by 27% higher than in 2010.

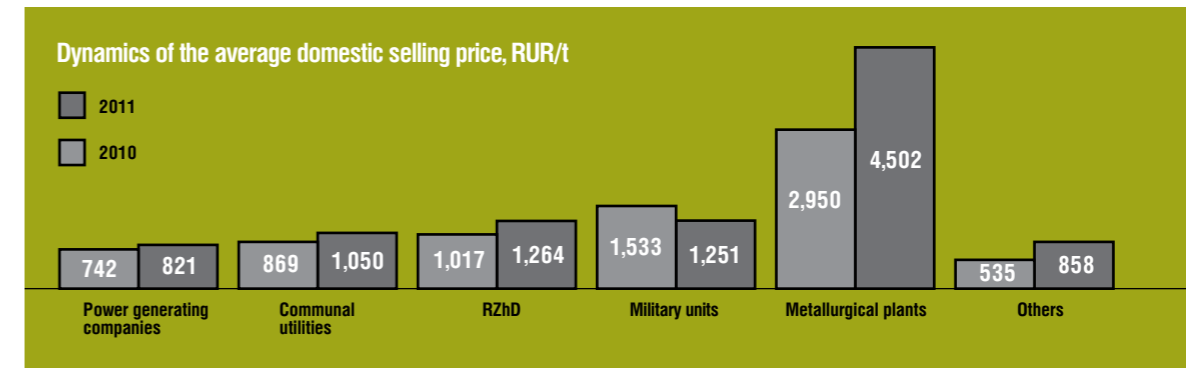
SUEK average selling price in 2010–2011 reflects the market prices dynamics prevailing in the Asia-Pacific and Atlantic markets throughout 2010 and 2011, with certain short periods of declining prices. At the end of 2011, the reduction of prices in both markets was noticeable, and this trend may continue in 2012 due to the excess of the supply over demand; this trend most clearly prevails in the Atlantic market.

Domestic market

The prices for domestic sales also depend on coal quality characteristics, terms of sale, market conditions and macroeconomic indicators. Means of transportation and the delivery "arm", are the key terms since, as a rule, the transportation is carried out by SUEK, and respective costs should be covered by the selling price

(see also Section "Cost of sales – Transportation costs").

In 2011, the average domestic selling price² was RUR899/t, it is RUR124/t (16%) higher than that in 2010.



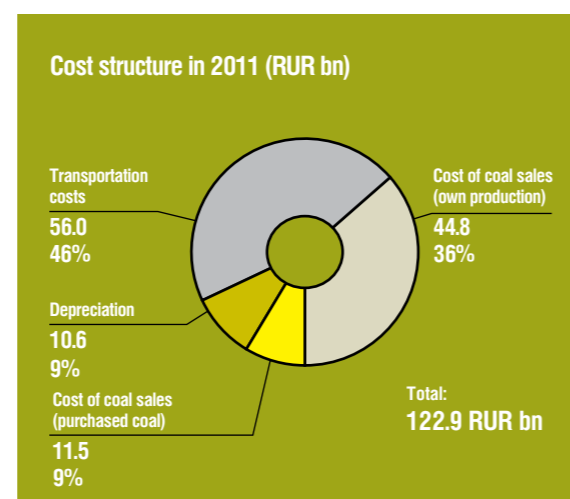
¹ The average price of international sales is calculated by dividing the consolidated revenue from international coal sales by the respective sales volume for the period.

² The average domestic selling price is calculated by dividing the consolidated revenue from domestic coal sales by the respective sales volume for the period.

6.3 Cost of Sales

In 2011, SUEK cost of sales amounted to RUR122.9 billion, it is by RUR16.4 billion (15%) higher than in 2010.

Cost of sales in 2010-2011				
RUR mln	2011	2010	Δ	Δ%
Cost of coal sales (own production)	44,759	38,509	6,250	16%
Transportation costs	56,039	49,727	6,312	13%
Cost of coal sales (purchased coal)	11,530	9,330	2,200	24%
Depreciation	10,557	8,952	1,605	18%
Total	122,885	106,518	16,367	15%



6.3.1 Cost of coal sales (own coal)

In 2011, cost of own coal of SUEK amounted to RUR44.8 billion, it is by RUR6.3 billion (16%) higher than in 2010.

Structure and dynamics of cost of coal sales (own production)				
In RUR mln	2011	2010	Δ	Δ%
Labour	15,362	11,730	3,632	31%
Consumables and spares	10,042	7,137	2,905	41%
Work and services provide by third parties	11,303	10,970	333	3%
Purchased power	2,725	2,524	201	8%
Taxes	2,609	2,624	(16)	-1%
Land rent	945	906	40	4%
Other production costs	2,854	2,340	514	22%
(Increase) / decrease in finished goods	(1,081)	279	(1,360)	
Total	44,759	38,509	6,250	16%

The following factors affected separate cost elements:

Labor

In 2011 labor costs (including social funds contributions) amounted to RUR15.4 billion, it is by RUR3.6 billion (31%) higher than in 2010. The increase was due to the following factors:

- increase in the contribution rate from 26% to 34% (9% of the overall increase in the cost element);
- indexation of wages from the beginning of 2011 by 8.8% (8% of the overall increase in the cost element);
- increase in production and labor productivity (4% of the overall increase in the cost element);
- bringing the fixed portion of the wages to 70% at the request of the Government of the RF (2% of the overall increase in the cost element).

Materials and spare parts

In 2011 costs of materials and spare parts accounts for RUR10.0 billion exceeding the indicator of 2010 by RUR2.9 billion (41%). Growth of expenses occurred mainly due to:

- increase in operational performance (production growth of 3.5% in the whole SUEK, growth on 18% of stripping);
- increase in the prices at acquired fuels purchased by 30%;
- influence of inflation on the cost of purchased materials and spare parts (8% in 2011);
- growth of the volume of repairs and general maintenance costs, including integration of new equipment in 2010–2011.

Works and services provided by third parties

In 2011, cost of works and services provided by third parties amounted to RUR11.3 billion, it is by RUR0.3 billion (3%) more than in 2010.

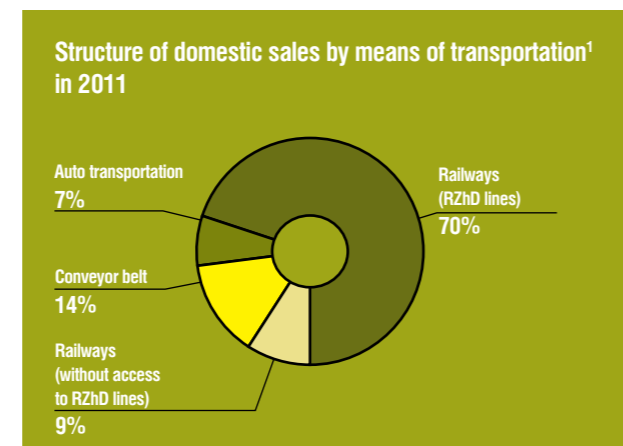
6.3 Cost of Sales

6.3.2 Transportation costs

Transportation costs are costs to deliver coal from the shipment station to the point named by the buyer. The means and terms of delivery are important factors in determining the basis of the coal price and delivery cost.

Coal transportation to domestic consumers

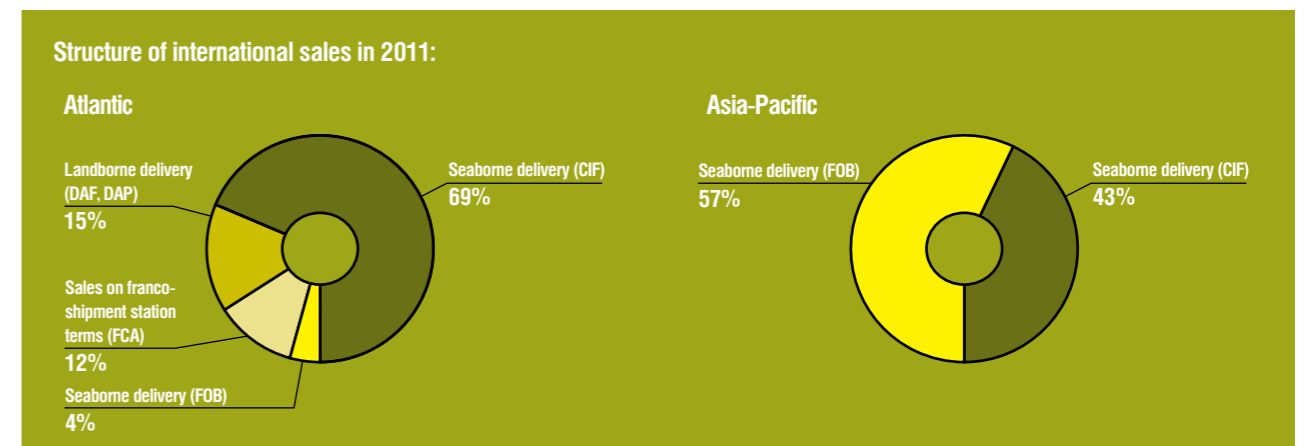
The major portion of domestic coal deliveries is by railway tracks owned by Russian Railways (OJSC RZHD). In the Krasnoyarsk Territory, a portion of coal is delivered to customers by a conveyor belt (open-pit mine – power station storage), as well as through internal railway tracks without entering the OJSC RZHD stations. In each region, a small percentage of deliveries is carried by motor vehicles.



¹ Excluding coal shipped on FCA and/or self-delivery terms.

Coal transportation to overseas customers

The major portion of export coal deliveries is by sea: coal is transported by rail to various ports of Russia and – occasionally – ports of Ukraine and Latvia, where it is loaded onto sea vessels and shipped to the ports named by customers. Typically, the means of transportation is determined by the region of destination: delivery to countries in the Asia-Pacific region is primarily by sea; approximately 73% of coal sold in the Atlantic region is transported by sea, 15% – by land (rail) and the remaining 12% is delivered on FCA terms. A specific feature of the Asia-Pacific market in terms of delivery is that a significant number of regional customers (primarily in Japan and South Korea) either own or charter vessels, and therefore purchase coal on FOB terms; seaborne delivery of coal to customers in the Atlantic region are primarily on CIF terms. Deliveries to certain countries in Europe and to China can be also arranged by direct rail.



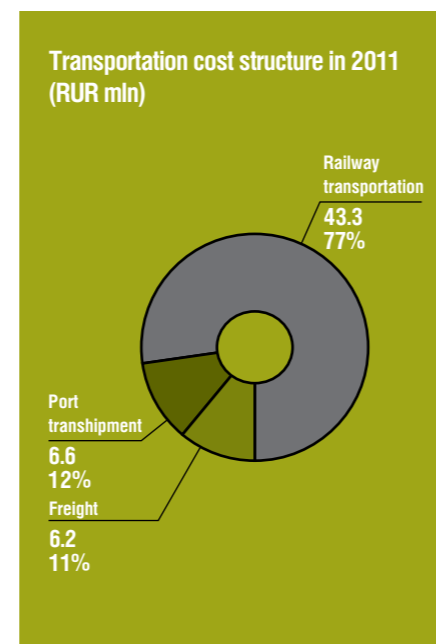
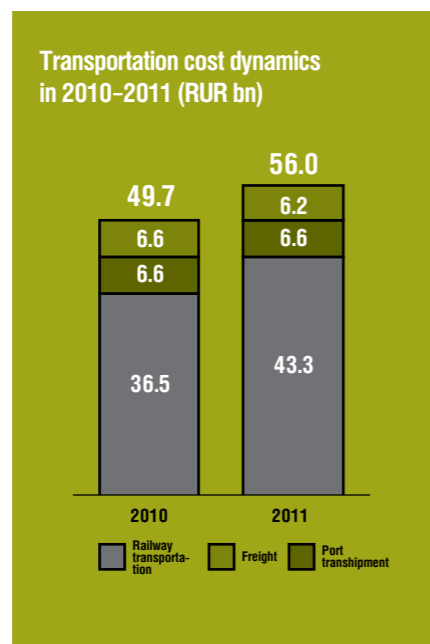
6.3 Cost of Sales

6.3.2 Transportation costs

Transportation costs represent the most significant of SUEK's costs (46% of cost of sales in 2011). In 2011, transportation cost amounted to RUR56.0 billion, it is by RUR6.3 billion (13%) higher than in 2010:

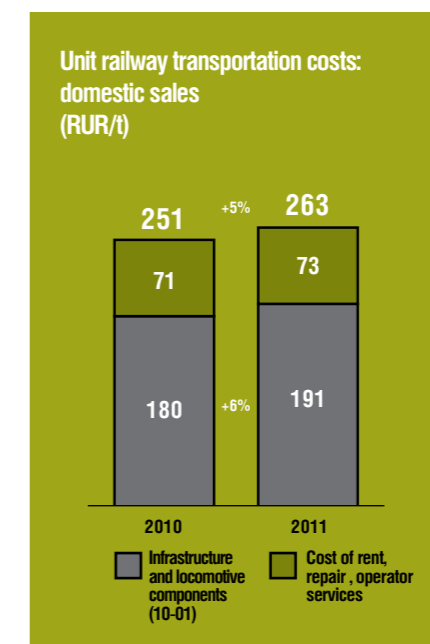
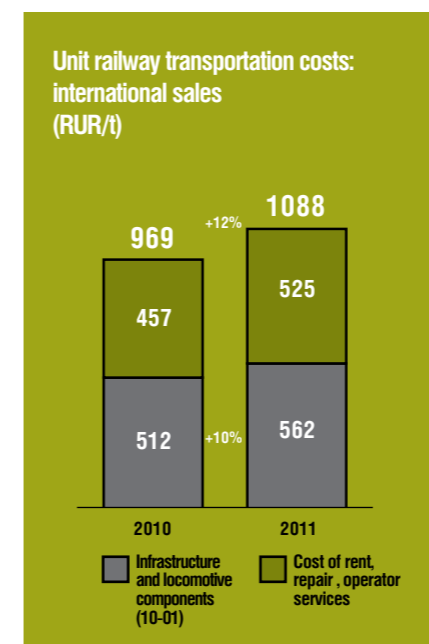
RUR mln	2011	2010	Δ	Δ%
Rail transportation	43,302	36,559	6,744	18%
Transshipment in ports	6,570	6,585	(15)	0%
third party ports	5,420	5,414	6	0%
own coal terminal in Vanino port	1,150	1,171	(21)	-2%
Freight	6,167	6,584	(417)	-6%
Total	56,039	49,728	6,312	13%

The largest portion of transportation cost is related to rail transportation of coal (77% of total transportation costs in 2011):



Rail transportation

In 2011, rail transportation costs amounted to RUR43.3 billion, it is by RUR6.7 billion (18%) more than in 2010. The increase was primarily due to the growth in exports (hence, longer transportation leg), indexation of railway tariffs, rising costs of rail freight operators, increasing lease price for the rolling stock.



6.3 Cost of Sales

6.3.2 Transportation costs

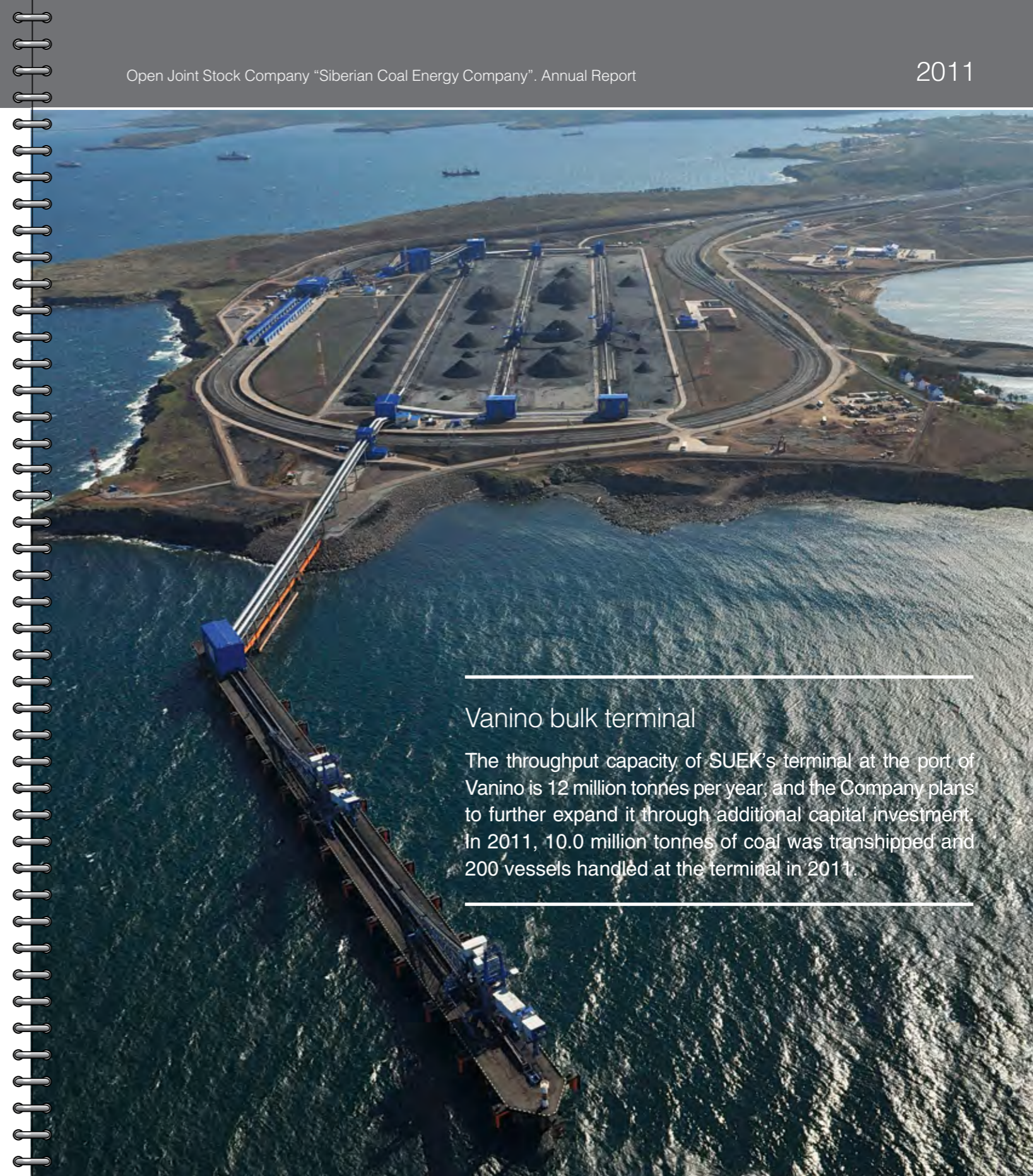
Transshipment

The cost of transshipment in ports totaled RUR6.6 billion, without any noticeable changes compared with 2010.

Freight

In 2011, the volume of freight increased by 2.6 million tonnes to 18.1 million tonnes (17% increase over 2010). Freight costs amounted to RUR6.2 billion, it is by RUR0.4 billion (6%) lower than in 2010. This change in costs resulted from a decrease in freight rates (average volume-adjusted freight rate was \$11.05/t in 2011 and \$13.06/t in 2010) and a positive effect of the movement of the ruble exchange rate against the U.S. dollar.

Freight volumes in 2010-2011				
mt	2011	2010	Δ	Δ%
North-Western port of Russia and the Baltic state	10.0	9.8	0.2	2%
Far-Eastern ports of Russia, incl. Vanino	7.6	4.6	3.0	65%
Southern ports, incl. Ukraine	0.5	1.1	(0.6)	-55%
Total	18.1	15.5	2.6	17%



Vanino bulk terminal

The throughput capacity of SUEK's terminal at the port of Vanino is 12 million tonnes per year, and the Company plans to further expand it through additional capital investment. In 2011, 10.0 million tonnes of coal was transhipped and 200 vessels handled at the terminal in 2011.

6.4 Selling and Administrative Expenses

In 2011, selling and administrative management expenses totaled RUR5.4 billion, it is by RUR1.2 billion (28%) more than in 2010.

RUR mln	2011	2010	Δ	Δ%
Salaries	2,895	2,210	685	31.0%
Consulting, legal, audit and other professional services	1,025	679	346	51.0%
Charitable donations	662	494	168	34.0%
Office rent	335	328	7	2.1%
Customs duties	159	199	(40)	-20.1%
Other	333	331	2	0.6%
Total	5,409	4,241	1,168	27.5%

The increase in selling and administrative expenses was primarily due to the following factors:

- Increase in salaries by 31% on the account of payouts to top Company management connected with the completion of a three-year long-term motivation program.
- An increase in consulting, legal advice, auditing and other professional services by 51% incurred in order to ensure readiness of the Company for an IPO in case of the respective decision taken, and the reorganization of the power business in 2011.

6.5 EBITDA

SUEK consolidated EBITDA amounted to RUR52.0 billion, which by RUR19.0 billion (58%) higher than in 2010. The increase was achieved primarily as a result of the growth in international sales and coal selling prices.

6.6 Finance Costs

In 2011, SUEK finance costs totaled RUR6.5 billion, which by 0.3 billion (5%) lower than in 2010. The decrease was primarily due to lower interest expense.

