

# Raspadskaya – Russia's Leader in Coking Coal

## Investor Presentation



*London, 12 September 2007*

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- Introduction to Raspadskaya
- Market and Industry Overview
- Strategy and Financial Overview



# 1. Introduction to Raspadskaya



## Russian leading coking coal producer

- Largest high quality coking coal reserves in Russia
- Second largest producer of coking coal in Russia
- One of the 10 largest producers of coking coal in the world

## Efficiency

- Low cash cost of concentrate production – US\$18.8 per ton in 2006
- Labor productivity on par with global peers
- Modern highly productive equipment
- Compact integrated operating complex

## Professional management

- Optimal and highly efficient production
- Continued focus on safety procedures
- Experienced management – proved by efficient operation track record

## Strong financial performance

- 2006 Proforma Revenue - US\$469m and EBITDA - US\$259m
- EBITDA margin – c. 62% in 2004, 59% in 2005 and 55% in 2006
- Proforma OpCF/EBITDA – 81% in 2006
- More than 50% of the 2004-2010 CAPEX program has been already completed

## Growth potential

- Target production volume growth: up to 17 mtpa by 2010
- Strengthening of positions in domestic market: K and KO grade introduction and LT contracts
- Growth of market share in Ukraine and Eastern Europe
- Access to rapidly growing Asian markets
- Potential to increase reserves and resources

## Prudent and creditor friendly financial policies

- Net Debt / EBITDA of 1.5x (on a standalone basis)
- Dividend pay out ratio in the range of 25%-50% of IFRS net income
- Availability of bank facilities or cash and cash equivalents to cover working capital requirements



- Coal production - 100% coking coal
- JORC reserves – 782 million tonnes<sup>1</sup>
- Long reserve life – over 70 years<sup>2</sup>

- Average number of employees – 7 245 in 2006
- Production per underground mining employee – over 16 000 tppy in 2006

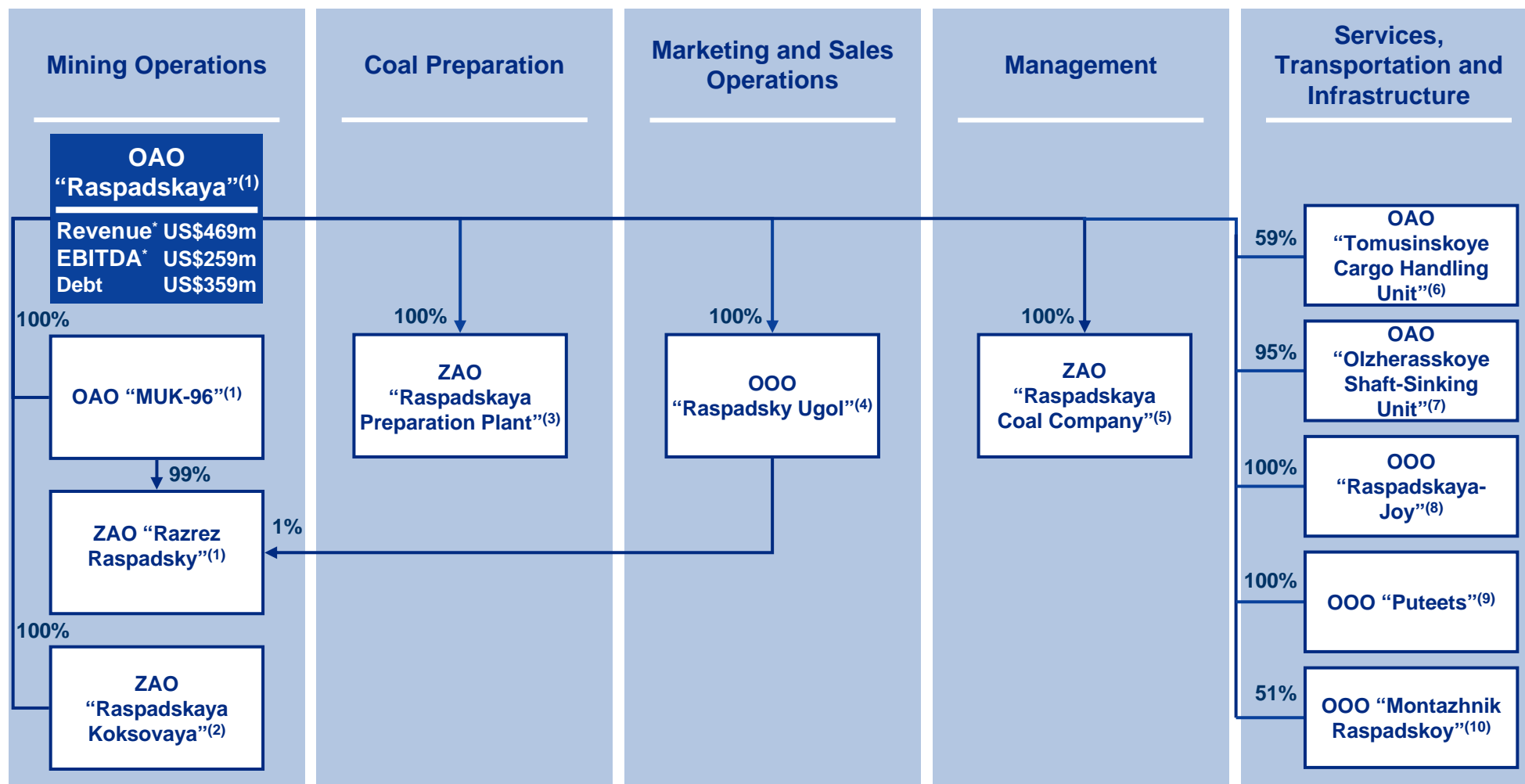
- 3 production sites
  - 2 mines (5 longwall faces)
  - 1 open-pit (2 highwall faces)
  - 1 mine under construction