RUR mln	2011	2010	Δ	Δ%
Interest expense	4,404	6,070	(1,666)	-27%
Change in fair value of derivatives ¹	1,494	–	1,494	
Bank commission and charges	899	825	74	9%
Unwinding of discount on environmental obligation	207	165	42	25%
Interest income	(534)	(267)	(267)	100%
Total	6,470	6,793	(323)	-5%

Interest expense

In 2011, interest expenditure amounted to RUR4.4 billion, it is by RUR1.7 billion (27%) lower than in 2010. This decrease was due to a reduction in Company's borrowing costs in 2011. The average interest rate on the entire debt portfolio of SUEK in 2011 was 3.77%. On the 31 December 2011, about 88% of the debt portfolio was represented by floating rate loans which is explained by a high portion (80%) of pre-export financing. For an export-oriented company, pre-export financing is the best source of funds, including in terms of its cost. SUEK raises loans from Russian banks which are denominated in U.S. dollars, at fixed rates.

Change of the value of derivatives

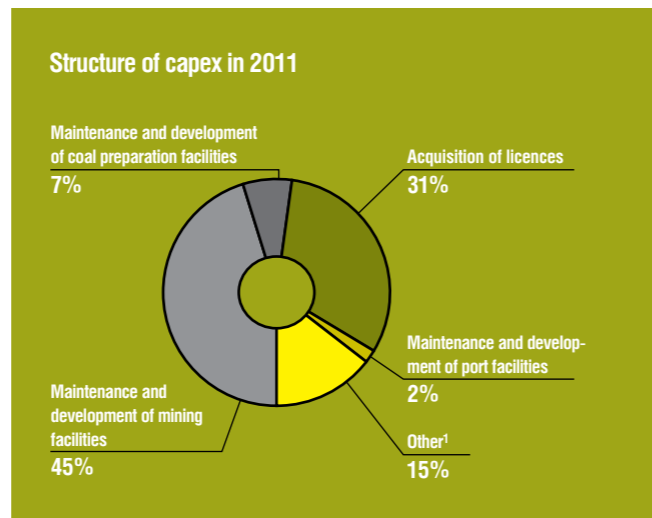
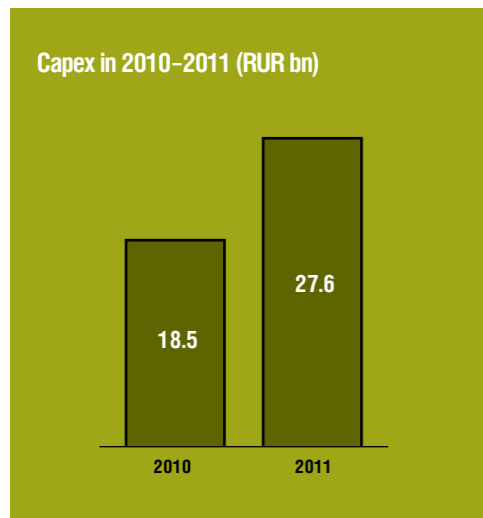
Included in the financial costs of 2011, are changes in the fair value of certain derivatives that are not hedging instruments (see Note 16 to the Consolidated financial statements in Section 7).

6.7 Net Profit

In 2011, SUEK consolidated net profit was RUR24.9 billion, which by RUR15.8 billion (174%) higher than in 2010.

¹ Excluding hedge instruments.

6.8 Capital Expenditure



In 2011, SUEK capital expenditure amounted to RUR27.6 billion. The main directions of SUEK capex are maintenance and development of coal extraction and preparation facilities, acquisition of subsoil licenses and the development of port and rail infrastructure.

In 2011, investments in the development and maintenance of production facilities amounted to RUR12.5 billion, and were primarily directed to the following:

- increasing the production of export-quality thermal coal in Kuzbass by 8 million tonnes in 2014–2015;
- increasing the production of premium-quality semi-coking coals of by 1 million tonnes in 2014–2015;
- increasing the capacity of hard coal mines located in close proximity to the target markets of the Asian-Pacific region by 7.5 million tonnes in 2014–2015.

In 2011, SUEK continued investing in the development of its coal preparation facilities:

- Construction of a new coal preparation plant (CPP) at Chegdomyn with a capacity of 6 mtpa to be attained by 2014, which will enable the processing of over 85% of Urgal coal.
- Construction of a new CPP at the Kirova mine with a capacity of 5 mtpa to be attained by 2013.
- Reconstruction of the Tugnui CPP to increase its capacity to 9 mtpa by the end of 2012, to process up to 100% of Tugnui open pit.
- Reconstruction of the Chernogorsk CPP to achieve a capacity of 6 mtpa by the end of 2012, to process up to 100% of Chernogorsk open pit.

The total amount of capital investment in coal preparation capacities in 2011 amounted to approximately RUR2 billion.

One of the strategic areas for SUEK is its participation in auctions for obtaining subsoil licences and the purchase of plots of land (reserves). In 2011, the respective capital expenditures amounted to RUR8.7 billion, and were directed at purchasing licenses in the Kuzbass, Khakassia and the Apsatskoye coal field.

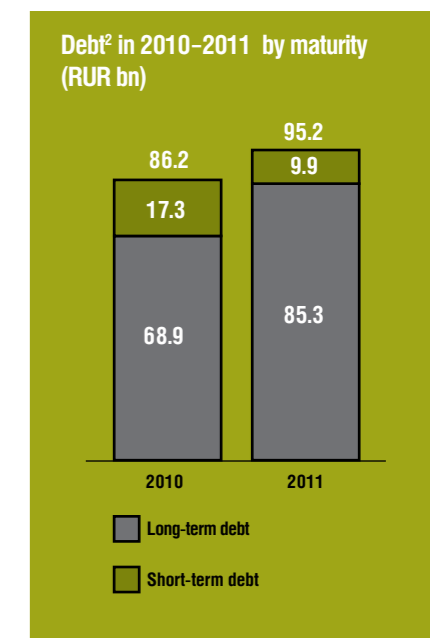
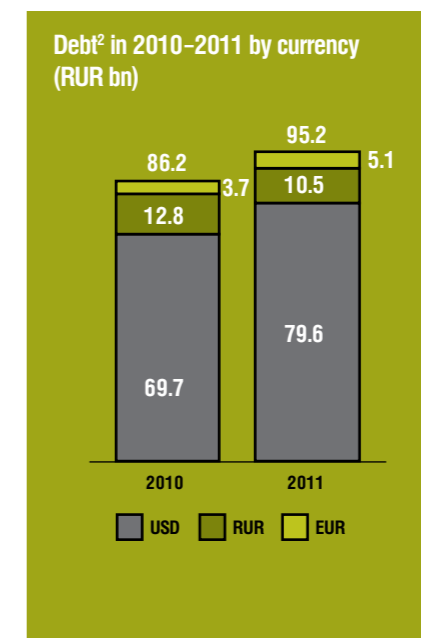
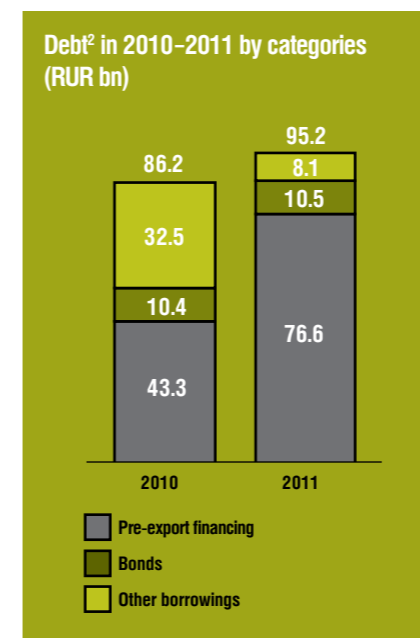
¹ Of which 9% are represented by capital expenditures of power companies de-merged from SUEK in 2011.

6.9 Net Debt

As of 31 December 2011, SUEK net debt stood at RUR91.4 billion, which by RUR13.5 billion (17%) more than as of 31 December 2010. The key financial covenant of the Company (Net debt / adjusted EBITDA¹) made up 1.66x, which was well below the maximum threshold allowed by the Company's credit agreements.

As a result of various actions taken to optimize the debt portfolio of the Company, its structure changed significantly in 2011:

- The share of long-term debt (with maturities of over 1 year from the reporting date) increased from 80% to 90%; the overall duration of debt as of 31 December 2011 was approximately three years.
- The share of pre-export financing in total debt increased from 50% to 80%.



¹ Adjusted EBITDA is calculated in accordance with the terms of SUEK credit agreements as EBITDA, excluding the taxes included in the prime cost in the consolidated financial statements according to IFRS (the tax on mining, property tax, and other taxes).

² Cash and cash equivalents as at 31.12.2011 amounted to RUR3.8 billion (31.12.2010 – RUR8.3 billion).

7. SUEK Consolidated Annual Financial Statements

for the year ended 31 December 2011

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Independent Auditors' Report

To the shareholders of Open Joint Stock Company "Siberian Coal Energy Company"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Siberian Coal Energy Company" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 policies 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

3 February 2012

SUEK. Consolidated statement of comprehensive income for the year ended 31 December

Millions of Russian Roubles, unless otherwise stated	Notes	2011	2010
Continuing operations			
Revenue	6	167,013	131,200
Cost of sales	7	(122,885)	(106,518)
Gross profit		44,128	24,682
Selling, general and administrative expenses	8	(5,409)	(4,241)
Other income/(expense), net	9	137	(1,050)
Operating profit		38,856	19,391
Finance costs	10	(6,470)	(6,793)
Share of profit of associates, net	12	122	–
Foreign exchange loss		(1,218)	(427)
Profit before tax		31,290	12,171
Income tax expense			
Current income tax expense		(5,979)	(1,609)
Deferred income tax expense		(1,340)	(1,177)
Total income tax expense	24	(7,319)	(2,786)
Profit for the year from continuing operations		23,971	9,385
Discontinued operations			
Profit/(loss) for the year from discontinued operations	31	895	(333)
Profit for the year		24,866	9,052
Attributable to:			
Ordinary shareholders of the parent		23,703	8,418
Non-controlling interests		1,163	634
Profit for the year		24,866	9,052

Millions of Russian Roubles, unless otherwise stated	Notes	2011	2010
Other comprehensive income/(expense)			
Effective portion of changes in fair value of cash flow hedges, net of deferred tax	16	19	(2,722)
Transfer of changes in fair value of cash flow hedges to the income statement, net of deferred tax	16	1,504	1,194
Actuarial losses	21	(182)	(193)
Change in fair value of available for sale investments, net of deferred tax		79	125
Foreign subsidiary translation difference		(114)	(4)
Total other comprehensive income/(expense)		1,306	(1,600)
Total comprehensive income for the year		26,172	7,452
Basic and diluted earnings per share from continuing operations (in Russian Roubles)	19	97	35
Basic and diluted earnings per share from discontinued operations (in Russian Roubles)	19	3	(2)

V.V. Rashevskiy
General Director

K.V. Marchuk
Chief Financial Officer

3 February 2012

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

SUEK. Consolidated statement of financial position as at 31 December

Millions of Russian Roubles	Notes	2011	2010
ASSETS			
Non-current assets		111,933	170,054
Property, plant and equipment	11	98,862	165,066
Long-term receivables	31	9,669	–
Investment in associates	12	1,530	1,408
Other non-current assets		1,440	1,811
Deferred tax assets	24	432	1,769
Current assets		43,015	42,918
Inventories	13	11,714	11,704
Trade accounts and other receivables	14	20,112	17,994
Prepaid and recoverable taxes	15	6,576	4,796
Derivative financial assets	16	815	167
Cash and cash equivalents	17	3,798	8,257
Total assets		154,948	212,972
EQUITY AND LIABILITIES			
Equity		16,455	69,625
Share capital	18	1	1
Additional paid-in capital		–	23,089
Hedging reserve	16	(622)	(2,145)
Treasury shares	18	(28,237)	–
Retained earnings		42,699	35,375
Attributable to ordinary shareholders of the parent		13,841	56,320
Non-controlling interests		2,614	13,305

Millions of Russian Roubles	Notes	2011	2010
Non-current liabilities		96,241	89,914
Long-term borrowings	20	85,345	68,890
Deferred tax liabilities	24	7,004	16,248
Other liabilities	21	3,892	4,776
Current liabilities		42,252	53,433
Trade accounts and other payables	22	22,232	29,942
Short-term borrowings	20	9,860	17,302
Derivative financial liabilities	16	7,795	2,627
Taxes payable	23	2,365	3,562
Total shareholders' equity and liabilities		154,948	212,972

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

SUEK. Consolidated statement of cash flows for the year ended 31 December

Millions of Russian Roubles	Notes	2011	2010
Profit before tax from continuing operations		31,290	12,171
Profit/(loss) before tax from discontinued operations	31	1,262	(1,006)
Adjustments to profit before tax:			
Share of profit of associates	12	(122)	(854)
Loss from disposal and impairment of investments		–	223
Amortisation, depreciation and impairment	5	12,327	15,511
Gain from disposal of property, plant and equipment	9	(29)	(196)
Finance costs	5	6,463	6,544
Foreign exchange loss		744	386
Bad debt expense		8	2,331
Other, net		84	(37)
Changes in working capital items:			
Increase in inventories		(2,371)	(475)
Increase in trade accounts and other receivables		(7,147)	(4,200)
Increase in prepaid and recoverable taxes (other than income tax)		(1,882)	(354)
Decrease in trade accounts and other payables		(3,810)	(277)
Increase/(decrease) in taxes payable (other than income tax)		609	(639)
Net cash inflow from operations		37,426	29,128
Interest and commissions paid		(5,659)	(6,120)
Income tax paid		(7,843)	(1,776)
Net cash inflow from operating activities		23,924	21,232

Millions of Russian Roubles	Notes	2011	2010
Investing activities			
Purchase of property, plant and equipment		(26,762)	(19,213)
Purchase of non-current investments		(396)	–
Interest received		413	364
Dividends received		–	31
Loans issued		(3,909)	–
Proceeds from disposal of non-current investments		56	6,377
Proceeds from disposal of property, plant and equipment		241	1,773
Net cash outflow from investing activities		(30,357)	(10,668)
Financing activities			
Sale/(purchase) of non-controlling interest in subsidiaries, net		280	(11,018)
Proceeds from long-term borrowings		51,987	61,886
Repayments of long-term borrowings		(40,608)	(48,079)
Proceeds from/(repayments of) short-term borrowings, net		12,087	(18,097)
Acquisition of treasury shares	18	(28,237)	–
Cash inflow on de-merger of power business, net of cash disposed of	31	19,919	–
Dividends paid	18	(13,690)	(240)
Net cash inflow/(outflow) from financing activities		1,738	(15,548)
Foreign exchange effect on cash and cash equivalents		236	45
Net decrease in cash and cash equivalents		(4,459)	(4,939)
Cash and cash equivalents at the beginning of the year	17	8,257	13,196
Cash and cash equivalents at the end of the year	17	3,798	8,257

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

SUEK. Consolidated statement of changes in shareholders' equity for the year ended 31 December

Millions of Russian Roubles	Notes	Share capital	Additional paid-in capital	Hedging reserve	Treasury shares	Retained earnings	Attributable to ordinary shareholders of the parent	Non-controlling interests	Total
Balance at 1 January 2010		1	20,539	(617)	–	27,133	47,056	24,989	72,045
Profit for the year		–	–	–	–	8,418	8,418	634	9,052
Effective portion of changes in fair value of cash flow hedges		–	–	(2,722)	–	–	(2,722)	–	(2,722)
Transfer of changes in fair value of cash flow hedges to the profit or loss		–	–	1,194	–	–	1,194	–	1,194
Actuarial losses		–	–	–	–	(193)	(193)	–	(193)
Change in fair value of available for sale investments		–	–	–	–	125	125	–	125
Foreign subsidiary translation difference		–	–	–	–	(4)	(4)	–	(4)
Total comprehensive income/(expense) for the year		–	–	(1,528)	–	8,346	6,818	634	7,452
Purchase of additional interest in subsidiaries		–	118	–	–	(104)	14	(12,648)	(12,634)
Disposal of OJSC "Krasnoyarskaya GES"	12	–	2,432	–	–	–	2,432	570	3,002
Dividends to non-controlling interests		–	–	–	–	–	–	(240)	(240)
Balance at 31 December 2010		1	23,089	(2,145)	–	35,375	56,320	13,305	69,625
Profit for the year		–	–	–	–	23,703	23,703	1,163	24,866
Effective portion of changes in fair value of cash flow hedges	16	–	–	19	–	–	19	–	19
Transfer of changes in fair value of cash flow hedges to the profit or loss	16	–	–	1,504	–	–	1,504	–	1,504
Actuarial losses	21	–	–	–	–	(182)	(182)	–	(182)
Change in fair value of available for sale investments		–	–	–	–	79	79	–	79
Foreign subsidiary translation difference		–	–	–	–	(114)	(114)	–	(114)
Total comprehensive income/(expense) for the year		–	–	1,523	–	23,486	25,009	1,163	26,172
Purchase of non-controlling interest, net	30	–	–	–	–	98	98	(304)	(206)
De-merge of power business	31	–	(23,089)	–	–	(3,014)	(26,103)	(11,022)	(37,125)
Aquisition of treasury shares	18	–	–	–	(28,237)	–	(28,237)	–	(28,237)
Recognition of option agreement for shares of OJSC "DEC"		–	–	–	–	(84)	(84)	–	(84)
Dividends	18	–	–	–	–	(13,162)	(13,162)	(528)	(13,690)
Balance at 31 December 2011		1	–	(622)	(28,237)	42,699	13,841	2,614	16,455

The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1. General Information

Organisation and principal activities. Open Joint Stock Company ("OJSC") "Siberian Coal Energy Company" ("SUEK" or the "Company") was founded on 1 December 1999 and registered in the Russian Federation on 14 March 2000 as OJSC "Republican Industrial Union on Distribution and Manufacturing of Coal Products". On 19 December 2002 a resolution was passed and registered on 20 December 2002 to rename the Company as SUEK.

Until 2004 SUEK operated as a coal trading company. In 2004, the shareholders initiated a process to create a holding company and consolidate its coal mining assets which resulted in a shift in the Company's business focus from coal trading to the extraction and sale of coal. Acquisitions were made with the prior consent of the Russian Federal Antimonopoly Service.

Starting in 2004, the Company also acquired substantial interests in power companies in the regions of its coal mining assets.

In December 2004, the Company established SUEK AG as an export trading subsidiary to assist in the growth of export sales.

In April 2011, the most of power business was de-merged from the coal business of SUEK (see note 31). As a result of de-merger income and expenses relating to de-merged entities have been presented as discontinued operations for the year ended 31 December 2011 and 2010.

Prior to 2011, SUEK was a subsidiary of DONALINK LIMITED ("DONALINK"). In April 2011, DONALINK established new subsidiary SUEK PLC under the laws of the Republic of Cyprus. In May 2011, DONALINK sold shares of the Company to SUEK PLC, thereby SUEK PLC becoming the immediate parent of SUEK.

The ultimate beneficiary of SUEK PLC is Mr. Andrey Melnichenko (78%).

SUEK has its registered office at Building 29, Serebryanicheskaya Embankment, Moscow, 109028, Russian Federation.

2. Basic of Presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for:

- valuation of property, plant and equipment, including mineral rights, at the date of adoption of IFRS 1 – **"First Time Adoption of International Financial Reporting Standards"** ("IFRS 1") which provides for entities to elect to measure items of property, plant and equipment, including mineral rights at fair value, and use that value as deemed cost in the future. The Group elected to measure property, plant and equipment, including mineral rights, at fair value as of 1 January 2005, which forms the deemed cost of these assets; and
- derivative financial instruments and available for sale financial assets which are stated at fair value.

Functional currency. The functional currency of the Company and its subsidiaries is the Russian Rouble ("RUR"), except for foreign trading subsidiaries. The following exchange rates applied at 31 December and during the years then ended (in RUR):

	2011		2010	
	USD	EUR	USD	EUR
Year end	32,1961	41,6714	30,4769	40,3331
Average rate	29,3874	40,8865	30,3692	44,2980

Adoption of new and revised standards and interpretations.

IAS 24 (Revised) – “*Related Parties Disclosures*” (2009). (“Revised IAS 24”). Effective 1 January 2011 the Group adopted Revised IAS 24 which introduces a number of changes in respect of presentation of related parties transactions, in particular, with associates of the parent company. As a result of adoption of the standard, balances and transactions with associated companies of DONALINK were classified as transactions and balances with related parties. The comparative information was revised accordingly.

A number of new standards and interpretations are not yet effective as of the reporting date and have not been applied in preparing these consolidated financial statements:

IAS 19 – “*Employee benefits*” (effective for periods beginning on or after 1 January 2013) eliminates the “corridor” approach and recognises all actuarial gains and losses in other comprehensive income (“OCI”) as they occur; immediately recognises all past service costs; and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group does not anticipate significant impact of the standard on the consolidated financial statements.

IAS 28 – “*Investments in Associates and Joint Ventures*” (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted) prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 9 – “*Financial Instruments*” (effective for accounting period beginning on 1 January 2015) was issued in phases and intended ultimately to replace International Financial Reporting Standard IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”). The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. 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.

IFRS 10 – “*Consolidated financial statements*” (effective for accounting period beginning on or after 1 January 2013, with earlier application permitted) replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” (“IAS 27”) and SIC-12 “Consolidation – Special Purpose Entities” (“SIC-12”). IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 11 – “*Joint arrangements*” (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted) replaces IAS 31 “Interests in Joint Ventures” (“IAS 31”) and SIC 13 “Jointly Controlled Entities – Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the number of “types” of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group does not anticipate significant impact of the standard on the consolidated financial statements.

IFRS 12 – “*Disclosure of interests in other entities*” (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted) requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 13 – “*Fair value measurement*” (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted) aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IAS 1 (Amended) – “*Presentation of financial statements*” (effective for annual periods beginning on or after 1 July 2012) changes the disclosure of items presented in OCI. The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. The Group is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 7 (Amended) – “*Financial Instruments: Disclosures*” (effective for annual periods beginning on or after 1 July 2011) introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. Adoption of the amendment did not have an impact on the Group’s consolidated financial statements since the Company was already in compliance with the amended standard.