- 80% of sales to Russian steel producers and coking chemical plants in 2006

■ Pro-forma 2006 Sales	US\$469 million
■ Pro-forma 2006 EBITDA	US\$259 million
■ Pro-forma 2006 EBITDA margin	55%

<sup>1</sup> on the international basis, IMC report as of 30 June 2006

<sup>2</sup> calculated based on 2006 production of 10.6 mt



(1) Production of raw coal

(2) Production of raw coal (currently under construction)

(3) Preparation of raw coal

(4) Negotiates and executes coal supply contracts

(5) General management

(6) Coal transportation

(7) Construction of underground mine openings and creating vertical mine shafts

(8) Preparation of new longwall faces for operations

(9) Construction and maintenance of our railway facilities

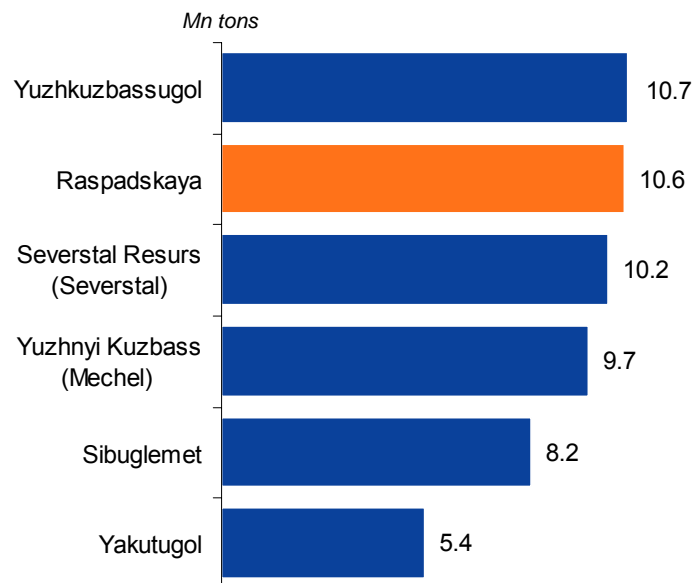
(10) Production of roof bolting, metal lattice and other spare parts for our mining operations

\* Pro-forma figures



- Second largest coking coal producer in Russia by volume and among top ten globally

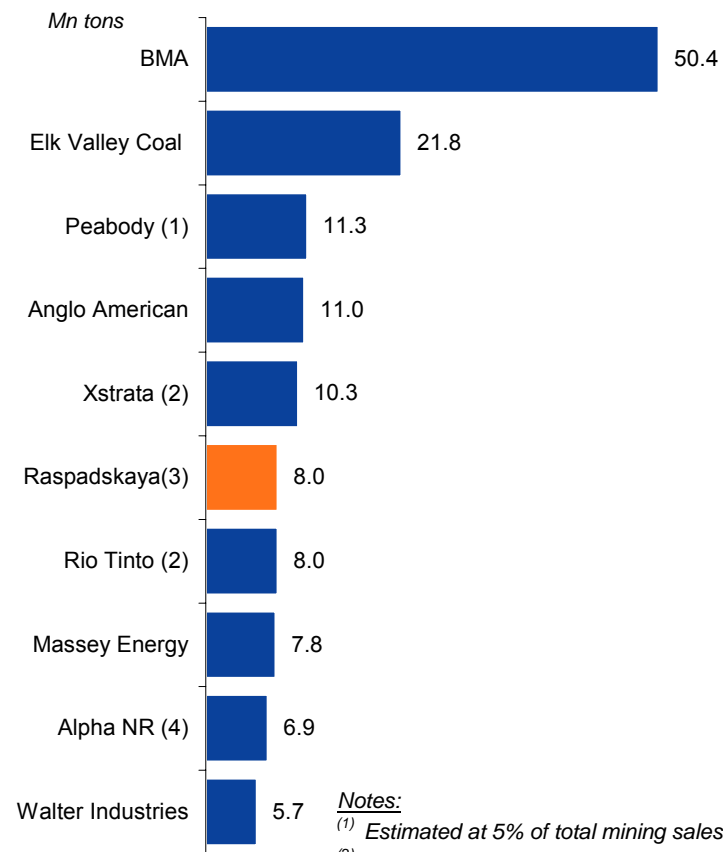
## Largest Russian coking coal producers (2006)



Note: In tonnes of raw coal mined

Source: CDU TEK

## Largest world companies producing coking coal concentrate (2006)



**Notes:**

(1) Estimated at 5% of total mining sales

(2) Attributable production

(3) In tonnes of coal concentrate

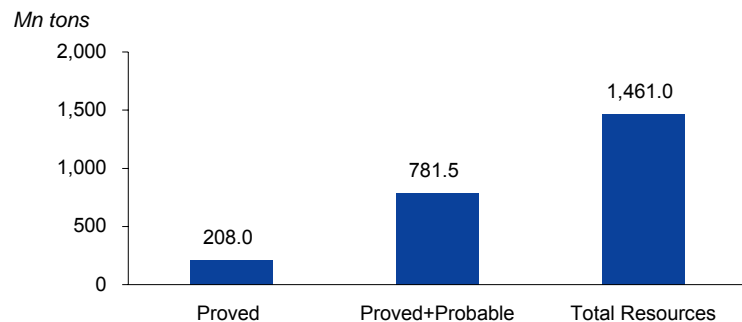
(4) Estimated at 34% of produced and processed coal only

Source: Companies' data



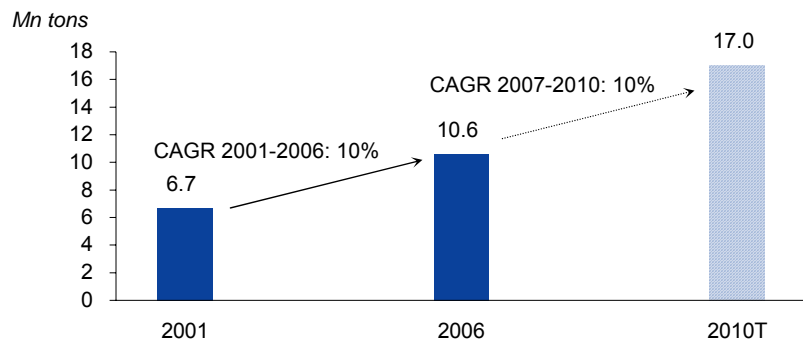
- Favourable mining and geological conditions: Forceful continuous seams (1.5 to 5 m) with flat dip <math><10^\circ</math>