IFRIC 20 – “*Stripping Costs in the Production Phase of a Surface Mine*” (effective for periods beginning on or after 1 January 2013, with earlier application permitted). Under the interpretation, production stripping costs that provide access to coal to be mined in the future are capitalized as non-current assets if the component of the coal body for which access has been improved can be identified and future benefits arising from the improved access are both probable and reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. The Group recognises that the new interpretation is likely to have a significant impact on the Group’s consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements.

Seasonality of business. The business and operating results of the Group are substantially dependent on domestic and international demand. Coal markets are cyclical and exhibit fluctuations in supply and demand from year to year and are subject to numerous factors, including, but not limited to:

- Russian and global economic conditions;
- regional and global supply and demand for domestic and foreign coal and expectations regarding future supply and demand;
- fluctuations in industries with high demand for thermal coal, such as power generation companies;
- unseasonably warm or cool temperatures or other climatic conditions;
- availability and price of alternative fuels and power;
- the proximity to, capacity of, and cost of transportation facilities; and
- domestic and foreign governmental regulations and taxes.

Revenues from coal are concentrated in the months of October to March. Costs of production are relatively stable throughout the year. During the period from April to September there is a trend for servicing and maintenance costs to increase whilst production as well as the associated variable costs decrease.

3. Significant Accounting Policies

3.1 Basis of consolidation

Subsidiaries. Subsidiaries are those enterprises controlled by the Group. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased.

Control is presumed to exist when the Company:

- owns, directly or indirectly through subsidiaries, more than 50% of the voting equity of an enterprise; or
- owns, directly or indirectly through subsidiaries, less than 50% of the voting equity of an enterprise, but has the ability to:
 - govern the financial and operating policies of the enterprise under a statute or an agreement;
 - appoint or remove the majority of the members of the board of directors, or the equivalent governing body, and the control over the entity is by that board or body;
 - cast the majority of votes at meetings of the board of directors or equivalent governing body, and the control over the entity is by that board or body.

The acquisition of subsidiaries from third parties is accounted for using the purchase method of accounting. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values as at the date of acquisition. Non-controlling (minority) interest is measured at its proportionate interest in the identifiable assets and liabilities of the acquiree.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them in line with those used by the Group.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Acquisitions of subsidiaries from entities under common control are accounted for on a carryover basis, which results in the

historical book value of assets and liabilities of the acquired entity in the consolidated financial statements of the previous parent being combined with that of the Group. The consolidated financial statements of the Group are retrospectively restated to reflect the effect of the acquisition as if it had occurred at the beginning of the earliest period presented providing common control existed at the time. For acquisitions funded through the issuance of shares, share capital is restated to reflect the combined entity based on the share exchange ratio at the date of the acquisition. Any difference between the purchase price and the net assets acquired is reflected in additional paid-in capital.

Changes in ownership interests by the Group in a subsidiary, while maintaining control, are recognised as an equity transaction.

The result of disposal of equity investments to an entity under common control with the Group is recognised in equity.

Associates. An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted from the date significant influence effectively commenced until the date that significant influence effectively ceased.

Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to a nil value. Thereafter losses are only accounted for insofar as the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise against the investment in the associate.

3.2 Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the respective functional currency at the exchange rate ruling at the balance sheet date. Exchange differences arising from changes in exchange rates are recognised in the income statement.

The functional currency of the foreign trading subsidiaries is US Dollar ("USD"). The translation of the financial statements of the foreign trading subsidiaries from USD to RUR is performed in accordance with the requirements of IAS 21 – "*The Effects of Changes in Foreign Exchange Rates*" as follows:

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all income and expenses in each consolidated income statement are translated at the monthly average exchange rates for the years presented;
- resulting exchange differences are included in equity and presented separately; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates. All cash flows are translated at the monthly average exchange rates for the years presented. Resulting exchange differences are presented as foreign exchange effect on cash and cash equivalents.

3.3 Property, plant and equipment

Basis of carrying value of property, plant and equipment.

Assets in existence at 1 January 2005. Property, plant and equipment in existence at 1 January 2005 was valued by an independent firm of professionally qualified valuers. The basis of the valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value.

However, a significant part of property, plant and equipment, which is of a specialised nature, was valued on the depreciated replacement cost basis. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accumulated depreciation, including both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset.

Fair value amounts have subsequently been treated as deemed cost in accordance with the requirements of IFRS 1.

Assets acquired after 1 January 2005. Property, plant and equipment acquired after 1 January 2005 is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads, and the corresponding capitalised borrowing costs. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component that has been replaced. Subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

Mining rights. Mining rights include expenditures incurred in acquiring mineral and development rights. Mining rights are classified as property, plant and equipment.

Depreciation. Mining assets are depreciated using the unit-of-production method based on the estimated proven and probable coal reserves to which they relate or are written-off if the property is abandoned or where there is an impairment in value. Estimated proven and probable coal reserves determined in accordance with internationally recognised standards for reporting coal reserves reflect the economically recoverable coal reserves which can be legally recovered in the future from coal deposits.

Tangible assets, other than mining assets, are depreciated using the straight-line method based on estimated useful lives. For each item the estimated useful life has due regard to both its own physical life limitations and, if applicable, the present assessment of the economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all tangible assets, with annual reassessments for major items.

The estimated useful lives are as follows:

- | | |
|---------------------------------------|-------------|
| • mineral rights | 5–96 years |
| • buildings, structures and utilities | 15–44 years |
| • machinery, equipment and transport | 4–15 years |

Leased assets. Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or the present value of future minimum lease payments at the date of acquisition, with the related financial lease liability recognised at the same value. Capitalised leased assets are depreciated over their estimated useful lives or the term of the lease, if shorter.

Finance lease payments are allocated using the effective interest rate method, between:

- the lease finance cost, which is included in finance costs; and
- the capital repayment, which reduces the related lease obligation to the lessor.

3.4 Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are put in the location and condition necessary for them to be capable of operating in the manner intended by management. Capital construction-in-progress is reviewed regularly to determine whether its carrying value is recoverable.

3.5 Impairment

The Group reviews the carrying amounts of its tangible and intangible assets regularly to determine whether there are indicators of impairment. If any such indicators exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

A recoverable amount is the higher of fair value less costs to sell and value-in-use. 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than the carrying amount, the carrying amount is reduced to the recoverable amount, and the impairment loss is recognised immediately in the income statement.

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. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount unless it is solely related to the time value of money. 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.

3.6 Research and exploration expenditure

Pre-exploration costs are recognised in the income statement as incurred.

Exploration and evaluation costs (including geophysical, topographical, geological and similar types of expenditure) are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. The technical feasibility and commercial viability of extracting coal is considered to be determinable when proven coal reserves are determined to exist. Expenditure deemed to be unsuccessful is recognised immediately in the income statement.

3.7 Inventories

Coal. Coal is measured at the lower of production cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Production costs include on-mine and processing costs, as well as transportation costs to the point of sale.

Consumable stores and materials. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.8 Financial instruments

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.

The Group has the following categories of non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss. A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Held-to-maturity financial assets. If the Group has the positive intent and ability to hold to maturity debt securities, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount

of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

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. 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.

Available-for-sale financial assets. Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other non-derivative financial instruments. 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.

Non-derivative financial liabilities. The Group initially recognises debt securities issued 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.

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.

Derivative financial instruments. The Group has entered into a variety of derivative financial instruments to manage its exposure to commodity price risk, foreign currency risk, interest rate risk and risk of changes in the price of freight. Derivative instruments are not entered into for trading or speculative purposes. All derivatives are recognised on the balance sheet at fair value.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting any changes in cash flows of the hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in equity at that time remains in equity and is recycled to the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

Changes in the fair value of derivatives not designated as cash flow hedges are recognised in the income statement.

Impairment of non-derivative 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, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or 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.

Loans and receivables and held-to-maturity investment securities. The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities 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 loans and receivables or held-to-maturity investment securities. 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.

Available-for-sale financial assets. Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3.9 Provisions

Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

3.10 Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

Incentive scheme. In accordance with the rules of the incentive scheme, bonuses are granted in the form of phantom share options. Shares will not be physically granted but the employees receive a right to bonuses calculated as the cash equivalent of the difference between the value of shares at the date of inception and the date at which the options are exercised. The phantom share options and the resultant bonus vest over a period of three years, and expire five years from the date employees entered the scheme. A bonus provision is recognised in the income statement with the corresponding increase in liabilities to the extent that the benefits become unconditionally vested. The liability is remeasured at each reporting date and at settlement date. The changes in the fair value of the liability are recognised as an employee expense in the income statement.

Defined contribution plan. The Group contributes to the Pension fund of the Russian Federation, a defined contribution pension plan. The only obligation of the Group is to make the specified contributions in the period in which they arise and these contributions are expensed as incurred.

Defined benefit plans. In accordance with current legislation and internal documentation the Group operates defined benefit plans whereby field workers of its coal producing subsidiaries are entitled to a lump sum payment and employees of power generating subsidiaries are entitled for regular pension benefits upon retirement. The amount of benefits depends on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. Actuarial gains and losses are recognised directly in equity.

The defined benefit obligation is calculated annually by the Group. The Projected Unit Credit Method is used to determine the present value of defined benefit obligations and the related current service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

3.11 Treasury shares

Treasury shares represent issued ordinary shares of the Company held by a subsidiary in the Group and are deducted from the equity of the Group.

3.12 Income tax

Income tax expense comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous years.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised.

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. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Deferred taxation is calculated at enacted or substantively enacted rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the

income statement, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case deferred taxation is also recognised in equity or other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.13 Revenue recognition

Revenue represents the invoiced value for coal supplied to customers, excluding value-added tax, and is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.14 Operating lease payments

Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms.

3.15 Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Retained earnings legally distributable by the Group are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual Group entities. These amounts may differ significantly from the amounts recognized in the Group's consolidated IFRS financial statements.

3.16 Overburden removal expenditure

In open pit coal mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable coal. Stripping costs incurred during the pre-production phase of the open pit mine, are capitalised as the cost of the development of the mining property and amortised over the life of mine. Stripping costs incurred during the production phase of the open pit mine are treated as production costs of the coal extracted during the year.

3.17 Environmental obligation

Environmental obligation includes provision for decommissioning and site restoration costs.

Environmental provision is recognised when the Group has a present legal or constructive obligation as a result of past events that existed at the balance sheet date:

- to dismantle and remove its items of property, plant and equipment (decommissioning); and
- to restore site damage after the commencement of coal production to bring the land into a condition suitable for its further use (site restoration).

Estimated future costs are provided for at the present value of estimated future expenditures expected to be incurred to settle the obligation, using estimated cash flows, based on current prices adjusted for the inflation.

The increase in the provision through unwinding of the obligation over the life of mine, due to the passage of time, is recognised as a finance cost in the income statement.

Changes in the obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in the income statement.

Gains from the expected disposal of mining assets at the end of the life of mine are not taken into account when determining the provision.

3.18 Sale and leaseback transactions

The Group engages in certain transactions which meet the criteria for accounting as sale and leaseback transactions. Where the transaction results in a finance lease, the excess of sales proceeds over the carrying value is deferred and recognised in the income statement over the term of the lease.

3.19 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

3.20 Goodwill

Goodwill arises on acquisitions and is recognised as an asset initially measured at cost, being the excess of the cost of the business combination over the Group's share of the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. If the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, after reassessment, exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The Company elected not to restate past business combinations at the date of adoption of IFRS.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Transaction costs incurred in a business combination are expensed.

4. Critical Accounting Judgements and Estimates

In the process of applying the Group's accounting policies management has made the following principal judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Actual results may differ from these estimates.

Determination of recoverable amount of property, plant and equipment. The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2011 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

Each cash-generating unit determined by the Group based on the location of the mines is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets.

The following key assumptions were used in determining the recoverable amounts of each of the cash-generating units:

- cash flows were projected based on actual operating results and the 5-year forecasts;
- coal production volumes were projected based on coal reserves estimates confirmed by independent consulting mining engineers;
- domestic coal sales volumes were estimated to grow at 1% on average during the forecasted period based on planned implementation of new power production facilities per power strategy of Russian Federation;
- export coal sales volumes were estimated to grow at 8% on average during the forecasted period based on growing demand in Asia projected by the international coal experts and growing SUEK's Vanino port capacity;
- no growth of coal sales volumes in the post-forecasted period was embedded in the model;
- prices for coal were estimated to grow at 7% on average during the forecasted period based on forecast analysis of the international coal experts and investment banks;
- prices for coal are expected to grow at 3% in the post-forecasted period;
- transportation costs were estimated to grow at 9% on average during the forecasted period;
- the cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 14.8%.

As a result of the testing no impairment loss was recognised.

An increase of one percentage point in the discount rate, as well as a decrease of one percentage point in the revenue of all cash generating units would not have caused the recognition of any impairment loss.

Coal reserve estimates. Coal reserve estimates are used as the basis for future cash flows, which enter into determination of impairment, provision for environmental obligations, calculations of amortisation and depreciation of mining assets, unwinding of discount on environmental obligation and the related deferred taxes.

The coal reserve estimates represent the quantity of coal expected to be mined, processed and sold at prices at least sufficient to recover the estimated total costs, the carrying value of the investment and anticipated additional expenditures ("proven and probable coal reserves" in the international miners' experts' terminology). The estimates are based on several assumptions as to physical existence of coal reserves, future mining and recovery factors, production costs and coal prices and have been calculated using the assessment of available exploration and other data. The Group undertakes regular revisions of the coal reserve estimates that are confirmed by independent consulting mining engineers.

Although management's long-term mine plans exceed the remaining useful life of some of the mining licenses of the Group, the Group has a legal right to apply for the extension of the licenses for its existing mining resources and therefore management is confident that the licenses will be extended provided that it is the same coal resource within the original mining license and that certain other conditions are met. Extensions to new seams or adjacent areas are subject to open auctions. Delay or failure in securing relevant government approvals or licences, as well as any adverse change in government policies, may cause a significant adjustment to development and acquisition plans, which may have a material adverse affect on the Group's financial position and performance.

Fair value of derivatives and other financial instruments. Management uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for the specific features of the instrument. Thus the method of determination of the fair value of derivative financial instruments is based on adjusting directly observable inputs. Quoted available-for-sale securities are measured at the fair value by reference to the quotation in the Russian Trading System ("RTS"). This method of determination of the fair value uses quoted unadjusted prices in active market for identical assets. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 16 and 28.

5. Segmental Information

The Group evaluates performance and makes investment and strategic decisions based upon a review of the profitability of the Group as a whole, and based on operating segments. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed by management.

Operating segments identified by management include thermal and coking coal and power segments. Thermal coal segment represents operations of coal mining companies including extraction, washing, transportation and sales of coal; coking coal segment includes Apsatskoe green field acquired in December 2011 (see note 30); power segment represents operations of power generating companies including generation and sales of power as well as equity and other investments in power generating companies. Most of power segment' assets were de-merged from the Group (see note 31).

Business segment information of the Group at 31 December 2011 and for the year then ended is as follows:

	Thermal coal	Coking coal	Power	Inter-segment elimination	Total
SEGMENT REVENUE AND PROFITABILITY					
Segment external revenues	160,875	–	20,763	–	181,638
Inter-segment revenues	6,138	–	195	(6,333)	–
Segment expenses	(122,885)	–	(19,721)	6,333	(136,273)
Gross profit	44,128	–	1,237	–	45,365
Share of profit of associates	17	–	105	–	122
Amortisation, depreciation and impairment	(10,557)	–	(1,770)	–	(12,327)
Interest expense	(4,404)	–	(5)	–	(4,409)
Interest income	534	–	56	–	590
Profit before tax	31,290	–	1,262	–	32,552
Income tax expense	(7,319)	–	(367)	–	(7,686)
Profit for the year	23,971	–	895	–	24,866
Capital expenditures incurred during the year	17,486	7,740	2,378	–	27,604
SEGMENT ASSETS AND LIABILITIES					
Investments in associates	1,181	–	349	–	1,530
Other segment assets	134,519	7,808	11,091	–	153,418
Total segment assets	135,700	7,808	11,440	–	154,948
Total segment liabilities	132,123	1,717	6,370	(1,717)	138,493

Business segment information of the Group at 31 December 2010 and for the year then ended is as follows:

	Thermal coal	Power	Inter-segment elimination	Total
SEGMENT REVENUE AND PROFITABILITY				
Segment external revenues	115,257	49,987	–	165,244
Inter-segment revenues	15,943	397	(16,340)	–
Segment expenses	(106,518)	(50,191)	16,340	(140,369)
Gross profit	24,682	193	–	24,875
Share of profit of associates	–	854	–	854
Loss from disposal and impairment of investments	–	(223)	–	(223)
Amortisation, depreciation and impairment	(8,952)	(6,559)	–	(15,511)
Interest expense	(6,070)	–	326	(5,744)
Interest income	267	316	(326)	257
Profit/(loss) before tax	12,171	(1,006)	–	11,165
Income tax expense/(benefit)	(2,786)	673	–	(2,113)
Profit/(loss) for the year	9,385	(333)	–	9,052
Capital expenditures incurred during the year	11,356	7,109	–	18,465
SEGMENT ASSETS AND LIABILITIES				
Investments in associates	1,164	244	–	1,408
Other segment assets	116,310	99,674	(4,420)	211,564
Total segment assets	117,474	99,918	(4,420)	212,972
Total segment liabilities	124,892	22,186	(3,731)	143,347

Since the power segment has been classified as a discontinued operation, the results of the coal segment reconcile to the consolidated statement of comprehensive income for the year ended 31 December 2011 and 2010.

	2011	2010
6. Revenue		
Coal sales	162,780	127,230
Pacific region	63,178	39,679
Atlantic region	49,970	40,032
Russian Federation	49,632	47,519
Other	4,233	3,970
Total	167,013	131,200
7. Cost of Sales		
Transportation	57,661	51,141
Labour	15,687	12,076
Coal purchased from third parties	11,686	9,306
Amortisation, depreciation and impairment	10,557	8,952
Consumables and spares	10,222	7,374
Repairs and maintenance	4,580	3,181
Purchased power	2,848	2,627
Tax on mining	1,763	1,724
Land rent	987	946
Fire and rescue brigades expenses	966	895
Property tax	830	851
Other taxes	127	157
Other	6,731	6,912
Subtotal	124,645	106,142
(Increase)/decrease in finished goods – coal inventory	(1,760)	376
Total	122,885	106,518

	2011	2010
8. Selling, General and Administrative Expenses		
Salaries	2,895	2,210
Consulting, legal, audit and other professional services	1,025	679
Charitable donations	662	494
Office rent	335	328
Customs duties	159	199
Other	333	331
Total	5,409	4,241

9. Other (Income)/Expense, Net

Penalties	391	307
Bad debt (reversal)/expense	(230)	1,157
Gain from disposal of property, plant and equipment	(17)	(282)
Other	(281)	(132)
Total	(137)	1,050

10. Finance Costs

Interest expense	4,404	6,070
Change in fair value of derivatives, other than hedging (see note 16)	1,494	–
Bank commissions and charges	899	825
Unwinding of discount on environmental obligation	207	165
Interest income	(534)	(267)
Total	6,470	6,793

11. Property, Plant and Equipment

	Mineral rights	Buildings, structures and utilities	Machinery, equipment, transport and other	Construction-in-progress	Total
Cost					
Balance at 1 January 2010	32,206	83,630	66,150	13,482	195,468
Additions	240	–	–	18,225	18,465
Transfers	–	4,066	11,491	(15,557)	–
Disposals	(545)	(604)	(2,557)	(74)	(3,780)
Balance at 31 December 2010	31,901	87,092	75,084	16,076	210,153
Additions	8,048	–	–	19,556	27,604
Transfers	–	3,264	12,722	(15,986)	–
Disposals	–	(64)	(505)	(202)	(771)
Discontinued operations	–	(62,121)	(22,996)	(13,579)	(98,696)
Balance at 31 December 2011	39,949	28,171	64,305	5,865	138,290
Accumulated amortisation and depreciation					
Balance at 1 January 2010	4,551	7,798	19,456	–	31,805
Amortisation, depreciation and impairment	897	5,333	9,302	–	15,532
Disposals	(33)	(54)	(2,163)	–	(2,250)
Balance at 31 December 2010	5,415	13,077	26,595	–	45,087
Amortisation, depreciation and impairment	1,024	2,625	8,522	156	12,327
Disposals	–	(64)	(396)	–	(460)
Discontinued operations	–	(10,994)	(6,532)	–	(17,526)
Balance at 31 December 2011	6,439	4,644	28,189	156	39,428
Net book value at 31 December 2010	26,486	74,015	48,489	16,076	165,066
Net book value at 31 December 2011	33,510	23,527	36,116	5,709	98,862

Group assets with a net book value of 802 million RUR were pledged as security for borrowings (31 December 2010 – 5,793 million RUR, including 2,418 million RUR in coal business).

During the year ended 31 December 2011 borrowing costs of 121 million RUR were capitalised into Group assets (2010 – 333 million RUR).

Group assets include advances issued for capital expenditures of 4,661 million RUR (31 December 2010 – 2,519 million RUR, including 544 million RUR in coal business).