## Raspadskaya JORC Reserves and Resources



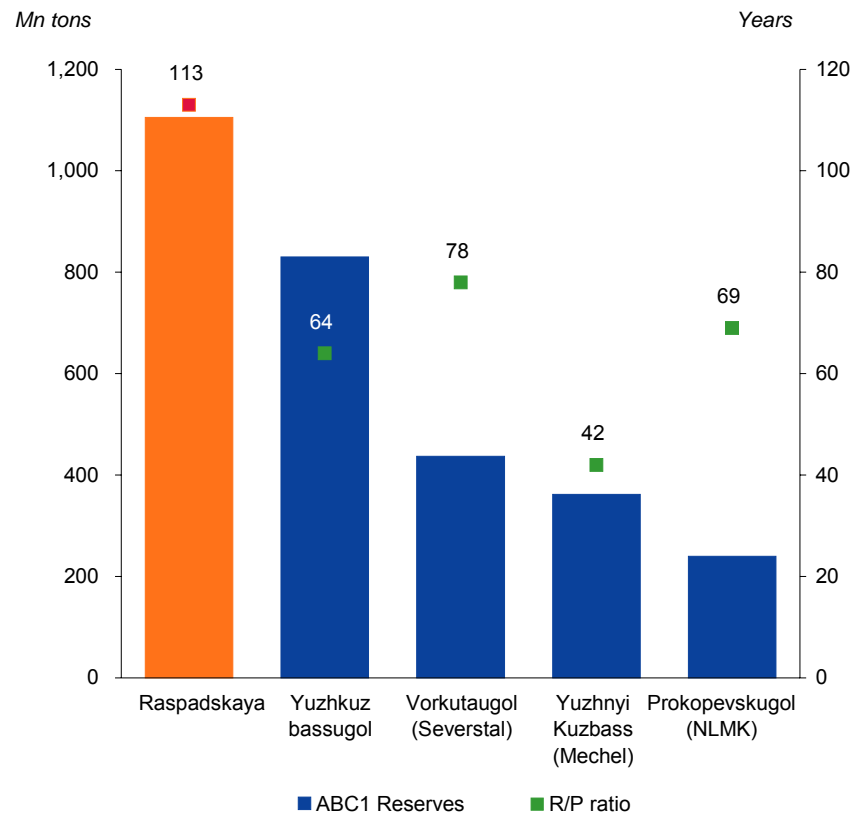
Source: IMC, Raspadskaya

## Production Growth



Source: Raspadskaya

## ABC1 Reserves and R/P Ratio (2005)



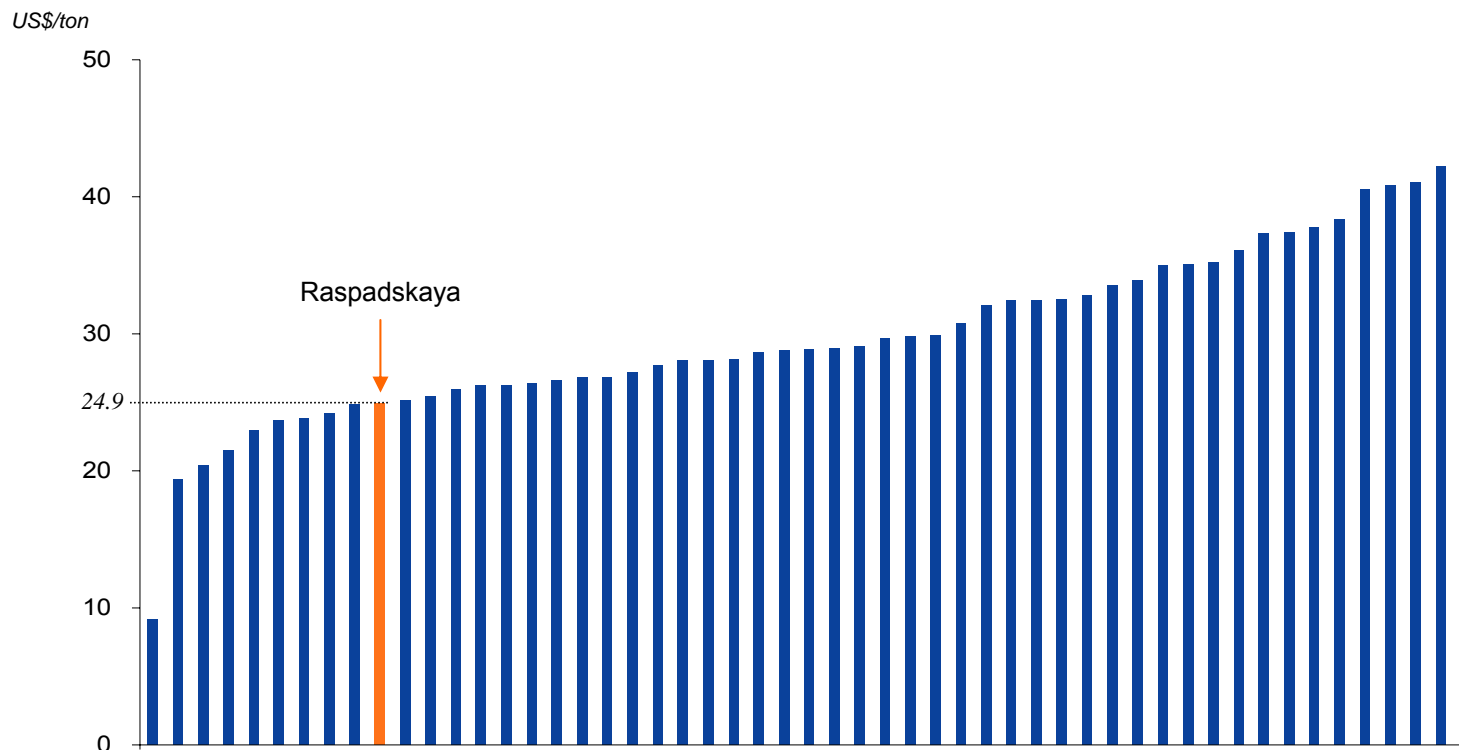