	2011	2010
12. Investment in Associates		
Opening balance	1,408	2,186
Share of profit of associates, net	122	854
Additions	–	1,164
Disposals	–	(2,796)
Closing balance	1,530	1,408

Details of the Group's investment in associates are as follows:

Name of associate	% held		Carrying value	
	2011	2010	2011	2010
LLC "Stividornaya Kompaniya Malyi port"	49,9%	49,9%	1,181	1,164
OJSC "Kuzbass power sales company"	25%	25%	349	244
Total			1,530	1,408

The following is a summary of information on the Group's investments in associates:

	2011		2010	
	Total amount of associates	Group's share	Total amount of associates	Group's share
Total assets	2,853	781	5,074	1,905
Total liabilities	1,238	361	1,765	497
Revenue for the year	15,587	3,967	19,447	4,812
Profit for the year	456	122	3,422	854

Disposal of OJSC "Krasnoyarskaya GES". In May 2010, the Group sold its investment in OJSC "Krasnoyarskaya GES" to a subsidiary of the parent company of SUEK for 5,784 million RUR. The financial effect of the transaction was an increase of additional paid-in capital by 2,432 million RUR and an increase in non-controlling interest by 570 million RUR. The sales price has been determined based on quotations of the shares of OJSC "Krasnoyarskaya GES" in the Russian Trading System ("RTS") on the date of disposal.

13. Inventories

Coal stock	7,438	6,641
Consumable stores and materials	4,623	5,604
Less: Allowance for obsolescence	347	541
Net consumable stores and materials	4,276	5,063
Total	11,714	11,704

	2011	2010
14. Trade Accounts and other Receivables		
Trade accounts receivable	11,004	16,600
Loans issued	4,875	209
Advances issued	3,847	3,130
Other receivables	945	1,268
Subtotal	20,671	21,207
Less: Allowance for doubtful debts	559	3,213
Total	20,112	17,994

Loan issued to related party. In August 2011, the Company issued a 143 million USD loan to the parent company of DONALINK. The loan bears interest at 4.5% and is repayable in August 2012. At 31 December 2011, the amount of the loan was 4,678 million RUR.

15. Prepaid and Recoverable Taxes

Value added tax recoverable	4,744	4,331
Income tax receivable	1,598	359
Prepaid taxes	234	106
Total	6,576	4,796

16. Derivative Financial Instruments

	2011		2010	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Option agreements for shares of power companies (see note 22)	–	6,246	–	–
Forward exchange contracts	–	1,026	101	–
Coal swaps	657	–	–	2,392
Freight swaps	–	399	66	–
Interest rate swaps	–	–	–	235
Other derivatives	158	124	–	–
Total	815	7,795	167	2,627

Option agreements for shares of Kuzbassenergo and TGC-13.

At 31 December 2011, SUEK held put-call option agreements with third parties to acquire 13.79% in OJSC "Kuzbassenergo" ("Kuzbassenergo") and 10.09% in OJSC "Enisei territorial generation company (TGC-13)" ("TGC-13") (31 December 2010 – 13.71% and 9.24%, respectively).

Until de-merger of the power business options were recognized as a decrease of non-controlling interest as if they have been exercised, and a liability for the exercise price. In April 2011, due to loss of control over Kuzbassenergo and TGC-13 the accounting treatment was changed and options were recognized as derivatives at fair value through profit or loss and were estimated as a net liability of 3,271 million RUR at the date of recognition. The market for the derivatives is not

The following derivative financial instruments were valued using observable inputs, which correspond to level 2 of the hierarchy of the fair value measurements. Details of effective portion of changes in fair value of cash flow hedges were as follows:

	2011		2010	
	Gain recognised in comprehensive income	Loss recycled from comprehensive income to the profit and loss	Loss recognised in comprehensive income	Loss recycled from comprehensive income to the profit and loss
Effective portion of changes in fair value of cash flow hedges	(90)	1,687	(3,046)	1,368
Deferred tax	109	(183)	324	(174)
Итого	19	1,504	(2,722)	1,194

Forward exchange contracts. The average strike exchange rate under the forward exchange contracts was 29.21 RUR per 1 USD (31 December 2010 – 28.54 RUR per 1 USD).

active therefore the Company measures fair value using Black-Scholes Model, which corresponds to level 3 of the hierarchy of the fair value measurements. Loss arising from a change in fair value of derivatives was recognized partially in finance costs for 1,614 million RUR and in a foreign exchange loss for 1,373 million RUR in the year ended 31 December 2011.

These derivative financial instruments are USD-denominated. The key inputs to the Black Scholes model at the balance sheet date were as follows: share price of Kuzbassenergo and TGC-13 on MICEX was 0.2060 RUR and 0.0625 RUR, respectfully; volatility was 37–42%; risk free rate was 2.02% for USD instruments.

At the date when these financial statements were signed off none of options held as at 31 December 2011 had been executed.

Coal swaps. The Group uses coal swaps to hedge the coal price index used in index price coal sales contracts. Details of the coal swaps and collar options designated as cash flow hedges were as follows:

	2011		2010	
	Volume ('000 tons)	Derivative asset	Volume ('000 tons)	Derivative liability
0 – 3 months	585	240	1,170	815
3 – 6 months	375	139	1,335	808
6 – 9 months	375	139	660	420
9 – 12 months	375	139	540	349
Total	1,710	657	3,705	2,392

The average coal price under the coal swaps was 3,968 RUR per ton (31 December 2010 – 3,151 RUR per ton).

Freight swaps. The Group uses freight swaps to hedge the time-charter equivalent index used in determining the price of freight. At 31 December 2011, the notional amount of the hedged facilities amounted to 3,437 freight days (31 December 2010 – 3,005 freight days).

Interest rate swaps. At 31 December 2010, the Group's notional amount of hedged facilities amounted to 276 million USD at fixed interest rates varying from 5.2% to 5.3%. The Group received interest at the varying LIBOR rate.

17. Cash and Cash Equivalents

		2011	2010
Current accounts	- foreign currency	1,131	1,519
	- RUR	697	5,072
Other cash and cash equivalents	- в рублях	1,233	560
	- foreign currency	276	635
Restricted cash under coal swaps	- foreign currency	461	471
Total		3,798	8,257

18. Share Capital and Reserves

	Number of shares, in thousands		2011	2010
	2011	2010		
Authorised share capital				
Ordinary shares	514,800	514,800	3	3
Issued share capital				
Ordinary shares	257,400	257,400	1	1
Less: Treasury shares	31,555	400	–	–
Total	225,845	257,000	1	1

Ordinary shares have a par value of 0.005 RUR. All issued shares were fully paid.

Acquisition of treasury shares. In May 2011, SUEK and a subsidiary of the Group acquired 31,155,000 SUEK ordinary shares from DONALINK for 28,237 million RUR.

Dividends. In December 2011, dividends for nine months ended 30 September 2011 were paid in amount of 13,162 million RUR (or 58.28 RUR per ordinary share).

19. Earnings per Share

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2011	2010
Weighted average number of ordinary shares in issue (in thousands)	236,230	257,000
Profit for the year from continuing operations attributable to ordinary shareholders of the parent	22,965	9,009
Basic and diluted earnings per share from continuing operations (in Russian Roubles)	97	35
Weighted average number of ordinary shares in issue (in thousands)	236,230	257,000
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent	738	(591)
Basic and diluted earnings per share from discontinued operations (in Russian Roubles)	3	(2)

20. Borrowings

	Effective interest rate	Final year of maturity	2011	2010
Long-term borrowings				
US dollar denominated long-term borrowings			77,465	67,498
Syndicated loan – 1,500 million USD facility agreement	One month LIBOR + 2.7%	2016	41,489	–
Syndicated loan – 900 million USD facility agreement	One month LIBOR + 3.25%	2015	28,689	27,063
Syndicated loan – 200 million USD facility agreement	One month LIBOR + 2.2%	2016	6,444	–
MCBN N.V. – 10 million USD credit agreement	LIBOR + 2.5%	2014	324	–
Syndicated loan – 650 million USD facility agreement	LIBOR + 1.15% to LIBOR + 1.4%	2012	–	8,382
Syndicated loan – 800 million USD facility agreement	4.2% to 5.5%	2013	–	7,843
Bank of Moscow – 300 million USD facility agreement	LIBOR + 5.75%	2013	–	6,009
Unicredit bank – 170 million USD credit agreement	One month LIBOR + 4.25%	2013	–	5,124
VTB Bank – 161 million USD credit agreement	7.0%	2012	–	4,924
Gazprombank – 150 million USD credit agreement	6.75%	2013	–	2,747
EBRD – 75 million USD facility agreement	One month LIBOR + 6.0%	2019	–	2,165
Svyaz Bank – 49 million USD credit agreement	6.5%	2012	–	1,488
EABR – 55 million USD credit agreement	10.0%	2015	–	1,485
Other US dollar denominated debt			519	268
RUR denominated long-term borrowings			10,471	10,743
Bonds	9.35%	2020	10,451	10,448
Other RUR denominated debt			20	295
Euro denominated long-term borrowings			5,154	3,698
Commerzbank – 169 million Euro credit agreement	Six month EURIBOR + 0.7%	2020	3,048	2,282
Landesbank – 24 million Euro facility agreement	Six month EURIBOR + 2.0%	2017	799	751
BNP PARIBAS/FORTIS BANK – 200 million Euro credit agreement	EURIBOR + 1.0%	2022	606	–
Other Euro denominated debt			701	665
Subtotal			93,090	81,939
Less: Current portion of long-term borrowings			7,745	13,049
Total long-term borrowings			85,345	68,890

	Effective interest rate	Final year of maturity	2011	2010
Short-term borrowings				
USD denominated short-term borrowings	Three month LIBOR + 1.5%		1,446	2,131
	1.1% to 3.5%		669	99
RUR denominated short-term borrowings	7.0%		–	2,023
Subtotal			2,115	4,253
Current portion of long-term borrowings			7,745	13,049
Total short-term borrowings			9,860	17,302

The Group's long-term borrowings have restrictive covenants calculated based on the IFRS consolidated financial statements on a semi-annual basis including, but not limited to, the requirement to maintain the following minimum ratios:

- consolidated net indebtedness to earnings before interest, tax, depreciation and amortisation ("EBITDA"); and
- EBITDA to consolidated interest expense.

The Company was in compliance with such covenants.

The Group's short-term borrowings are secured by export sales and related receivables.

21. Other Long-term Liabilities

	2011	2010
Provision for environmental obligation	2,035	2,301
Provision for defined benefit obligation	1,857	2,475
Total	3,892	4,776

Provision for environmental obligation

	2011	2010
Opening balance	2,301	2,023
Unwinding of discount	219	202
Expenses incurred	(14)	(11)
Change in estimate	(80)	87
Discontinued operations	(391)	–
Closing balance	2,035	2,301

The extent and cost of future site restoration programmes are inherently difficult to estimate and depends on the estimated lives of the mines, the scale of any possible disturbance and contamination as well as the timing and extent of corrective actions. The following is a summary of the key assumptions on which the discounted carrying amounts of the obligations are based:

	2011	2010
Discount rate	9%	9%
Inflation rate	6%	6%
Provision for defined benefit obligation		
Pension benefits	1,120	1,776
Lump sum payment upon retirement	653	606
Other long-term employee benefits	84	93
Total	1,857	2,475

The movement in the provision for defined benefit obligation was as follows:

	2011	2010
Opening balance	2,475	2,262
Interest cost	131	218
Current service cost	49	73
Past service cost	22	69
Benefits paid	(195)	(227)
Disposal gain	–	(113)
Actuarial losses	182	193
Discontinued operations	(807)	–
Closing balance	1,857	2,475

Total expense recognised in the income statement in relation to the provision for defined benefit obligation was as follows:

	2011	2010
Interest cost	131	218
Current service cost	49	73
Past service cost	22	69
Disposal gain	–	(113)
Total	202	247

Actuarial assumptions used for the calculation of the defined benefit obligation were as follows:

	2011	2010
Discount rate	9%	8%
Inflation rate	6%	6%
Future increases of salaries	6%	6%

The estimated amount of the payments in relation to the defined benefit obligation in 2012 is 179 million RUR.

	2011	2010
22. Trade Accounts and other Payables		
Payable for long-term investments	7,919	8,710
Advances from customers	4,682	6,852
Trade accounts payable and accruals	4,643	7,817
Accrual for vacation payments	1,358	1,535
Wages and salaries	1,126	2,197
Other creditors	2,504	2,831
Total	22,232	29,942

Option agreements for shares of Kuzbassenergo and TGC-13. At 31 December 2010, payables for long-term investments in the amount of 8,710 million RUR include exercise value of options to acquire shares in Kuzbassenergo and TGC-13. Due to de-merge of power business in April 2011 accounting treatment for these options was changed, and payables for long-term investments were derecognised. At the moment of de-recognition payables for long-term investments totalled 8,150 million RUR (see notes 16 and 31).

Option agreements for shares of OJSC "SUEK-Krasnoyarsk", OJSC "SUEK-Kuzbass" and OJSC "Primorskugol". In October 2011, SUEK entered into a number of put and call option agreements with third parties to acquire 10% of OJSC "SUEK-Krasnoyarsk", 10% of OJSC "SUEK-Kuzbass" and 10% of OJSC "Primorskugol". Since third parties have the right to sell non-controlling interest to the Company, these options were recognised as a decrease of non-controlling interest as if they had been exercised (see note 30), and a respective liability at the exercise price of 7,607 million RUR. At 31 December 2011, option liability totalled 7,919 million RUR following exchange rate fluctuation.

On the date when these financial statements were signed off none of the options held as at 31 December 2011 had been executed.

23. Taxes Payable

	2011	2010
Value added tax	1,265	1,827
Income tax	366	470
Unified social tax	335	375
Property tax	100	348
Water usage tax	–	72
Other	299	470
Total	2,365	3,562

	2011	2010
24. Income Tax		
A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:		
Profit before tax	31,290	12,171
Theoretical income tax expense at 20%	6,258	2,434
Impact of specific tax rates	(228)	(144)
Unrecognized deferred tax asset on derivatives	593	–
Tax effect of other non-deductible expenses	696	496
Total income tax expense	7,319	2,786

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	Opening balance	Recognised in equity	Recognised in the income statement	De-merge of power business	Closing balance
2011					
Deferred tax assets	3,805	15	(1,023)	(582)	2,215
Tax losses carried forward	1,464	72	(703)	(138)	695
Derivative financial liabilities	287	(57)	(73)	–	157
Prepaid expenses and accruals	908	–	(461)	(77)	370
Employee benefit obligations	298	–	180	(131)	347
Environmental and other provisions	654	–	54	(144)	564
Trade accounts and other receivables	194	–	(20)	(92)	82
Deferred tax liabilities	(18,284)	(20)	(317)	9,834	(8,787)
Property, plant and equipment	(18,064)	–	72	9,777	(8,215)
Investments in associates	(84)	–	(130)	–	(214)
Other	(136)	(20)	(259)	57	(358)
Net deferred tax liabilities	(14,479)	(5)	(1,340)	9,252	(6,572)

	Opening balance	Recognised in equity	Recognised in the income statement	Closing balance
2010				
Deferred tax assets	4,777	150	(1,122)	3,805
Tax losses carried forward	2,392	–	(928)	1,464
Derivative financial liabilities	137	150	–	287
Prepaid expenses and accruals	784	–	124	908
Employee benefit obligations	510	–	(212)	298
Environmental and other provisions	598	–	56	654
Trade accounts and other receivables	356	–	(162)	194
Deferred tax liabilities	(19,274)	(31)	1,021	(18,284)
Property, plant and equipment	(18,872)	–	808	(18,064)
Investments in associates	(371)	–	287	(84)
Other	(31)	(31)	(74)	(136)
Net deferred tax liabilities	(14,497)	119	(101)	(14,479)

Unrecognised temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal and distribution of dividends on a tax free basis when certain conditions are met and it is probable that the temporary difference will not reverse in the foreseeable future amounted to 33,689 million RUR (31 December 2010 – 37,220 million RUR).

Tax losses carried forward existing as at 31 December 2011 expire within 10 years from the balance sheet date.

For disclosure purposes certain deferred tax assets and liabilities are offset in accordance with the accounting policy.

	2011	2010
Deferred tax assets	432	1,769
Deferred tax liabilities	(7,004)	(16,248)
Net deferred tax liabilities	(6,572)	(14,479)

25. Related Parties Transactions

Related parties are considered to include the ultimate beneficiaries, affiliates and entities under common ownership and control within the Group. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Transactions with related parties are not always performed under conditions that would be available for parties not related to the Group.

Transactions with related parties are as follows:

	2011			2010		
	Power companies	Other companies	Total	Power companies	Other companies	Total
Revenue from Kuzbassenergo and TGC-13	16,985	–	16,985	18,599	–	18,599
Revenue from associates of DONALINK	7,624	–	7,624	7,480	–	7,480
Purchases of electricity	433	–	433	1,055	–	1,055
Sale of accounting and IT services	412	–	412	277	–	277
Interest income	312	74	386	–	–	–
Interest expense	–	125	125	–	118	118

The remuneration of directors and other key management personnel was as follows:

	2011	2010
Salaries and other short-term employee benefits	339	492
Incentive scheme provision	–	12
Total	339	504

The incentive scheme was terminated in 2011 through payment. (At 31 December 2010, provision totalled 681 million RUR).

The outstanding balances with related parties are as follows:

	2011			2010		
	Power companies	Other companies	Total	Power companies	Other companies	Total
Long-term receivables	9,669	–	9,669	–	–	–
Loans issued to parent of DONALINK	–	4,678	4,678	–	–	–
Trade receivables from Kuzbassenergo and TGC-13	2,155	–	2,155	1,884	–	1,884
Trade receivables from associates of DONALINK	1,090	–	1,090	1,419	–	1,419
Trade and other payables	–	–	–	59	54	113
Cash and cash equivalents	–	–	–	–	35	35

Other related parties transactions are disclosed in the Notes 12, 14, 16, 18 and 31.

26. Commitments

Capital commitments. Management has approved the following capital expenditures:

	2011	2010
Contracted	4,732	9,159
Not yet contracted	8,171	48,650
Total	12,903	57,809

At 31 December 2010 capital commitments relating to modernisation and construction of new power capacity at Kuzbassenergo and TGC-13 totalled of 57,377 million RUR. Total amount of capital commitments represents management's best estimate of the cost of such facilities.

Operating leases. The land in the Russian Federation on which the Group's production facilities are located is mostly owned by the State. The Group leases land through operating lease agreements with the State. Payments by the Group are based on the total area and location of the land occupied. Operating lease agreements expire in various years through to 2052. Future minimum lease payments due under non-cancellable operating land rent lease agreements are:

	2011	2010
Due in one year	714	1,239
Due in the second year	351	980
Due from three to five years	363	2,219
Due thereafter	832	2,356
Total	2,260	6,794

Social commitments. The Group contributes to mandatory and voluntary social programmes and maintains social sphere assets in the locations where it has its main operating facilities. The Group's social sphere assets, as well as local social programmes, benefit the community at large and are not normally restricted to the Group's employees. Contributions are expensed in the period during which they are incurred.

27. Contingencies

Insurance. The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available. The Group has limited coverage for its mining, processing and transportation for business interruption or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Litigation. The Group has a number of small claims and litigation relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle such liabilities.

Management believes that it has provided adequately for all tax liabilities based on its interpretation of the tax legislation. However, the relevant authorities may have differing interpretations, and the effect could be significant.

Environmental matters. The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve disturbance of land, discharge of materials and contaminants into the environment, potential impact to flora and fauna, and other environmental concerns.

The Group's management believes that it is in compliance with all current existing health, safety and environmental laws and regulations in the regions in which it operates. However, environmental regulations are currently under consideration in the Russian Federation. The Group is continually evaluating its obligations relating to new and changing legislation. The Group is unable to predict the timing or extent to which environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernise technology and incur future additional material costs to meet more stringent standards.

Russian Federation risk. Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy.

Furthermore, substantially all privatisations in the Russian Federation in the early 1990's were flawed in some manner, with the result that even minor administrative flaws in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation.

The stability and success of the Group's business, will depend upon the Russian Federation

Government's ability to institute supervisory, judicial and other regulatory reforms.

28. Financial Risk Management

In the normal course of its operations, the Group is exposed to market (including foreign currency and interest rate), credit and liquidity risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the risk committee held on a monthly basis and the central treasury department under policies approved by the Board of Directors. The Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk and the use of derivative and non-derivative financial instruments.

28.1 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will negatively impact the Group's results or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Market risk management includes the analysis of foreign currency and interest rate risks.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

A significant portion of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits may be adversely impacted by the appreciation of the RUR against the USD. The Group uses forward currency exchange contracts to mitigate the risk of negative fluctuations in the USD/RUR exchange rate for its future revenue streams, denominated in USD.

The Group has the following foreign-currency denominated financial assets and liabilities:

	2011			2010		
	USD	Other*	Total	USD	Other*	Total
Non-current assets	9,669	–	9,669	–	–	–
Long-term receivables	9,669	–	9,669	–	–	–
Current assets	11,510	2,629	14,139	6,272	627	6,899
Loans issued	4,678	–	4,678	–	–	–
Trade accounts receivable	4,363	2,573	6,936	3,588	519	4,107
Derivative financial assets	657	–	657	167	–	167
Cash and cash equivalents	1,812	56	1,868	2,517	108	2,625
Non-current liabilities	(70,927)	(4,396)	(75,323)	(55,358)	(3,231)	(58,589)
Long-term borrowings	(70,927)	(4,396)	(75,323)	(55,358)	(3,231)	(58,589)
Current liabilities	(25,766)	(1,929)	(27,695)	(27,763)	(1,329)	(29,092)
Short-term borrowings	(8,653)	(758)	(9,411)	(14,370)	(467)	(14,837)
Derivative financial liabilities	(7,671)	–	(7,671)	(2,627)	–	(2,627)
Trade accounts payable and accruals	(1,523)	–	(1,523)	(1,112)	–	(1,112)
Payable for long-term investments	(7,919)	–	(7,919)	(8,710)	–	(8,710)
Other creditors	–	(1,171)	(1,171)	(944)	(862)	(1,806)
Total net liabilities	(75,514)	(3,696)	(79,210)	(76,849)	(3,933)	(80,782)

A 10% increase/decrease in foreign exchange rates at the reporting date would have decreased/increased equity and profit for the year by the following:

	2011			2010		
	USD	Other	Total	USD	Other	Total
Equity	7,551	370	7,921	7,685	393	8,078
Profit for the year	7,474	370	7,844	7,439	393	7,832

This analysis assumes that all other variables, in particular interest rates, remain constant.

* Other currencies include mainly EUR, Swiss francs ("CHF") and UK pounds sterling ("GBP").

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group.

The Group's interest rate risk arises primarily from long-term borrowings. The Group's borrowings at variable interest rates are primarily denominated in USD. Borrowings at variable interest rates expose the Group to a cash flow interest rate risk. The Group monitors the risk and, if necessary, manages its exposure by entering into variable-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from variable interest rates to fixed interest rates.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	2011	2010
Fixed rate instruments		
Long-term receivables	9,669	–
Short-term loans issued	4,875	209
Cash deposits	1,496	1,666
Long-term borrowings	(10,630)	(23,718)
Short-term borrowings	(1,371)	(7,942)
Variable rate instruments		
Long-term borrowings	(74,715)	(45,170)
Short-term borrowings	(8,489)	(9,360)
Derivative financial liabilities	(6,246)	–
Payable for long-term investments	–	(8,710)
Total net liabilities	(85,411)	115,766

At 31 December 2011, the Group's risk policy does not provide for any interest risk hedging. At 31 December 2010, interest risk for 8,382 million RUR of the Group's variable rate borrowings was covered by the interest rate swap contracts.

28.2 Credit risk

Credit risk is the risk that a counterparty may default or not meet its obligations to the Group on a timely basis, leading to a financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of counterparties. Trade receivables comprise international companies and large Russian companies, and credit is only extended to these customers after rigid credit approval procedures.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The Group is not dependent on a limited number of customers. The Group's top 20 trade debtors are presented below:

	Number of customers	2011		2010	
		Trade accounts receivable	%	Trade accounts receivable	%
Largest customer	1	1,362	12	1,409	9
Next 9 largest customers	9	4,584	42	3,892	23
Subtotal	10	5,946	54	5,301	32
Next 10 largest customers	10	2,023	18	2,004	12
Subtotal	20	7,969	72	7,305	44
Remaining customers not specified by number		3,035	28	9,295	56
Total		11,004	100	16,600	100

The table below analyses the Group's trade receivables into relevant groupings based on the period of them being considered past due.

	2011		2010	
	Gross	Allowance for doubtful debts	Gross	Allowance for doubtful debts
Not past due	10,817	–	11,687	–
Past due for less than 3 months	5	2	2,279	314
Past due for 3 to 6 months	2	1	318	203
Past due for 6 to 12 months	7	7	897	800
Past due for more than one year	173	173	1,419	1,394
Total	197,817	183	1230,385	2,711

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2011	2010
Opening balance	2,711	1,386
Additional doubtful debts	241	1,416
Bad debt written-off (impairment loss recognised)	(176)	(39)
Bad debt recovered	(39)	(52)
Discontinued operations	(2,554)	–
Closing balance	183	2,711

28.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

During 2011 and 2010 global and Russian capital markets experienced significant volatility, including lack of available sources of financing, significant fluctuation of Russian Ruble against USD and Euro and increase in interest rates. Despite stabilisation measures undertaken by various governments, markets remain volatile.

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group expects that cash generated from operations will be the major source of the Group's liquidity in 2012 and will be sufficient to cover the capital expenditures program of the Group. In addition, management believes that the Company will be able to attract additional sources of financing in order to re-finance the existing short-term facilities.

The central treasury department of the Group maintains flexibility in funding by maintaining availability of credit lines facilities, the unused portion of these lines at 31 December 2011 totalled 75,191 million RUR (31 December 2010 – 73,473 million RUR).

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the contractual undiscounted cash flows to maturity, including interest payments.

	Carrying amount	Contractual cash flows	Due in the first year	Due in the second year	Due thereafter
Balance at 31 December 2011					
Long-term borrowings	85,345	104,520	3,416	20,962	80,142
Short-term borrowings	9,860	9,863	9,863	–	–
Net-settled derivative liabilities	7,671	7,671	7,671	–	–
Trade accounts payable and accruals	4,643	4,643	4,643	–	–
Payable for long-term investments	7,919	7,919	7,919	–	–
Other creditors	2,504	2,504	2,504	–	–
Total	117,942	137,120	36,016	20,962	80,142
Balance at 31 December 2010					
Long-term borrowings	68,890	89,107	4,276	23,235	61,596
Short-term borrowings	17,302	17,582	17,582	–	–
Net-settled derivative liabilities	2,627	2,627	2,627	–	–
Trade accounts payable and accruals	7,817	7,817	7,817	–	–
Payable for long-term investments	8,710	8,710	8,710	–	–
Other creditors	2,831	2,831	2,831	–	–
Total	108,177	128,674	43,843	23,235	61,596

28.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as shareholders' equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The Group's overall strategy for 2012 remained unchanged from prior years.

29. Fair Value of Financial Instruments

The fair value of financial instruments is determined with reference to various market information and other valuation methods as considered appropriate. At 31 December 2011 and 31 December 2010, the fair values of financial instruments held by the Group, where determinable, did not materially differ from the carrying values.

30. Investments in Significant Subsidiaries

Subsidiaries by country of incorporation	Principal activity	2011	2010
Russian Federation			
Kemerovo			
OJSC "SUEK-Kuzbass"	Coal extraction	89%	99%
OJSC "Kuzbassenergo"	Power generation and sales	–	73%
Krasnoyarsk			
OJSC "SUEK-Krasnoyarsk"	Coal extraction	88%	98%
OJSC "Enisei territorial generation company (TGC-13)"	Power generation and sales	–	74,5%
Buryatiya and Zabaikaliye			
OJSC "Razrez Tugnuiskiy"	Coal extraction	100%	100%
OJSC "Razrez Kharanorskiy"	Coal extraction	100%	100%
LLC "Arcticheskie razrabotki"	Coal extraction	100%	–
Khakasiya			
LLC "SUEK-Khakasya"	Coal extraction	100%	100%
Far East			
OJSC "Primorskugol"	Coal extraction	84%	94%
OJSC "Urgalugol"	Coal extraction	82%	92%
CJSC "Daltransugol"	Port facilities	100%	100%
Switzerland			
SUEK AG	Export sales of coal	100%	100%

Transactions with non-controlling interest. In September 2011, SUEK sold 10% of OJSC "SUEK-Krasnoyarsk", 10% of OJSC "SUEK-Kuzbass" and 10% of OJSC "Primorskugol" to third parties for 7,303 million RUR. In October 2011, the Company entered into put and call option agreements with third parties to acquire these shares back (see note 22). Net effect of these transactions was a decrease of non-controlling interest by 65 million RUR and a decrease of retained earnings by 239 million RUR.

In October 2011, the Company sold 10% of OJSC "Urgalugol" and certain non-significant subsidiaries to third parties for 199 million RUR. These transactions resulted in an increase of non-controlling interest by 32 million RUR and an increase of retained earnings by 166 million RUR.

Acquisition of a subsidiary. In December 2011, the Group acquired LLC "Arcticheskie razrabotki" for 7,843 million RUR. The main asset of LLC "Arcticheskie razrabotki" is a license for exploration and extraction of coking coal at Apsatskoe mine field in Zabaikaliye. As LLC "Arcticheskie razrabotki" did not meet the definition of a business at the date of purchase, this acquisition was treated as a purchase of a mineral right and consideration paid was recognized within property, plant and equipment at the balance sheet date (see note 11).

31. Discontinued Operations

In April 2011, most of the power business's assets were de-merged from the coal business of SUEK in a series of transactions including sale of shares of Kuzbassenergo, TGC-13 and certain other subsidiaries to DONALINK. As a result of de-merger income and expenses relating to de-merged entities have been presented as discontinued operations for the year ended 31 December 2011 and 2010.

Results of discontinued operations for the period from 1 January 2011 till 30 April 2011 and for the year ended 31 December 2010 are as follows:

	Period ended 30 April 2011	Year ended 31 December 2010
Revenue	20,958	50,384
Cost of sales	(19,721)	(50,191)
Selling, general and administrative expenses	(141)	(385)
Other expense, net	(319)	(1,743)
Finance income	12	259
Share of profit of associates, net	–	854
Loss from disposal and impairment of investments	–	(223)
Foreign exchange gain	473	39
Profit/(loss) before tax	1,262	(1,006)
Current income tax expense	(359)	(403)
Deferred income tax (expense)/income	(8)	1,076
Profit/(loss) for the year from discontinued operations	895	(333)
Attributable to:		
Ordinary shareholders of the parent	738	(591)
Non-controlling interest	157	258
Other comprehensive (expense)/income		
Foreign subsidiary translation difference	(499)	140
Total other comprehensive (expense)/income	(499)	140

Cash flows of discontinued operations were as follows:

	Period ended 30 April 2011	Year ended 31 December 2010
Net cash flows (used in)/from operating activities	(637)	1,451
Net cash flows used in investing activities	(2,330)	(235)
Net cash flows from financing activities	4,792	2,698

Assets and liabilities relating to discontinued operations are not re-classified in the comparative statement of financial position.

Net assets attributable to discontinued operations as of de-merge date were as follows:

Assets	103,247
Property, plant and equipment	81,170
Other non-current assets	935
Inventories	2,911
Trade accounts and other receivables	10,015
Prepaid and recoverable taxes	1,337
Cash and cash equivalents	6,879
Liabilities	25,512
Long-term borrowings	1,433
Deferred tax liabilities	9,312
Other long-term liabilities	1,231
Short-term borrowings	7,463
Trade accounts and other payables	4,483
Taxes payable	1,590
Net assets	77,735
Net intercompany assets eliminated on consolidation	(404)
Net assets	77,331

The effect from disposal of power business was as follows:

Consideration received in cash	26,798
Non-current receivable for power business	8,457
Payables for long-term investments (see note 22)	8,150
Deferred tax asset recognized on tax loss on de-merger of power business	72
Net assets attributable to discontinued operations	(77,331)
Recognition of a derivative financial liability (see note 16)	(3,271)
Net decrease of equity due to de-merger of power business	(37,125)

Long-term receivable for power business is payable in 5 years, is denominated in USD, bears interest at 5% and totalled 9,669 million RUR at 31 December 2011.

8. Corporate Governance



8.1 Corporate Governance Structure

OJSC SUEK devotes special attention to the improvement of its corporate governance system which is one of the key components of the efficiency of its business. The corporate governance system of SUEK is based on the Russian law and accepted international practices.

The Company ensures that rights and interests of its shareholders and investors are recognized, and discloses key management decisions directed at the preservation of assets, maximization of profits and capitalization.

The corporate governance system of OJSC SUEK embodies the following principles:

- maintain a policy of equal treatment of all shareholders and protection of their rights, in compliance with current RF legislation;
- ensure an efficient system of internal control and audit;
- ensure informational and financial transparency of the Company;
- comply with norms of ethical business behavior;
- efficiently interact with employees of the company in solving of social issues and providing necessary working conditions.

The company is one of the largest coal companies of Russia, scope of its activities entails a high level of responsibility to shareholders, employees, its customers and suppliers, as well as to the community and society at large. SUEK makes all reasonable efforts to meet its commitments.

Currently the set of internal corporate documents of OJSC SUEK relating to the corporate governance includes:

- Charter;
- Bylaws for preparation, convocation and conduct of a General Meeting of Shareholders;
- Board of Directors Regulations;
- Management Board Regulations;
- Regulations on the Auditing Commission;
- Code on Corporate Conduct;
- Insider Information Regulations;
- Information policy.

All listed documents are available on OJSC SUEK's website at www.suek.ru.

SUEK follows the recommendations of the Corporate Conduct Code of the Federal Financial Markets Service (FFMS) of the RF, as well as the recommendations of the UK Corporate Governance Code.

Information on OJSC SUEK's compliance with the Corporate Conduct Code by the FFMS is available at www.suek.ru.

OJSC SUEK governing bodies

The corporate governance bodies of the Company are the General Meeting of Shareholders, the Board of Directors, the Management Board and the General Director.

8.2 The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme governing body of the Company which has authority over decisions relating to the most significant activities of the Company, including approval of the Charter, reorganization and liquidation, election of the Board of Directors. The General meetings give shareholders the essential rights for the realization of their status as company owners.

Investors and shareholders have the opportunity to obtain information relating to meetings of shareholders and materials for meetings at the location of the Company, as well as copies of documents upon their requests.

In 2011, the Annual General Meeting of Shareholders and four extraordinary meetings were held. Major decisions of the Shareholders Meetings were associated with the approval of the annual report and financial statements for 2010, the appointment of the Auditor, the election of the Board of Directors and the Auditing Commission, as well as the distribution of profits.

The shareholders discussed issues related to the remuneration of Board members and liability insurance for directors and executive managers. Amendments to the Charter and internal documents regulating the activities of the Company's management were approved, and other decisions were taken. The results of General Meetings of Shareholders are available at the website of Company.

8.3 The Board of Directors

The Board of Directors determines the Company's mission and renders strategic direction, exercises supervision over activities of the management. The objective of the Board is to ensure the ability of management to efficiently manage the Company, to take strategic opportunities, to adequately assess risks and ensure sustainable development of the Company. The extensive professional experience of the Board members promotes quality strategic management.

Since 2005 the structure of the Board of Directors of the Company has included independent directors; 50% of the Board members (not including the Chairman) are independent.

The criteria for the independence of a director are fixed in the Board of Directors Regulations and correspond to the recommendations of the Code on Corporate Conduct of RF Federal Commission on Securities Markets and the UK Corporate Governance Code.

The work of the Board of Directors is based on professional judgment and the recommendations of committees.

Since 2005 three committees have actively worked at the Board of Directors:

- Strategy Committee;
- Audit Committee;
- Nomination and Compensation Committee.

The Audit Committee and Nomination and Compensation Committee are "committees of independent directors".

Detailed studies of management initiatives in the early stages and recommendations of the committees enable the Board to work more efficiently. Despite the fact that the committees are consultative and advisory bodies to the Board of Directors, the knowledge and expertise of directors are also the intellectual resource for management. All Board members are eligible to participate in the meeting of any committee and obtain complete information on the board agenda.

Realizing that a good awareness of the affairs of the company is the key to good decision making, the Board and management do all they can to maintain an effective exchange of information. Board members are not limited to meetings – informal consultations are held as are visits to SUEK industries, directors receive monthly management accounts, notification of significant events in the Company as well as market and industry surveys.

The Board operates on the basis of the annual plan, which is revised twice a year. This planned approach promotes the active work of directors – the percentage of personal participation in 2011 exceeded 96%. All members of the Board of Directors may participate in any of the committees and obtain all information. Advance provision of materials for the meetings creates the conditions for a qualitative study of issues. The committees make unceasing efforts to improve the format of documents submitted to the Board of Directors. Documents issued by the Board of Directors and Committees are bilingual.

The Board performance is assessed on a regular basis. In March 2011, the efficiency assessment of Board was carried out by one of internationally recognized experts in corporate governance, the head of the Institute of Directors (Great Britain), Doctor Neville Bain. The elements of an external assessment are combined with self-evaluation which drive discussions on how to make the work of the Board more efficient; actions are then taken upon results of such discussions.

Since 2006, it has been the Company's policy to undertake liability insurance for the Board members and key executives of the Company.

8.3 The Board of Directors

Structure of the Board of Directors

As of June 09, 2011, the Board of Directors of OJSC SUEK included 9 members:

1. **Andersson Martin**
2. **Bosky Dmitry** (Independent director)
3. **Cardona George**
4. **Kislyakov Mikhail Borisovich** (Independent director)
5. **Landia Alexander** (Independent director)
6. **Maichel Gert** (Independent director)
7. **Melnichenko Andrey Igorevich**
8. **Popov Sergey Viktorovich**
9. **Ruban Anatoly Dmitrievich** (Independent director).

The Chairman of the Board of Directors was Alexander Landia.

Following the results of Annual General Shareholders Meeting held on June 09, 2011, following members of the Board of Directors of OJSC SUEK were elected:

1. **Andersson Martin**
2. **Bosky Dmitry** (Independent director)
3. **Cardona George**
4. **Kislyakov Mikhail Borisovich** (Independent director)
5. **Landia Alexander** (Senior independent director)
6. **Maichel Gert** (Independent director)
7. **Melnichenko Andrey Igorevich**
8. **Rashevsky Vladimir Valerievich**
9. **Ruban Anatoly Dmitrievich** (Independent director)
10. **Strezhnev Dmitry Stepanovich.**

Melnichenko A.I. was elected the Chairman of the Board of Directors.

In the past year OJSC SUEK suffered a great loss. On November 26, 2011, Anatoly Dmitrievich Ruban, a wonderful man, brilliant leader of the Russian mining industry, passed away prematurely. A professional of the highest level of with extensive experience and knowledge, Anatoly Dmitrievich purposefully and persistently worked to solve the major problems of the industry, including the increased safety of miners, mining companies efficiency and the implementation of new technologies. Mr. Ruban was rewarded with high State awards and professional recognition for outstanding public service.

Over the years, Anatoly Dmitrievich Ruban was a member of the Board of Directors of OJSC SUEK and made a significant contribution to the Company's implementation as a leader in the coal industry of the country and one of the largest coal companies in the world. During the years working together, Mr. Ruban gained the respect and earned sincere sympathy of the Directors, management and simple guide miners. The Board of Directors assures that the initiatives of Anatoly Dmitrievich Ruban will develop the Company; his memory will live forever in our hearts. We had the good fortune to work with him and to know him.

Brief biographical information about members of the Board of Directors is listed below.

8.3 The Board of Directors

The outcome of the Board of Directors

The outcome of the Board of Directors in 2011, the Board of Directors held 11 joint-presence meetings and 12 – by absentee vote (in absentia).

The focus of attention of the Board was on the issues of strategy development. In the reporting year the Board approved the strategy of development of the Tugnuis and Nikolsky openpits, which are among the three largest Russian coal producing strip mines. The Urgalugol development strategy concerning the development of Urgal coal field was approved. The Board of Directors determined the prospects for the development of brown coal business of the Company. In parallel, work is under way to update the functional strategies – logistics, supply chain.

Regional Production Associations (RPA) are involved in the process of strategic planning. Thus, the Board gains an understanding of progress in key areas, and is able to form a view of the future.

Under the direction of the Board, new principles of budgeting were accepted to meet the Company's strategy, and the consolidated budget of the companies on 2012 was approved. The Board supervises the execution of budget policy, estimates deviations and corrects administrative decisions. One of significant changes to the budget system is the transition to capital investment planning for the entire period of investments.

Defining investment policy, the Board of Directors has approved a long-term investment program for 2011–2015, providing control over a course of implementation of the key investment projects, aimed at the modernization of existing and creation of new capacities of the Company.

The Board of Directors together with the executive management has concentrated on increasing management efficiency of the holding company. The results of this work are determining solutions to change management models, namely the transformation of the company's headquarters from operational manager to strategic controller, and starting the transfer of functions from Head Office to regional management. In management's opinion these amendments will enable to simplify operation and management processes and reduce administrative costs within the ambit of the whole company.

The system of administrative reporting of the Society and the Society Companies was optimized.

During the year a number of important personnel appointments of top executives in the Head office and RPA were made. The Board and Nomination and Compensation Committee watched providing important projects with qualified personnel, strengthening of a succession pool for the positions of regional heads.

The revised system of management incentives for the period from 2012 has linked both the corporate targets and personal targets of each senior executive. In 2011 the option program gave way to a new program of long-term motivation that encourages managers to implement strategic long-term projects. The Board has discussed the system of industrial safety and labor protection at SUEK's enterprises. The Corporate Social Report reflected the results of SUEK's work in this area.

The Board of Directors together with the Audit Committee has continued to work on an effective monitoring system and development of internal Control and Audit Services. The objectives of internal audit are focused on the increase of business processes' efficiency. These are the tactical and strategic priorities of the Company. Due to the changes in the legislative regime for insider information, the Company approved the new Insider Information Regulations; a Corporate Secretary was appointed as the controller of the Company's compliance with the insider requirements.

The work of the Board of Directors fully covered all matters within its competence, particularly, the Board drew up recommendations for the management of subsidiaries and affiliates on key issues.

The efforts of the Board are directed to the increase of management responsibility for accepted decisions. Continuous dialogue with management is maintained in the atmosphere of trust and mutual understanding.

Demonstrating its commitment to the ideology of transparency and openness, the Company seeks to promote dissemination of the practice of quality management practices and thereby contribute to the development of Russian business in general.

8.3 The Board of Directors

Short biographic data

Melnichenko Andrey Igorevich

Chairman of the Board of Directors, Chairman of the Strategy Committee.

Mr. Melnichenko was initially elected as a Member of the Board of Directors of the Company on March 17, 2004 and the last time Mr. Melnichenko was re-elected on June 9, 2011.

Mr. Melnichenko was born on March 8, 1972.

He studied at the department of physics of Moscow State University, graduated from Plekhanov Russian Economic Academy majoring in "Finance and Credit".