Source: Companies' data, Rosinformugol

\* Recalculated into concentrate

Source: Companies' data

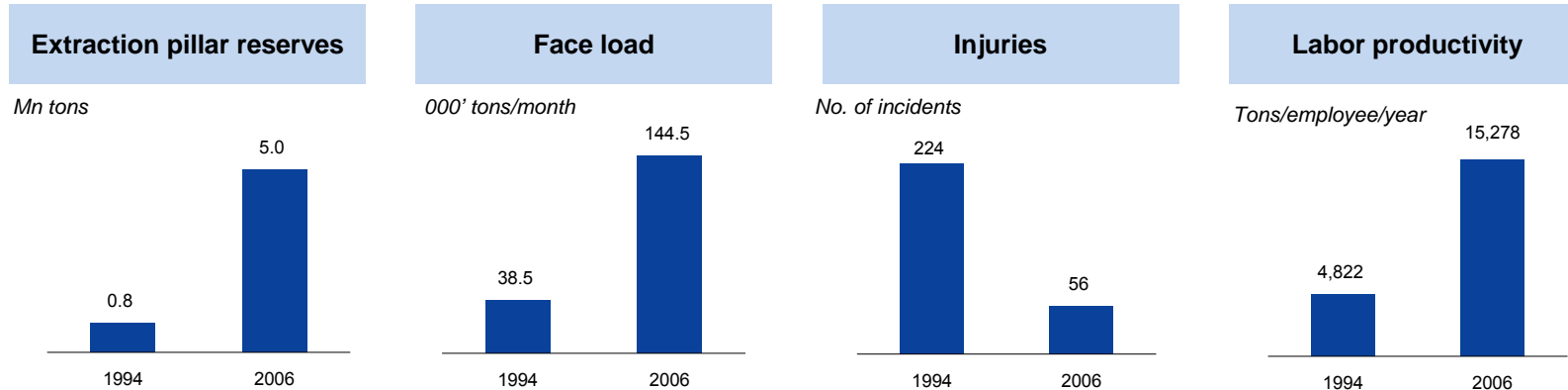
- Further substantial reduction in 2006 down to US\$18.8 per tonne of concentrate produced