In 1993 Mr. Melnichenko acted as a cofounder of MDM Bank, one of the largest Russian Private banks. From 1997 to 2001 he was the Chairman of Board of the Bank, then he was the Chairman of the Board of Directors till 2005.

During last 15 years he has played a significant role in creating a number of successful Russian corporations – MCC EuroChem, SUEK and TMK, the leading Russian manufacturer and exporter of steel piping. Through a series of years he was a member of the Board of Directors of RAO Unified Energy Systems of Russia, OJSC TMK; at present he is the Chairman of the Board of Directors of MCC EuroChem. He was elected to the Management Bureau of the Russian Union of Industrialists and Entrepreneurs.

Andersson Martin

Board member

Mr. Andersson was originally elected as a Member of the Board of Directors on December 20, 2006 and the last time of his re-election was in June 09, 2011.

Mr. Andersson was born on December 23, 1966.

After graduating from the Stockholm School of Economics (1989) and the High Business School of Paris (1990) Mr. Andersson worked as a consultant in mergers and acquisitions department of the company Booz Allen Hamiltonne. In 1992–1993 Mr. Andersson he served as an adviser to the Privatization Committee at the Government of the Russian Federation.

In August 1993 Mr. Andersson became one of co-founders of Brunswick Group. In November 1993 Mr. Andersson was appointed General Director of the Brunswick Brokerage company. In 1999 Mr. Andersson became the Chairman of the Board of Directors of Brunswick UBS Warburg bank. Mr. Andersson also headed Boards of Directors of the Brunswick Capital Limited companies (2002–2007) and Brunswick Rail Leasing (2005–2007). Now Mr. Andersson is a member of the Boards of Directors of Cabo Delgado Investments, Brunswick Rail and acts as advisor for the Board of Directors of OJSC MDM Bank.

Bosky Dmitry

Board member, Chairman of the Audit Committee, member of the Nomination and Compensations Committee.

Mr. Bosky was originally elected as a Member of the Board of Directors on December 20, 2006 and the last time Mr. Bosky was re-elected on June 09, 2011.

Mr. Bosky was born on May 21, 1959.

Graduated from University of California Berkeley in 1981 with Honors BSc degree in Operations Research and Finance. In 1983, earned an MBA degree from Harvard Business School, where he was elected president of the International Business Club.

Mr. Bosky worked in Shell Oil, than in the Security Pacific Capital Group investment company (Los Angeles, USA) where eventually he became managing director Europe. He opened and ran its first international office in the United Kingdom, significant ownership stakes in industrial companies in the USA, England, Germany, France, Switzerland and Belgium.

He was Personal advisor to Margaret Thatcher on entrepreneurial management in Eastern Europe and the CIS.

Since 1992 Mr. Bosky is a founder and Chairman of Berkeley Capital Partners, with offices in London, Moscow and Novosibirsk. Advisor to the European Bank for Reconstruction and Development. Chairman of the Board of Pyaterochka (X5), Russia's largest retailer, till 2004. Since 2008 he is the CEO of Atone Capital Partners, a direct investment branch of Atone Capital Partners.

In 2008 he was winner of a prestigious "Director of the year" National prize of the Russian Association of Independent Directors in the "Independent Director of the Year" nomination. Fellow of the Royal Society of Arts.

Author of articles and editor of a book on private equity.

Cardona George

Board Member, Strategy Committee member.

Mr. Cardona was originally elected as a Member of the Board of Directors on December 20, 2006 and the last time he was re-elected on June 09, 2011.

Mr. Cardona was born on August 4, 1951.

Graduated from Trinity College, Oxford, with Honors in Philosophy, Political Science, and Economics.

He was the head of strategy of HSBC Group, and then he was appointed General Manager of HSBC bank responsible for international banking. He was a board member of several banks and financial companies in Europe and the USA. In 1979 he was appointed Special Adviser to UK Treasury under the Margaret Thatcher administration.

He is a member of the Boards of MCC EuroChem and Linea Ltd., and the chairman of the Strategy Committee of the MCC EuroChem Board.

8.3 The Board of Directors

Short biographic data

Kislyakov Mikhail Borisovich

Board member, Audit Committee member.

Mr. Kislyakov was originally elected as a Member of the Board of Directors on June 27, 2005 and the last time he was re-elected on June 9, 2011.

Mr. Kislyakov was born on September 15, 1951.

Graduated from Moscow Financial Institute, Faculty of Industrial Finance, and Special Faculty of International Economic Relations.

From 1976 till 1987 he worked in the structure of the National Bank of the USSR. In 1984 he took the position of deputy head of Agribusiness Credit Facilities of the State Bank of the USSR Management Board. In 1987 he switched over to work in the State Administration of Currency Control of the ministry of Finance of the USSR. He worked as Deputy Head of Joint Enterprises.

From 1990 till 2001 he was Deputy CEO of Arthur Andersen. From 1994 till 1997 he was Moscow Partner of Arthur Andersen, from 1997 – worldwide partner Arthur Andersen.

From June 1997 to May 1998 he was deputy Chairman of the Management Board of RAO Unified Energy Systems of Russia responsible for finance. From 2001 till 2003 he was Chairman of the Board of Directors of Trustee Investment Bank and from 2003 till 2005 he chaired the Board of Directors of Capital Trust Management Company. In 2004–2006 he was CEO of East Broker Investment Company.

Landia Alexander

Senior Independent Director, the Chairman of Nomination and Compensation Committee, the member of the Strategy Committee.

Mr. Landia was originally elected as the Chairman of the Board of Directors of the Company in December 20, 2006 and the last time of his re-election the board member was in June 9, 2011.

Alexander Landia was born on October 22, 1962.

Graduated from Tbilisi State University in Mathematics with honors, Dr.Rer.Nat.(Candidate's Degree) in Mathematical Sciences.

He worked for Dresdner Bank AG (Frankfurt am Main, Germany) in 1993-2001 and afterwards in Dresdner Kleinwort Wasserstein Company. He made it from a line employee up to the First Vice President Oil & Gas Global Debt and took part in large-scale international infrastructure projects in various economic sectors from telecommunications to the energy sector.

Mr. Landia worked for Accenture, the largest consulting company in the world, from 2001 till joining SUEK. As an international partner of the company, he headed Accenture Russia till 2006, then directed the company's international gas industry business as managing director and was appointed the Global Gas Leading Partner in 2004. The Russian association of independent directors elected Mr. Landia the "Chairman of the Board of Directors – 2007". Until June, 2011 Mr. Landia combined the position of the Chairman of SUEK Board with the following positions: Member of the European Business Congress Presidium (Berlin, Germany) since July 2002, Member of the Board of Directors of Lambert Energy Advisory Ltd. (London, the United Kingdom) since February 2007; Director of Information Efficiency Ltd. London since May, 2008.

Maichel Gert

Board member, Nomination and Compensation Committee member, Audit Committee member.

Mr. Maichel was originally elected as a member of the Board of Directors of the Company in September 15, 2008 and the last of his re-election was in June 9, 2011.

Mr. Maichel was born on February 4, 1949.

Graduated in agronomics (1974) and in law (1977) at the University of Goettingen.

Passed the bar admittance in 1979 at the Lueneburg high court (Germany).

After 4 years legal work with BASF AG, (Ludwigshafen, Germany) and 5 years with Mobil Oil AG (Hamburg, Germany), as general counsel for E&P he joined Wintershall AG, Kassel, Germany, in 1989 first as Director and general counsel then as the general manager for natural gas. In 1991 he initiated the foundation and lead Wingas, the joint venture between BASF/Wintershall and RAO Gazprom, as CEO and headed the engineering plastics unit of BASF AG in 1989.

In 1999 he became CEO of VEW AG, Dortmund, Germany, then Germany's 6th biggest utility. After merging VEW AG with RWE AG, Essen, in 2000 he served on the Board of RWE and as CEO of the RWE Power AG for 5 years.

In 2005 he left RWE and started independent strategic advisory work mainly in energy.

He is also the Chairman of the Advisory Board Goetzpartners (Munich), and a member of the Advisory Board of Deichmann, Germany (Essen).

Since April 12, 2011 Gert Maichel became the board member and the President of the TMH Holding AG company, and also its The Mobility House AG. Subsidiary activity of group consists in supply by the equipment and the software of productions of electromobiles.

Rashevsky Vladimir Valerievich

Board Member, Strategy Committee member.

Mr. Rashevsky was elected board member of the Company in June 9, 2011.

Mr. Rashevsky was born on September 29, 1973.

Mr. Rashevsky studied Faculty of International Economic Relations in the Financial Academy of the Russian Government, majoring in Global economy. Ph.D. in Economics.

Vladimir Rashevsky worked in the banking system for a long time. Since June 1992 till May 2000 he held various positions in Avtobank, making his way to the Deputy-Chairman of the Board of Directors. In May 2000 Mr. Rashevsky moved to MDM Bank to be a head of the investment department. In July 2000 Mr. Rashevsky was appointed to the post the deputy-chairman of Board of this organization. In December 2001 Vladimir Rashevsky became the Chairman of the Management Board of MDM Bank.

In the spring 2004 Vladimir Rashevsky took the position of President of OJSC SUEK, and at the end of 2004 Mr. Rashevsky was appointed CEO of the Company. His key responsibility are the development and implementations of new development strategy of the largest coal company of Russia, consolidation of coal and power generation assets, control system reorganization, implementing the program to increase efficiency and productivity to make SUEK a world-class company.

8.3 The Board of Directors

Short biographic data

Ruban Anatoly Dmitrievich

Board member.

Mr. Ruban was originally elected board member of the Company in February 14, 2005 and Mr. Ruban was re-elected the last time on June 09, 2011 in which position he remained until his untimely death on November 26, 2011.

Mr. Ruban was born on October 12, 1948.

Mr. Ruban graduated from the Moscow Mining Institute in 1973, majoring in Mining Physical Processes. In 1995 Mr. Ruban was awarded the degree of Doctor of Engineering Sciences. In 1997 was elected a corresponding member of the Russian Academy of Sciences.

From 1973 till 2003 he held various positions in the Mining Institute named after A.A. Skochinsky – from Junior Scientist to CEO of the Mining Scientific Center of the Institute. Since 2003 Mr. Ruban has been Deputy Director of Scientific Work of the Institute of Integrated Development of Mineral Resources of the Russian Academy of Science. Since May 24, 2011 he was Director of the Institute.

Since 1996 Mr. Ruban was a member of Scientific Council of the Russian Academy of Science on issues of solid fossil fuel development and a member of International Bureau of Strata Mechanics since 2001. In 2004 he was awarded the Russian Federation Government prize in the field of science and engineering for a work cycle on coal-pit methane safety. From 2007 he was a member of the Board of CJSC "Interregional Building Union Managing Company". In October 2008 Mr. Ruban was elected a member of the Council of General and Chief Designers, Leading Scientists and specialists of high-tech sectors of the economy under the Chairman of the Russian Federation.

Mr. Ruban was also a member of editorial boards of magazines "Physical and Technical problems of mining (Mining Sciences)", "Coal", "Rational development of mineral resources" till his death. Mr. Ruban was the author of 12 books concerning development of the coal industry, 6 textbooks and manuals.

Mr. Ruban died in November, 2011.

Strezhnev Dmitry Stepanovich

Board Member, Member of the Strategy Committee.

Mr. Strezhnev was originally elected Board member of the Company on June 09, 2011.

Mr. Strezhnev was born on February 03, 1968.

He graduated from M.V. Lomonosov Moscow State University in Physics with honors. He earned an MBA degree from the Academy of national economy under the Government of the Russian Federation.

Mr. Strezhnev was head of the trading companies of Agrodortekhsnab LLP and Tekhsnab-2000 LLC, whose trade was the sales of road and construction machines, equipment and rendering of services in maintenance and repair. He held a post of the deputy director of the JSC Dorstroykomplekt company specializing on road construction. He was appointed Director General of OJSC Likinsky bus plant, which manufactured large-sized buses. During many years he had been working as the Executive Director at JSC Ruspromavto, which is united enterprises for production of cars and trucks, buses, construction and road machinery, and Executive Director at automobile factory of OJSC "GAZ".

Since 2003 he has been the Director General of OJSC MCC Euro Chem, since 2007 he has been a Board member of the company.

Members of the Board of Directors did not own the shares of OJSC SUEK in 2011.

Transactions between members of the Board of Directors and OJSC SUEK were not performed in 2011.

Claims against members of the Board of Directors were not made in 2011.

8.4 Committees of the Board of Directors

The Strategy Committee of the Board of Directors

The major purpose for establishment of the Committee is to develop of recommendations to the Board of Directors concerning long-term and mid-term strategy development.

The object of attention of the Committee is the reaction of the Company to the changing macroeconomic and market situation, its cash flow, financing and investment programs. The committee puts scrupulous analysis of strategic initiatives, risks and factors affecting performance. The task of the Committee – in conjunction with management is to prepare solutions that allow the Company to use the strategic advantages and deliberately take advantage of new opportunities.

The Strategy Committee before June 10, 2011:

Landia Alexander – the Chairman
Andersson Martin
Cardona George.

The Strategy Committee after June 10, 2011:

Melnichenko Andrey Igorevich – the Chairman
Landia Alexander
Rashevsky Vladimir Valerievich
Strezhnev Dmitry Stepanovich.

In 2011 the Committee held 15 joint-presence meetings. The Committee believes that complex issues require comprehensive discussion. Typically, meetings are held in an expended format with the participation of key managers and Board members who are not members of the Committee.

The Focus of the Committee during the year was on the following issues:

- formation of new principles of strategic planning, review of the different segment, and functional strategies, preparation for the formation of an expended strategy of the Company;
- analysis of strategic options, including the study of solutions to expand the resource base and the acquisition of rights to develop Apsat coal deposit; increase of port capacity, etc.;
- investment priorities, introduction of new approaches in the field of investment planning in conjunction with the development strategy, control over the implementation of the key projects;
- determination of the target holding structure, the search for effective ways to organize functions in the perimeter of the Company – production, sales, financial, legal, human resources, information technology, etc.;
- the issues of industrial safety and environmental policy.

The Audit Committee of the Board of Directors

The Audit Committee of the Board of Directors assists the Board of Directors in control of financial and economic activity and supervises the following areas:

- preparation of financial statements and carrying out annual audits;
- administrative reporting;
- budgeting and planning process;
- management and control of the most significant risks, including financial.

The Audit Committee did not undergo changes in the reporting year:

Bosky Dmitry – the Chairman, Independent Director
Kislyakov Mikhail Borisovich – Independent Director
Maichel Gert – Independent Director.

In 2011 the Committee held 9 joint-presence meetings and 9 in absentia.

The Audit Committee carries out quality control of financial statements, in terms of comparability and reliability. Today the Committee notes the high quality of the preparation and publication of the reporting.

The Committee supervises independent and internal auditors. Measures for optimization of Internal Control and Audit Service, audit planning approvals, the analysis of major supervision based on the results of audits; the adequacy and promptness of management countermeasures evaluation are also under the control of the Committee.

The Committee keeps in close contact with the CEO, the Finance director, the Head of Service of Internal Control and Audit and the Corporate Secretary. Regular meetings with the external Auditor CJSC KPMG take place. These are held both in the presence of management and in absentia.

In reporting year the Committee emphasized improvement of management reports.

The Committee makes efforts for the Board getting substantial analysis and detailed comments about indicators and goals, and about factors and risk affecting efficiency of the Company.

Measures have been taken to improve the budget process and all planning procedures. In particular, for the purposes of budgeting prices for the products are identified mainly from independent sources.

Throughout the year, the Committee was monitoring the key risks, including those critical to the company.

Issue on the financial risk management has been developed with the active support of the Committee together with the Strategy Committee.

The Committee has monitored the adequacy of financing important investment projects and compliance with the debt.

8.4 Committees of the Board of Directors

Nomination and Compensation Committee of the Board of Directors

The tasks of Committee included the assistance to the Board of Directors and management on issues in the following directions:

- personnel strategy;
- nominations and remunerations;
- corporate governance;
- social problems.

The Nomination and Compensation Committee before June 10, 2011:

Maichel Gert – the Chairman, independent director

Bosky Dmitry – independent director

Landia Alexander – Senior independent director.

Committee composition since June 10, 2011:

Landia Alexander – the Chairman, Senior independent director

Maichel Gert – independent director

Bosky Dmitry – independent director

In 2011 the committee held 10 joint-presence meetings and 8 in absentia.

The Committee is responsible for ensuring continuity in the leadership of the Company. The Committee is an essential element matching the selection of candidates for key executive positions. In 2011 the Purchasing Director, the Finance Director, heads of a number of RPAs were appointed. Work is underway to introduce to the Board of Directors the Independent Directors, highly skilled and valuable to the Company's industrial experience. The Company has appointed a new Corporate Secretary. The company has always recognized the importance of skilled professionals for the successful implementation of its tasks. This is particularly important given the global reach of business and difficult climatic conditions of work in remote regions. The Nomination and Compensation Committee provides oversight for the formation of a pool of successor managers of SUEK mines, strengthening

and developing personnel reserve – successor's development plans meet the needs of the company. The agenda of the Committee included issues related to the organization of administrative functions, human resource policies within the Company and staff costs. The Committee was in charge of social policy and approved the social report for the biennium.

The Committee ensures adequate compensation for the management, retaining of valuable experts. It pushes the management to achieve the strategic goals of the company and shareholders. Under the guidance of the Committee a policy analysis in the field of compensation and privileges was carried out, as well as the new incentives system of the top management, including the new program of long-term incentives which stimulates managers on the implementation of strategic long-term projects and development. The Committee held discussions on the individual targets of managers in 2012 which are set in conjunction with the budget indicators and strategic objectives. In April 2011 the company took a reasonable decision on the payment of bonuses for management in 2010, based on the Company's high financial results and targets achieved.

The Committee has developed new Board Member Remuneration Regulations, which were approved by the Annual General Meeting of Shareholders in summer of 2011.

Special attention in 2011 was given to implementation of requirements of labor protection, to maintenance of the effective monitoring system in the sphere of industrial safety. For today the Committee noted with satisfaction that the Company achieved considerable results in this area in comparison with other Russian coal-mining companies and has come nearer to level of recognized international companies. The issues of environmental and human safety of production will remain under continuous control of the Board and the Committee.

The Committee was in charge of corporate governance, including the balance of powers involved in the company's management bodies to make decisions relating to the disposal of assets. The Committee agreed on the changes to the Board of Directors Regulations and Committees' regulations aimed at ensuring the effective operation of these bodies. With the participation of the Committee, a statement of work with the insider information is being carried out under the new legislative requirements. The Committee made recommendations regarding the conditions of liability insurance of company executives.

8.4 Committees of the Board of Directors

Structure and the amount of remuneration, paid to board members

The new Board Member Remuneration Regulations of OJSC SUEK (the Regulations) were approved by the Annual General Shareholders Meeting June 9, 2011 governing the procedure for determining the amount of remuneration, payment of remuneration, and reimbursement of expenses related to the functions of members of the Board. Remuneration of Board members is determined by taking into account the functions of the Director – membership and chairmanship of the committees of the Board, the functions of Chairman of the Board of Directors and the Senior independent directors.

Total remuneration paid to members of the Board of Directors of OJSC SUEK up to 2011 amounted to RUR108,075 thousand. The total amount of compensation paid to the members of the Board in 2011, amounted to RUR5,260 thousand.

Participation of Directors in the meetings of Board of Directors in 2011.

Director	Board of directors	Audit Committee	Nomination and Compensation Committee	Strategy Committee
Total meetings¹	11 (12)	9 (9)	10 (8)	15
Andersson Martin	10 (12)	–	–	8 ²
Bosky Dmitry	11 (12)	9 (9)	9 ³ (8)	–
Cardona George	11 (12)	–	–	8 ⁴
Kislyakov Mikhail	11 (12)	8 ⁵ (9)	–	–
Landia Alexander	11 (12)	–	9 ⁶ (8)	15
Maichel Gert	10 (12)	8 ⁷ (9)	10 (8)	–
Melnichenko Andrey	11 (12)	–	–	7 ⁸
Popov Sergey	5 (6) ⁹	–	–	–
Rashevsky Vladimir	6 (6) ¹⁰	–	–	6 ¹¹
Ruban Anatoly	9 (11) ¹²	–	–	–
Strezhnev Dmitry	6 (6) ¹³	–	–	6 ¹⁴

¹ In brackets the number of meetings held as an absentee vote is specified.

² Andersson M. didn't take part in the meetings after 10.06.2011 since he had left Committee structure.

³ Bosky D. didn't take part in joint-presence meeting of Nomination and Compensation Committee on 11.12.2011.

⁴ Cardona D. didn't take part in the meetings after 10.06.2011 since he left Committee structure.

⁵ Kislyakov V. V. didn't take part in joint-presence meeting of Audit Committee on 21.07.2011.

⁶ Landia A. didn't take part in joint-presence meeting of Nomination and Compensation Committee on 29.03.2011.

⁷ Maichel G. didn't take part in joint-presence meeting of Audit Committee on 22.04.2011.

⁸ Melnichenko A.I. didn't take part in the meetings till June, 2011 as he joined the Committee on 10.06.2011.

⁹ Popov S. was a part of Board of directors till 09.06.2011.

¹⁰ Rashevsky V.V. was elected in the Board of directors on 09.06.2011.

¹¹ Rashevsky V.V. didn't take part in the Strategy Committee meetings till June, 2011 as he joined the Committee on 10.06.2011, after election didn't take part in joint-presence meeting of the Strategy Committee on 27.08.2011.

¹² Ruban A.D. died on 26.11.2011.

¹³ Strezhnev D. S. was elected in the Board of directors on 09.06.2011.

¹⁴ Strezhnev D. S. didn't take part in the Strategy Committee meetings till June, 2011 as he joined the Strategy Committee on 10.06.2011, after election didn't take part in joint-presence meeting of the Strategy Committee on 31.10.2011.

8.5 General Director, Management Board

The General Director and Management Board

Current Company activities are governed by a sole executive body – the General Director and collegial executive body – the Company Management Board created by resolutions of General Shareholders Meeting of June 28, 2004.

The General Director of the Company is appointed by the Board of Directors for an indefinite term. Vladimir Valerievich Rashevsky is the General Director of OJSC SUEK since December 23, 2004. The General Director of the Company is appointed by the Board of Directors for an indefinite term.

Current activities governance issues, except for those ascribed to the competence of the General Meeting of Shareholders, the Board of Directors and the Management Board, lie within the competence of General Meeting of Shareholders. The main tasks of the Management Board include timely and effective execution of decisions of the General Meeting of Shareholders and of the Board of Directors, coordination of the overall strategy for development and of the activities of SUEK enterprises. The Management Board has also an authority to resolve the most difficult issues the management of current activities of OJSC SUEK. The Management Board acts in the

interests of the Company and its shareholders and reports to the General Meeting of Shareholders and the Board of Directors. According to the Charter of OJSC SUEK, members of the Management Board cannot represent more than one-fourth of members of the Board of Directors.

Resulting from the development of the management structure as well as personnel changes, four changes were made to the composition of the Management Board pursuant to resolutions of the General Meeting of Shareholders on 11.06.2011. S.N. Mironosetsky was expelled from the Board; on 01.07.2011 – Belova A.G.; on 12.10.2011 – Loginov A.K.; on 26.12.2011 – V.V. Preobrazhensky.

The structure of the Management Board as at 01.01.2012 is as follows:

Chairman of the Management Board
Rashevsky Vladimir Valerievich

Board members
Artemiev Vladimir Borisovich
Gribanovsky Igor Vladimirovich
Marchuk Kuz'ma Valerjevich

In 2011, the Management Board meetings hold 29 meetings, including 11 joint-presence meetings and 18 – in absentia. The Management Board considered 100 issues; including 64 in presentia and 36 in absentia vote. During the meetings 287 decisions were made.

The focus of the management Board work was the coordination of the development of the Company segment strategy, the issues of ensuring the stable working of coal-mining enterprises and maximizing volumes of coal shipments and systematic work to achieve new levels of control in the field of industrial safety.

To achieve these goals and according to the Regulations on the Management Board (item 10.1), in OJSC SUEK commissions and committees were formed to provide inter functional interaction of key managers and experts on the main issues of the Company's activities. Commissions and committees meet 65 times during the reporting period. The Management Board has the following active committees and commissions:

- Commission on reforming;
- Commission on ethics;
- Committee on purchases and policy of sales;
- Investment committee;
- Supervisory committee on information technologies;
- Committee on quality;
- Committee on risk management;
- Budget committee;
- Committee on industrial safety.

8.5 General Director, Management Board

Chairman of the Board

Duties of the Chairman of the Management Board of OJSC SUEK since August 2005 are carried out by the General Director of the Company.

Rashevsky Vladimir Valerievich

Mr. Rashevsky was born on September 29, 1973. Mr. Rashevsky graduated from the Moscow Financial Academy of the Government of the Russian Federation, department of International Economic Relations, specialising in Global Economics, and holds a PhD degree in Economics.

From June 1992 to May 2000, Mr. Rashevsky held various positions at Avtobank, making his way to the position of the Vice Chairman of the Board of Directors. In May 2000, Mr. Rashevsky joined MDM Bank as the head of its Investment Banking and Financial Markets division, and became a vice chairman of its management board in July 2000 and chairman of its management board in December 2001.

Mr. Rashevsky has been Chief Executive Officer of SUEK since 2004, when he was appointed President, and later in the same year, re-appointed General Director. His key objectives are the development and implementation of a new strategy of Russia's largest coal company, consolidations of coal and power assets on its basis, restructuring the management system, launching the program of improving efficiency and productivity to become a world-class company.

Since 2007, Mr. Rashevsky has been a member of the Board of Directors of RAO "UES of Russia" (with the authority terminated on July 1, 2008), a member of the Board of Directors of OJSC "UES FGC" (authority terminated on June 30, 2008) and a member of the Board of Directors of OJSC "Kuzbassenergo" (authority terminated on February 28, 2008).

Since 2007 Mr. Rashevsky is a member of the Management Board of Non-for-profit organization "Regional Social and Economic Support Fund "SUEK FOR REGIONS". Mr. Rashevsky is member of the board of the All-Russian Association of Employers of the Russian Union of Industrialists and Entrepreneurs (RSPP) since June 24, 2008.

Board members (active)

Artemiev Vladimir Borisovich

Deputy Director General, Director for Production Operations of OJSC SUEK.

Mr. Artemiev was born on May 28, 1965. Mr. Artemiev graduated from the Novochoerkassk Polytechnic Institute as a mining engineer in 1987. Graduated from the Academy of national economy under the Government of the Russian Federation, majoring in management (1994). Mr. Artemiev hold the degree of Doctor of Technical Science.

From 1982 to 1998 Mr. Artemiev held executive positions at OJSC Gukovugol. From 1998 to 2002, Mr. Artemiev served as General Director of OJSC Gukovugol.

served as the Head of the Coal Industry Department of the Ministry of Industry and Energy of the Russian Federation. In 2004-2006, Mr. Artemiev served as the Head of the Mines Inspectorate of the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor).

Since April 2006, Mr. Artemiev has held the position of the Deputy General Director of OJSC SUEK for Production Operations.

Mr. Artemiev was awarded the Order of Courage for managing a miners rescue operation and the badge "Shakhterskaya Slava" (Miners' Glory) of three degrees. Since 2007, Mr. Artemiev is a member of the Management Board in the Non-for-profit organization "Regional Social and Economic Support Fund "SUEK FOR REGIONS".

Mr. Artemiev was elected to the Management Board of OJSC SUEK on January 30, 2007.

Gribanovsky Igor Vladimirovich

Deputy General Director, Commercial Director of OJSC SUEK.

Mr. Gribanovsky was born on July 30, 1972. Mr. Gribanovsky graduated from the Moscow Institute of Steel and Alloys majoring in Metal Forming (1994). Mr. Gribanovsky joined the SUEK Group in 2001 as Head of Export, and from July 2005 to March 2007 served as Managing Director of SUEK AG, Switzerland.

Mr. Gribanovsky serves as Deputy General Director, the Commercial director of OJSC SUEK since March 2007.

Mr. Gribanovsky was elected to the Management Board of OJSC SUEK on January 30, 2007.

8.5 General Director, Management Board

Board members (active)

Marchuk Kuz'ma Valerjevich

Deputy General Director on economy and finance, the Chief financial officer of OJSC SUEK since December 26, 2011.

Mr. Marchuk was born on September 10, 1973.

In 1996 he graduated from the Moscow Lomonosov State University majoring in Physics. In 1995 he graduated from the Plekhanov Russian University of Economics, faculty of International Business, majoring in foreign affairs of enterprises and organizations.

From 2004 to 2010 he worked in OJSC Uralkali as Vice President for Finance, and was a member of the Board of Directors. Till 2004 he occupied executive positions in the large Russian companies – JSC Protek, JSC Norilsky Mining and Metallurgical kombinat (NGMK), the auditor companies of Deloitte & Touche, Rosexpertiza.

Mr. Marchuk was elected to the Management Board of OJSC SUEK on December 28, 2011.

Board members (former)

Belova Anna Grigoryevna

Deputy General Director, Director for strategy and corporate development.

Ms. Belova graduated from Moscow engineering and physical institute. Ms. Belova holds the degree of Candidate of Economic Sciences.

From 1993 to 2001 Ms. Belova held various leading positions at Booz, Allen & Hamilton, the American Chamber of Commerce and Industry, SBT (Modern business technologies) Company, and the Yunikon/MC Consulting Group.

In 2001 Ms. Belova was appointed Deputy Railways Minister of the Russian Federation for reforming, member of the Commission of the Government of the Russia for the structural reform of railway transport, Co-Chairman of the STe Inventory Commission for Privatisation of Railway Transport property. In 2003, Ms. Belova was appointed Vice President of RZhD for reforming, corporate development and informatization.

Since December 2005 Ms. Belova worked as the adviser to the Head of the Federal Agency for Nuclear Power and the Head of the branch commission on restructuring of nuclear and energy complex of the Russian Federation Ms. Belova was responsible for restructuring of nuclear branch and a corporatization of assets in the civil segment. At the same time Ms. Belova took the position of the first deputy on institutional transformations at OJSC Tekhsnabeksport.

A member of the Advisory Council on Corporate Governance for Federal Financial Markets Service of Russia, she is also a director of the European Strategic Supervisory Board of INTEL.

Ms. Belova was a member of the Management Board of OJSC SUEK from February 26, 2008 to July 01, 2011.

Loginov Alexander Kimovich

The managing director of a branch of OJSC SUEK of in Leninsk-Kuznetsk, the Director General of OJSC SUEK-Kuzbass till October 12, 2011.

Mr. Loginov was born on January 6, 1962.

Mr. Loginov graduated from the Kuzbass Polytechnic Institute majoring in Technology and complex mechanization of underground development of mineral deposits, and is qualified as a mining engineer. Mr. Loginov is a Candidate of Technical Sciences.

From 1984 to 1991 he worked at the mine «Novokuznetskaya» of «Kuznetskugol» concern. He worked his way up from the mining foreman to deputy chief engineer. From 1991 to 1994 he held the position of Chief Engineer at the mine «Esaulskaya.» From 1994 to 2003, he headed mines «Kazankovskaya», «Abashevskaya», «Kyrgayskaya» in the Kemerovo region and the mine office of OJSC «IC» Sokolovskaya».

Before joining the Company, Mr. Loginov held leading positions at JSC «UK Kuznetskugol», LLC «NPO Prokopyevskugol and JSC «UK Kuzbassugol» and was appointed Director General of OJSC «Vorkutaugol» in June 2003 and Director General of LLC «Severstal Resurs» in August 2006.

Mr. Loginov joined the SUEK Group in September 2007 as General Director of OJSC SUEK-Kuzbass and managing director of the SUEK branch in Leninsk Kuznetsky. Candidate of Technical Sciences. Mr. Loginov was awarded with the Medal of the Order of Merit for the Motherland of the second degree, a badge «Shakhterskaya Slava (Miners' Glory)» of three degrees.

Mr. Loginov was a member of the Management Board of OJSC SUEK from February 26, 2008 to October 12, 2011.

Mironosetsky Sergey Nikolaevich

Deputy General Director, Director for Power, Mergers and Acquisitions.

Mr. Mironosetsky was born on October 4, 1965.

Mr. Mironosetsky graduated from the Novosibirsk State University majoring in Economic Cybernetics, and was engaged in scientific research until 1994. In 1995-1996 Mr. Mironosetsky ran Novosibirsk branch of Rosexpertiza LLP, and from 1996-1999 he directed the Novosibirsk branch of JSC Yunikon/MS Consulting Group.

In 1999 Mr. Mironosetsky took the position of the Deputy General Director for finance and economy at OJSC Kuzbassenergo. In 2001, he was appointed Deputy General Director (Financial Director) of OJSC EuroSibEnergo, and in 2003, Deputy General Director – Director for Finance and Economics of OJSC Irkutskenergo.

Mr. Mironosetsky was a member of the Board of Directors of the OJSC Inter-regional Distribution Grid Company of Siberia, the Board of Directors of OJSC Far-Eastern Energy Company, the Chairman of the Board of Directors of OJSC Yenisei TGC (TGC-13), the member of the Board of Directors of OJSC Krasnoyarskaya GES, a member of the Board of Directors of OJSC TGC-11.

Mr. Mironosetsky was also a member of the Management Board of the Non-for-profit organization "Regional Social and Economic Support Fund "SUEK FOR REGIONS", a member of Board of the Association Non-for-profit organization "Siberian power association", and also a member of supervisory boards of non-for-profit partnership "Council of producers of the electric power and strategic investors of power industry" and non-for-profit partnership "All-Russian Thermal Engineering Research Institute".

Mr. Mironosetsky was appointed the General Director and the Chairman of OJSC UK SGK (Managing Company of Siberian Generating Company) in 2009.

Mr. Mironosetsky was a member of the Management Board of OJSC SUEK from August 30, 2005 to June 11, 2011.

Preobrazhenskiy Vladimir Vladimirovich

Deputy General Director for Economics and Finance, Chief Financial Officer (till December 26, 2011).

Mr. Preobrazhenskiy was born on November 1, 1961.

Mr. Preobrazhenskiy graduated from the Moscow Aviation Institute majoring in Space Engineering, pursued post-graduate studies at the Moscow Lomonosov State University, Faculty of Philosophy. Mr. Preobrazhenskiy also attended executive development courses at London Business School, Harvard Business School and INSEAD.

From 1994 to 1996, and then from April to October 1998 Mr. Preobrazhenskiy held the position of Vice President and Member of the Board of Inkombank, responsible for for strategic planning, management of international operations, management of companies within the financial and industrial group, and development of practices in investment banking transactions.

During 1996–2001 Mr. Preobrazhenskiy held various executive positions in a number of Russian and international companies: JSC SAMEKO, concern "Stern Tsement", Vremya group, Vympelcom group, JSC Wimm-Bill-Dann Foods.

From June 1999 to May 2001, Mr. Preobrazhenskiy was a member of the Management Board and Chief Financial Officer, Director for Business Development of OJSC Vympelcom, and also Director General of the BeeOnLine Company.

From July 2002 to April 2005 Mr. Preobrazhenskiy was a member of the Management Board and Chief Financial Officer of OJSC Wimm-Bill-Dann Foods.

Mr. Preobrazhenskiy hold a position of the General Director of Grifin Co. Ltd. from May 2009 to December 2011. Vladimir Preobrazhenskiy implemented the project of «Scenario for Russia» which laid down the foundations of the establishment of the «Club 2015».

Mr. Preobrazhenskiy was a member of the Board of directors of Russian Economic School, non-for-profit organization "Fund of social and economic support of regions "SUEK to REGIONS" (Moscow), SAC IASB (Standards Advisory Council for International Accounting Standards Board, London, Great Britain).

Mr. Preobrazhenskiy was a member of the Management Board of OJSC SUEK from August 30, 2005 to December 23, 2011.

8.5 General Director, Management Board

Board members

Members of the Management Board did not own shares of OJSC SUEK in 2011.

Transactions between members of the Management Board and Company "SUEK" were not performed in 2011.

There were no claims against active of former members of the Management Board in 2011.

Remuneration of the members of the Management Board of OJSC SUEK and the General Director (CEO) comprises the following:

- fixed remuneration component (salary);
- variable remuneration component (annual bonus).

The fixed remuneration component (salary) is set for the members of the Management Board and the CEO in accordance with their respective job Duties.

The variable remuneration component (annual bonus) is targeted at incentivizing the top management for the achievement of strategic goals of the Company, and attracting and retaining the best managers.

Annual bonus is assessed for each member of the Management Board individually, on the basis of Key Performance Indicators targets in accordance with de-composition of the strategic goals of the Company.

The total amount of remuneration paid to the members of the Management Board and the General Director of OJSC SUEK based on the performance in 2011 equaled RUR916,031,430.

8.6 Risk Management

The Company's risk management system

The activity of SUEK is subject to various risks which can influence its operations and financial results significantly.

In SUEK, a Corporate Risk Management System is in place, which is aimed at early identification of all potential sources of risk. Risks analysis and management is carried out in accordance with the accepted standard in the Company's risk management, which provides for:

- application of risk management system conforming to the overall strategy of the Company and integrated into all levels of management, functions and plans;
- implementation of risk management into the overall management of the Company and the annual planning process as part of their;
- identification of risks that may adversely affect the Company's activities at all levels;
- identification and continuous assessment and documentation of all significant risks that could adversely affect the achievement of the stated objectives of the Company;
- planning for risk management in an integrated manner;
- bringing to the attention of the Company's employees of their responsibilities for risk management through education and awareness.

The risk management system is integrated into the corporate governance system of SUEK. The Company's management monitors the most critical risks on a regular basis and reports to the Board of Directors of OJSC SUEK about the effectiveness of interventions.

This Annual Report does not contain an exhaustive description of all risks that may affect the operations of the Company. The following describes the major risks that could significantly affect the activity of OJSC SUEK, its financial position and operating and financial results. Other risks that are not listed in this Annual Report, can be significant and have a significant adverse effect on the activity of OJSC SUEK, its financial position and operating and financial results.

Industry risks

The main branch of the Company risks is associated with possible deterioration of the situation in the coal industry as a whole. Among the major factors influencing the change in the situation for the worse, the most important are the following:

- negative change of the world prices for utilities, primarily for coal and natural gas as the main alternative fuels used in power generation;
- increasing the transportation component in the cost of production in the first place, the growth of rates for rail transportation of coal;
- weather conditions affecting the demand the electricity and heat, as well as affecting the amount of electricity generated by hydropower plants.

The Company makes all possible to minimize these risks, including analysis, monitoring and forecast of prices dynamics, as well as long-term contracts (including fixed-price) and, if necessary, the use of hedging instruments.

Sales diversification between different markets (foreign and domestic) makes it possible to reduce to an acceptable level the risk of reduction in demand due to climate change (bad weather). The company's own bulk terminal at the port of Vanino allows SUEK to increase sales in the Asia-Pacific region, where demand for coal is growing especially fast, as well as reduced handling costs. This reduces the dependence of SUEK's international sales on the situation in the European coal markets and will reduce the risk of a decrease in the volume of coal exports to major markets. Expansion of Company's own carload park reduces partly the risk of negative consequences from rail fare growth.

8.6 Risk Management

Financial risks

In the course of performing its economic activity, the company faces various financial risks.

Change of currency exchange rates

The Russian ruble is the functional and reporting currency of SUEK. The Company is subject to currency risk in terms of transactions denominated in foreign currencies:

- transactional risks – risks associated with revenue and expenditure transactions undertaken in foreign currencies;
- currency translation risk – the risk of recognition of negative foreign exchange differences on assets and liabilities denominated in foreign currencies.

The Company regularly reviews the possible effect of exchange rate changes on financial performance and, if necessary, applies the hedging instruments to ensure financial stability.

The growth of interest rates

SUEK involves borrowing at fixed and floating rates. Because of the possibility of deteriorating financial markets, the Company's financial results are subject to risks of adverse changes in interest rates on credit obligations with floating interest rates. The company constantly monitors and analyzes the dynamics of the need to hedge.

Legal risks

Among the legal risks that may affect the activity of SUEK, risks are found associated with:

- changes in tax legislations;
- changes in securities laws, antitrust laws;
- changes in customs regulations and tariffs, currency regulation;
- changes in licensing requirements and the main activity law on subsoil use;
- possible tightening of the requirements of legislation for the protection of the environment or change in the practice of their application;
- changes in judicial practice on issues related to the company.

To reduce these risks, the Company carries out monitoring of trends in regional and nationwide law enforcement practices, analysis and evaluation of legislative initiatives.

In the foreseeable future, the risks associated with changes in foreign exchange, tax, customs, antitrust and licensing regulations, which may cause deterioration of the financial condition of the company, are negligible. The company bases its activities in strict accordance with the tax, customs, currency, antitrust legislation and the legislation governing the licensing issues, monitors, and promptly reacts to changes in legislation.



9. Sustainable Development

OJSC SUEK is fully aware of the responsibility for their activities to their employees, communities, business partners, and considers it necessary to contribute to the promotion of social and economic development in the regions of operation, to be a reliable partner of the state and society in the formation of a stable and supportive social and economic environment.

Environmental responsibility

Environmental responsibility, caring and rational use of natural resources is one of the key principles of SUEK. Corporate Environmental Policy directs the Company's enterprises and each employee to improve environmental safety of industrial activity. SUEK consistently adheres to the requirements of existing regulations, conducts a wide range of measures to reduce negative impacts on the environment by reducing harmful emissions, rational use of water and waste water treatment, distribution and waste disposal and utilization, land reclamation.

Reducing the negative impact on the environment is one of the strategic priorities of SUEK. The company is committed to doing everything possible to maintain a healthy environment for future generations. In managing the environmental aspects of industrial activity SUEK consistently focused on the precautionary principle, which was reflected in a number of international conventions.

The company carefully evaluates the potential environmental risks of the proposed economic activity, tends to avoid serious or irreversible environmental violations, wherever practicable.

Environmental Risk Management is integrated into the overall company's risk management system. The solution of environmental problems is considered by the Company not only as expenditure, but also as one of the ways to increase business efficiency. Reduction of losses at in coal mining and processing, providing efficient use of energy and other resources at all stages of production as well as waste disposal are factors of both environmental and economic performance of the Company.

In order to achieve the established standards of emissions and discharges of polluting substances, long-term and annual plans are designed for environmental protection activities.

Among the major projects executed in 2011 under the investment program of OJSC SUEK, the following should be noted:

- Purchase of mobile vacuum pollution control systems for the Vanino bulk terminal.
- Construction of treatment facilities at the mine "Krasnoyarsk".
- Reconstruction of the pump and filtration plant of the mine "November 7".
- Reconstruction of the mine water treatment facilities at the mine "Kotinskaya".
- Acquisition of dust collectors for the Montenegrin concentrator.
- Acquisition of dust removing cyclones for the boiler room of the mine "Kirov".
- Commissioning of sewage treatment plants at the "Borodino" open-pit mine (period of trial operation – 3 years).
- Acquisition of heat meters for boiler manufacturing units of LLC "Spetsnaladka".

As part of the agreements of the Kyoto Protocol, fulfillment of joint implementation projects aimed at reducing greenhouse gas emissions at the "Kirov" mine is continuing. The project involves the use of methane to generate electricity and heat. As part of the project, three co-generation gas-engine power plants were launched that were supplied by the German company PrO2; the boiler that provides heat for the mining sector switched from coal-powered to coal mine methane furnaces. Total greenhouse gas emission reductions as a result of the project for the period 2009–2011 amounted to about 150 tonnes of CO₂ equivalent, including verified greenhouse gas emission reductions to the amount of 138.3 thousand tonnes of CO₂ equivalent. Russia's first verification of emission reductions of degasation methane were produced during the period from 01/01/2009 to 30/09/2011.

The effect of degasation methane utilization:

- reducing emissions of methane – 11.3 million m³;
- generation of electricity – 25.2 thousand MWh;
- the use of thermal energy – 24.0 thousand MWh.

The continuation of the project in 2012 provides to put into operation two gas-utilization container plants with a capacity of 8 MW of heat energy per hour and a gas-engine plant with electric capacity of 0.4 MW per hour, and one more boiler will switch from coal to mine methane. Exploiting this equipment will provide for the utilization of an additional 20 thousand tonnes of methane per year.



Human resource management

Being one of the largest Russian employers, SUEK builds the relations with employees on the basis of principles of corporate social responsibility and social partnership.

In its activities in the field of personnel management SUEK is committed to the introduction of modern technologies into personnel management systems that link motivation with the strategic guidelines of the Company and enhance the ability of employees' potential development.

The average number of staff in SUEK in 2011 was 30,760 employees.

Salary and staff motivation

The wage policy of the Company and motivation is designed to serve as an effective human capital management, and aims to establish an adequate and equitable relationship between the achievement of its strategic goals and objectives, and employee benefits.

The company always strives to provide its employees a competitive and fair compensation. In accordance with the provisions of collective agreements the Company conducts periodic indexation of wages, so in 2011 the average monthly salary of staff at SUEK enterprises amounted to RUR32 thousand.

On an ongoing basis the Company monitors the trends of the labor market in Moscow and regions of operation. SUEK takes an active part in the annual surveys and studies of wages, compensation and benefits. The data of these studies contain relevant information on current remuneration levels for various positions, statistical data on the systems of material and immaterial incentives, personnel policies, practices and approaches used by employers. Analysis of this information allows the Company to take into account market trends, to attract and retain staff of the necessary qualifications, offering the employees attractive working conditions.

One of the priorities of the Company is to achieve high economic efficiency through continuous improvement of business processes and performance management. This task is a system of material incentives based on

performance targets and key performance indicators that are established for the reporting period. This system is used for various levels of government – from the Director General of SUEK to key positions in the enterprises in regions of the Company's presence.

Much attention is paid in SUEK to the implementation of key strategic projects of modernization and development. In order to implement those with maximum efficiency, compliance with all specified targets, as well as to maintain a constant interest of the participants and their orientation on the final result, the Company created methodology for stimulating long-term project activities. The Company widely applies measures of material and moral incentives. In particular, production competitions are held annually, the winners are awarded diplomas and valuable gifts, which is dedicated traditionally to the celebration of Miner's Day. The results of the competition are reported in SUEK corporate newspaper "The Events and People". Moreover for efficient, honest labor and labor merits, the employees are presented for state, official and corporate rewards. In 2011, the highest state awards were awarded to the 23 best representatives of labor collectives, the Russian Energy Ministry rewarded 227 employees, more than 1,000 employees were rewarded with corporate awards of the Company, including the best marks of distinction of the Company: "SUEK. Miner Valor" (of the I and II degree), "SUEK. Veteran of the Coal Industry" awarded to more than 200 people.

Policy in the field of personnel employment

The policy of SUEK in the field of employment of the personnel is directed to the timely provision of the optimum quantity of manpower with the level of competence necessary for effective achievement of the purposes of the Company. Planning for staffing needs, recruitment and selection are carried out in accordance with the plans of the Company's technological upgrading of enterprises, as well as measures aimed at reducing costs and improving performance.

Development and improvement of personnel's qualifications

The Company believes one of the most important factors is successful implementation and continuous development of employee skills. The current system of SUEK training and development aims to ensure optimum conditions for the maximum disclosure and implementation of the professional and intellectual potential of employees.

In OJSC SUEK we have a corporate university. Programs are performed there with the aim of fulfilling key necessities and goals of the company. Among the main goal-oriented programs of the corporate university performed on constant basis it is necessary to indicate the following:

- "First staff" – developing program for top management;
- "Locomotive" – a long-term program for the developing of future company leaders;
- "Site Manager" – a program of development of supervisors and training reserves for this job.

The Company has adopted "Law on the personnel", showing the development opportunities for professionals, technical officers, employees and blue-collar occupations.

In 2011, the implementation of the project "Formation and development of the reserve in key positions of the Company" continued, whose main purpose is to ensure continuity in SUEK. As part of the project there a reserve was formed for the key positions of enterprises, the estimation

of a personnel reserve was created on which to base plans for individual development, and internal rotation was introduced. The Company has a regional network of professional educational institutions, which includes 17 training centers and factories, the main tasks are: to obtain new professions, to learn a second (shared) profession, and professional development. Particular attention is paid to the Company's personnel training in the field of occupational health and safety. In 2011, the Company launched a program of renovation of material and technical bases of educational centers and plants.

In 2011, SUEK directed a total of RUR45.6 million to the training and development programs for the personnel. The number of employees, who have mastered the various training programs, amounted to 15.8 thousand people.

SUEK carries out work on a constant basis on the involvement of young specialists in enterprises of the Company which includes: vocational guidance; excursions to Company enterprises; carrying out regular meetings with parents of school pupils and school pupils in favor of education in mining high schools, the subsequent employment and work prospects at SUEK enterprises; carrying out classes in work on the basis of the Company enterprises; the selection for admission to institutions of higher education in the specialty relevant to the Company.

Social partnership

The interaction of the Company with the trade unions is based on the principle of social partnership. The Russian Independent Trade Union of Coal Industry Workers (Rosugleprof), the Independent Miners' Union of Russia (NPG) are functioning at Company enterprises.

The company is a constant participant of the Federal coal industrial agreement of RF. Social obligations of the Company are set out in bilateral territorial agreements with trade unions and collective bargaining agreements governing the provision of social benefits and guarantees, such as: the organization of voluntary health insurance, provision of coal allowance, payment of round trip travel costs to place of resort, payment for the vouchers of the employees and their family members, payment of the lump-sum benefit for pension, financial assistance of the employees, pensioners or their family members under family circumstances, employment assistance and staff training.

SUEK pays particular attention to the health of its employees. The Company Health Program is aimed at decreasing in operational and household injuries, professional incidents and the related losses of working hours. This Program includes: the realization of actions for the prevention and identification of occupational diseases at early stages, the organization of systematic work on the health protection of workers, including medical examinations.

In the formation of internal corporate social policy, the Company has been constantly committed to compliance with Russian legislation, the implementation of all points of agreement aimed at preventing the emergence of social tensions in communities, continuous improvement and modernization of production processes, improvement of safety conditions. Work carried out within social partnership allows the Company to develop dynamically, increasing the welfare and living standards of workers.

The Community

For implementation of the Company's social policies the non-for-profit organization "Regional Social and Economic Support Fund "SUEK FOR REGIONS" was established. In the regions where SUEK is present, the Company carries out joint projects with regional and municipal administrations, working with community organizations in the implementation of their economic, social and charitable programs. The company aims to promote and encourage creative activity and commitment from the local community, to actively develop and implement mechanisms to improve motivation and retention of highly qualified personnel in their enterprises and to attract young professionals, to expand public-private partnerships and create new institutions for development.

An important development in 2011 was the implementation mechanism of the transition from subsidized public facilities to investment in human capital development, the establishment of a truly effective social partnership. This allows Company to increase the competitiveness of the territory, to improve the quality of life, contribute to the increment of the human and social capital, to develop a mechanism for monitoring the real needs of the population.

Key regional social projects of 2011

Inter regional actions:

- inter regional competition of social projects for landscaping "Comfortable living environment";
- inter regional competition of student's projects "Golden personnel reserve of SUEK";
- replication of the model of the Resource center of professional self-determination of youth;
- replication of the model of support of small and medium-sized businesses;
- replication of the model of support of civic initiatives.

Primorsky Territory:

- the World Cup of tai-kwan-do and the development project tai-kwan-do for children;
- construction of a memorial sign Miners' Glory in Partizansk;
- support of the compensative kind kindergarten No. 15 in Partizansk urban district;
- repair of premises of Recreation center in Novoshakhtinsk;
- support of major repair of school No. 2 of Lipovtsi township.

Republic of Khakassia:

- the commencement of a housing project together with the Government of Khakassia;
- partnership of the First international forum "Historical and cultural heritage, as a resource for development of the region", Launched at the initiative of the Republic of Khakassia government with support of the Government of the Russian Federation and UNESCO;
- support of the Abakan puppet theater "Fairy Tale";
- repair of schools of Zelenoe village, municipality Ust-Abakansky area and the Beloyarsk school, the Berezka children's summer camp in the Beysky area;
- hospital reconstruction in the village of Kuibyshev and therapeutic office of the central regional hospital in the village of Bely Yar of the Altay area;
- construction of children's playgrounds in Ust-Abakansky, Altay and Beysky areas.

Kemerovo regions:

- opening of the Museum of attraction and science in Leninsk-Kuznetsk;
- school competition of scientific and technical projects Achievements in the XXI century;
- playgrounds in Leninsk-Kuznetsk and Prokopyevsk areas;
- support of the Kuzbass science and technology park, including participation in a state program for Creation of science and technology parks in the sphere of high technologies in the Russian Federation;
- the organization and financing of tours by A.P. Chekhov Moscow Art Theater as part of the celebration of the Miner's Day and 10th anniversary of the Company, financing of "The Theater of ice miniatures" tours;
- charity to the Kemerovo regional public fund "Miner's memory" under the name of V.M. Romanov;
- the organization of summer holidays for children in sports centers and sanatoriums of Russia and Greece.

Zabaykalye Territory:

- repair of playgrounds in Drovyanaya village, Zabaykalsky Krai, acquisition and installation of children's games and sport equipment;
- major repair of houses in Drovyanaya village.

Krasnoyarsk Territory:

- opening of the Museum of attraction and science at Borodino;
- III Fair of business projects in Borodino and Rybinsk area;
- major repair of the heating system in Ugolshchik Palace of culture;
- medical equipment purchase in the Borodino City hospital, financing of major refurbishment of the Rybinsk central regional hospital, repairs to the Krasnoyarsk regional hospital, purchase of ambulances for the hospitals of several villages;
- help in acquisition of apartments for young specialists of Rybinsk TsRB;
- construction of attractions in Borodino, playgrounds in Nazarovo, Adadym of the Nazarovskiy area, in Sharypovo's two residential districts, the sports ground in the Ural village of the Rybinsk area;
- monetary awards to teachers of schools and kindergartens in the Nazarovskiy area;
- school repairs at the villages of Sokhnovka, Preobrazhenskiy, Pavlovsk and Glyaden, at school No. 2 of Sharypovo, Municipal Educational Establishment "The Brigantine";
- major refurbishment of the Shakhter stadium in Nazarovo;
- construction of the Avenue of miners' glory in Nazarovo;
- organization of a trip to the Krasnoyarsk A.S. Pushkin drama theater;
- financing of production of a new children's fairy tale at the Krasnoyarsk A.S. Pushkin drama theater;
- summer labor groups from children of the miner's cities and the areas, organized by the Fund, became the most numerous in recent years.

Republic of Buryatiya:

- training in Estonia on the problem of the creation of a municipal system of vocational training;
- participation in organization of "Days of Buryatiya" in Moscow;
- more than 100 children from socially disadvantaged families with serious health problems were able to be examined by leading experts of the Medical center according to an Agreement with Administration of the President of the Russian Federation.

Khabarovsk Territory:

- the IV Fair of social projects of the Verkhnebureinsky area is carried out;
- organization of training in Israel for the implementation of system support of innovations.

Federal Projects:

The SUEK FOR REGIONS fund took part in the creation and implementation of comprehensive programs of development for mono-cities such as Chegdomyn (Khabarovsk Territory) and Chernogorsk (Republic of Khakassia), support of the participation of representatives of the Kemerovo region and Leninsk – Kuznetsky in federal meetings and conferences on mono-cities is carried out.

Active work on the inclusion of these cities to the list of settlements of the Russian Federation to which state support will be rendered was carried out.

In 2011 "The Regional Social and Economic Support Fund "SUEK FOR REGIONS" continued the joint project with Administration of the President of the Russian Federation, receiving wide positive public assessment. During the project about 300 children from the Company's regions of activity were rehabilitated in the UDP Russian Federation rehabilitation and improvement center "Polyany" (Moscow region).

About 60 veterans of miner's work received highly skilled medical care in the Rehabilitation Center of the Administration of the President of the Russian Federation (Herzen).

In 2011 the "Regional Social and Economic Support Fund "SUEK FOR REGIONS" rendered financial help to veterans and disabled people of law-enforcement bodies and internal troops, to the Fund of support and sports development "The golden ball" and to the educational project "The Economic and financial history of Russia".



10. Additional Information

10.1 Information on Authorized Capital, Shareholders and Dividends

Information on Authorized Capital of the Company

As of December 31, 2011 the authorized capital of the Company amounted to RUR1,287,000 (one million two hundred eighty seven thousand) and consists of 257,400,000 (two hundred and fifty seven million, four hundred thousand) ordinary nominal shares of RUR 0.005 (zero point 5/1000) each.

Information on Shareholders of the Company

The company representing business interests of Andrey Melnichenko controls 81.35% of shares of the company of SUEK PLC, which owns 87.74% of shares of OJSC SUEK. Sergey Popov is the beneficiary of 16.8% of the stocks SUEK PLC.

As of December 31, 2011 in the register of shareholders 3 entities are registered:

- SUEK PLC – 87.74% of authorized capital of the company (Arkh. Makariu III, 2-4 CAPITAL CENTER, 9th floor, 1065, Nicosia, Cyprus);
- SUEK Investments Limited – 2.26% of authorized capital of the company (Whitely Chambers, Don Street, Saint-Helyer, JE4 9WG Jersey);
- CJSC Krasnoyarskaya – 0.16% of authorized capital of the company (29 Serebryanicheskaya Embankment, Moscow, Russian Federation).

Under the Company name of OJSC SUEK – 9.84% of authorized capital of the company.

Dividends Payment Report

Annual General Meeting of Shareholders of OJSC SUEK on June 09, 2011 made the decision not to distribute and not to pay dividends following the results of 2010.

On November 29, 2011 an extraordinary General Meeting of Shareholders took a decision on the distribution of dividends for the 9 months of 2011. The overall size of the declared dividends was RUR15,001,272,000; the overall size of the accrued dividends (not including shares under the Company name) was RUR13,524,456,800. Dividends were paid in full on December 22, 2011.

10.2 About the Company

Full company name:	Open Joint Stock Company Siberian Coal Energy Company
Abbreviated company name:	OJSC SUEK
Full name in English:	Open Joint Stock Company Siberian Coal Energy Company
Abbreviated company name in English:	OJSC SUEK
Location:	29 Serebryanicheskaya Embankment, Moscow 109028, Russian Federation

10.2.1 Information on the State Registration of the Company

State registration number:	097.096.
Date of registration:	14.03.2000.
The name of the body which has carried out the state registration:	Moscow Registration Chamber
PSRN:	1027700151380
Date of introduction of record in Unified State Register of Legal Entities:	23.08.2002.
Registrations authority:	The Department of the Russian Federation Ministry for Taxes and Levies for the City of Moscow
INN/KPP:	7708129854/774850001

10.2.2 Information on Company's Branch Offices

Region	Full name	Abbreviated name	Location
Krasnoyarsk Territory	Krasnoyarsk Branch of Open Joint-Stock Company "Siberian Coal Energy Company"	Krasnoyarsk Branch of SUEK	35 Lenin St, Krasnoyarsk, Krasnoyarsk Territory, Russian Federation
Republic of Khakassia	Chernogorsky Branch of "Siberian Coal Energy Company", Open Joint-Stock Company	Chernogorsky Branch of SUEK	40 Sovetskaya St., Chernogorsk, Republic of Khakassia, Russian Federation
Primorye Territory	Vladivostok Branch of "Siberian Coal Energy Company", Open Joint-Stock Company	Vladivostok Branch of SUEK	29 Tigrovaya St., Vladivostok, Primorye Territory, Russian Federation
Republic of Buryatia	Tugnuisky Branch of "Siberian Coal Energy Company", Open Joint-Stock Company	Tugnuisky Branch of SUEK	Sagan – Nur village, Mukhorshibirsky district, Republic Buryatia, Russian Federation
Kemerovo Region	Branch of "Siberian Coal Energy Company", Open Joint-Stock Company in the town of Leninsk-Kuznetsky	SUEK Branch in Leninsk-Kuznetsky	1 Vassilyeva St., Leninsk-Kuznetsky, Kemerovo region, Russian Federation
Khabarovsk Territory	Khabarovsk Branch of "Siberian Coal Energy Company", Open Joint-Stock Company	Khabarovsk Branch of SUEK	2 Magistralnaya St., Chegdomyn village, Verkhnebureinsky district, Khabarovsk Territory, Russian Federation

10.2.3 Information on Company's Auditors

Full trade name:	Closed Joint Stock Company KPMG
Abbreviated trade name:	CJSC KPMG
Location (legal address):	129110, Moscow, Olimpiysky Avenue, 18/1, ком.3035
The address for the direction of post correspondence:	123317, Russia, Moscow, Presnenskaya Embankment, 10, block "S", эт.31
Phone number and fax:	ph. +7 (495) 937-44-77, fax +7 (495) 937-44-99
E-mail address:	moscow@kpmg.ru
Number, date of issue and period of validity of the license for implementation of auditor activity, the body which has granted the specified license:	According to item 2 of Art. 23 of the Federal law No. 307-FZ of 30.12.2008 On Auditing, licensing of audit activity has been terminated as of January 1, 2010. CJSC KPMG is the member of the selfregulatory organization of auditors
Data on membership of the auditor in boards, associations or other professional associations (organizations):	Association of Russian Banks Audit Chamber of Russia National Council on Corporate Governance (NCCG) European Business Congress e.V. (EBC) Association of Industrial Parks

CJSC KPMG was approved by the resolutions of the regular (annual) General Meeting of shareholders of OJSC SUEK on June 28, 2010 for carrying out audit to the Russian Standards of Accounting (RSBU) and the International Financial Reporting Standard (IFRS) for 2011.

10.3 Contact Information

OJSC SUEK

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Corporate secretary

Elena Panasenko

Press secretary

Alexey Naumenko

Head of Department

for investor relations

Marina Zakharyuta

Registrar

CJSC Computershare Registrar

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License No.: 10-000-1-00252

Date of issue: 06.09.2002.

Term of licence: not limited

Authority issued: FFMS of Russia

11. Glossary

11.1 Reductions and Acronyms

CPP	Coal preparation plant
kt	Thousand tonnes
mln	Million
mt	Million tonnes
bn	Billion
IAE	International Energy Agency
IFRS	International Financial Reporting Standards
RPU	Regional production unit
RF	Russian Federation
RUR	Russian ruble
FD	Federal district
t	Tonne
\$	US Dollar

11.2 Terms and Definitions

ARA	Amsterdam, Rotterdam, Antwerp
API 2 Index	The CIF price of coal at the ports of Amsterdam, Rotterdam and Antwerp with coal calorific value of 6,000 kcal/kg. The benchmark API 2 (CIF ARA) we use is published by Argus Media Limited and IHS McCloskeytonne
CIF	One of the Incoterms® that stands for Cost Insurance Freight. CIF means that the seller executes delivery when the goods pass the ship's rail in the port of shipment. The seller is obliged to pay expenses including freight, necessary for goods delivery to the named port of destination. The risk of loss or goods damage, as well as any additional expenses arising after the shipment of the goods, pass from the seller to the buyer, however the duty of acquisition of sea insurance in favor of the buyer against the risk of loss and damage of goods during transportation is assigned to the seller.
Company	See "SUEK"
Company's enterprises	See "SUEK"
EBITDA	Earnings before interest, tax, amortization and depreciation
FCA	One of the Incoterms® that stands for Free Carrier At (named place). The term FCA means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place. With reference to SUEK, at realization on the terms of FCA realization is admitted at railway station of departure, after coal loading in cars for further transportation to the destination
FOB	One of the Incoterms® that stands for Free on board. FOB means that the seller executes delivery when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss or damage of the goods from that point. FOB terms require the seller to clear the goods for export.
globalCOAL® NEWC Index	A price index calculated and published by globalCOAL® agency. Global COAL® NEWC Index represents the spot price of the index month for physical delivery of 1 tonne of steam coal with a calorific value of 6,000 kcal/kg under FOB terms at Newcastle Port in Australia tonne
IEA	International Energy Agency
SE "CDU TEK"	Federal State Unitary Enterprise "Central Dispatching Department of Fuel and Energy Complex"
Spot buyers	The buyers acquiring the goods (coal) at the current market prices with the time horizon of the contract up to three months following the month of signing
SUEK's enterprises	See "SUEK"
SUEK	"SUEK", "company", "SUEK enterprises", "the Company enterprises": OJSC SUEK and the entities within the legal group of OJSC SUEK; OJSC SUEK, "Company", "Society" designate: OJSC SUEK