## Concentrate cash costs, by the largest global companies' mines (2005) <sup>(1)</sup>



<sup>1</sup> Concentrate cash costs, excluding freight and port loading.  
52 mines owned by the following companies: Westfarmers Limited, BHP Billiton, Mitsui, Mitsubishi Development, Anglo American, Peabody Energy, Xstrata, Sumitomo Corporation, Consol Energy, Walter Industries, Teck Cominco, Fording и Massey Energy and others.

- Optimal and highly efficient operations as evidenced by Raspadskaya Mine example
  - Triple reduction in the number of longwall faces during the period from 1994 through 2006
  - 6-fold increase in extraction pillar reserves in the period from 1994 through 2006
  - Nearly 4-fold growth in face load in the period from 1994 through 2006
  - 3-fold increase in labor productivity rates over 1994-2006
- Care for personnel and business sustainability
  - Enhanced labor safety as proven by 4-fold reduction in work related injuries since 1994
  - No strike record

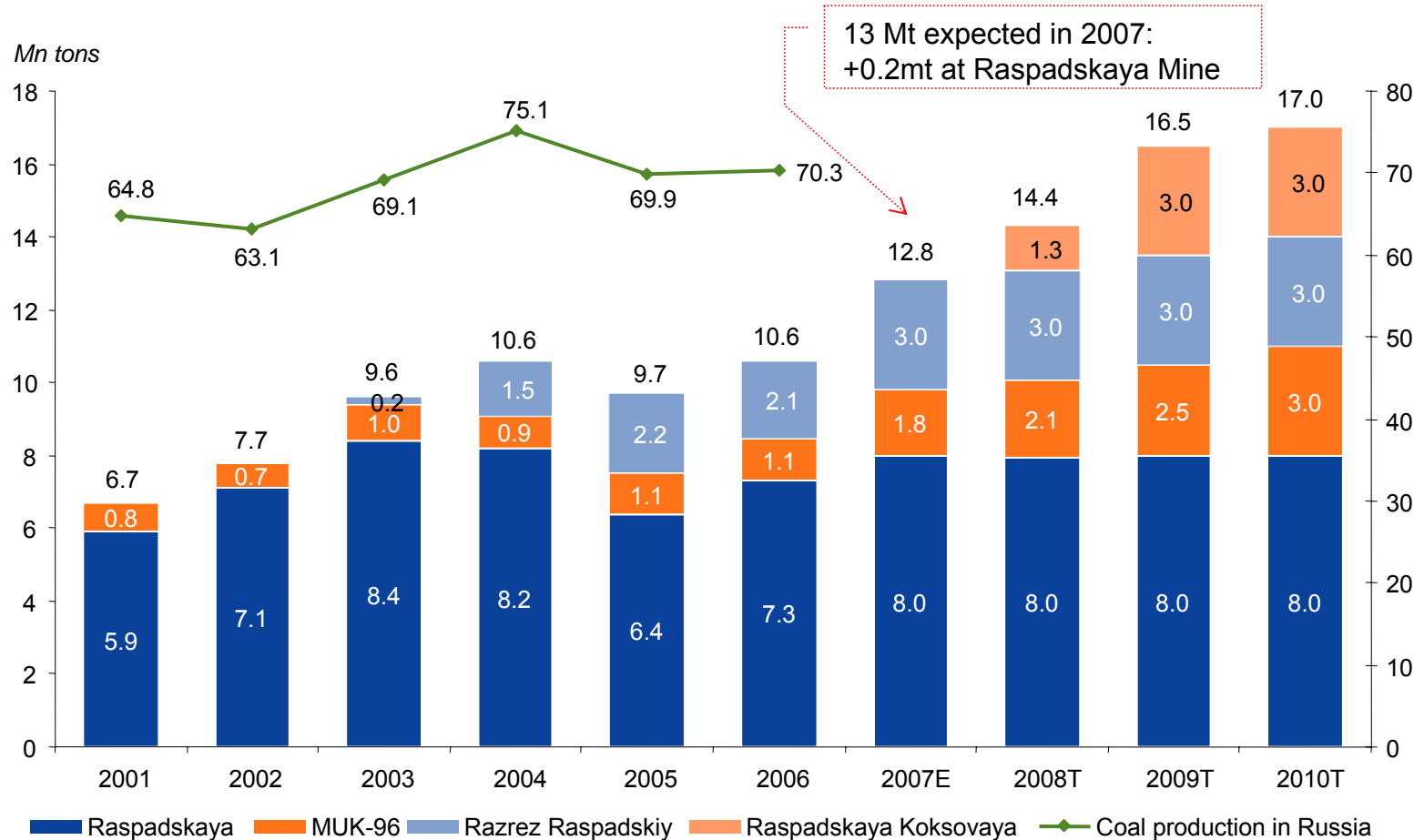


Note: Data only for Raspadskaya Mine for comparison consistency  
Source: Raspadskaya



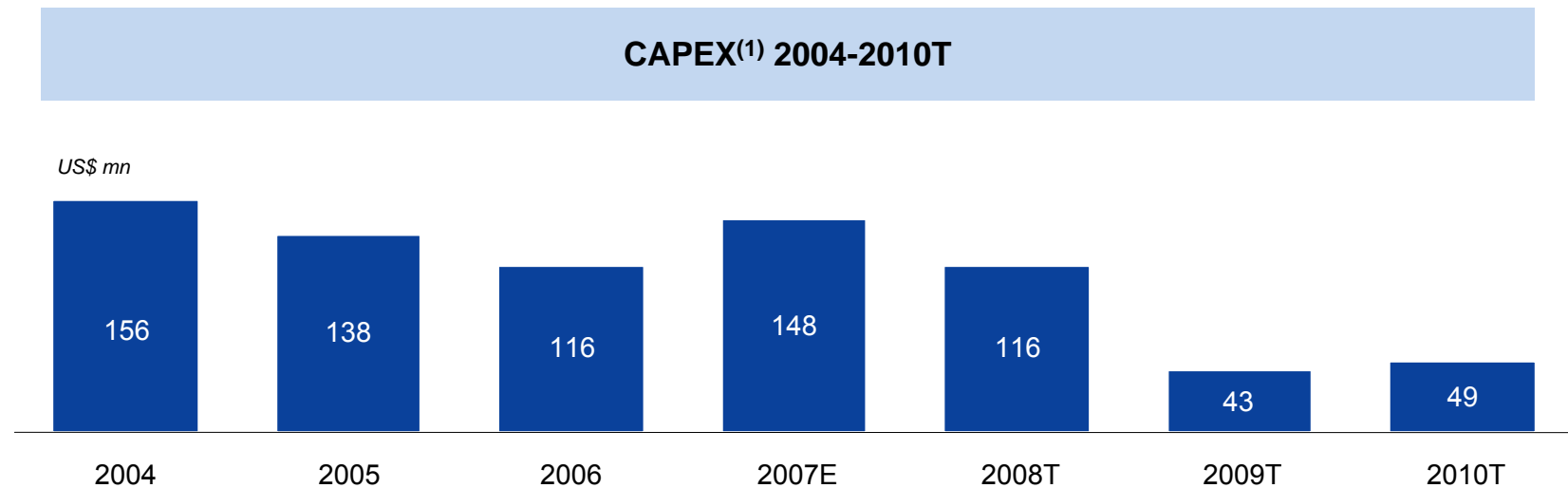
**Management balances high profitability and return on capital with the minimization of operational risk**

- Average coal output growth at Rospadskaya in 2001-2006 was 10% in comparison with Russia's average of 2.8%
- Rospadskaya's share of total coking coal output in Russia has grown to 15% in 2006 from 10% in 2001
- Track record of continuous organic growth validates limited execution risk of the current production plan



Source: Rosinformugol, Rospadskaya

- 2004-2010 target capex programme in the amount \$766m is already over 50% complete
- Within 1.5 years the growth component of capex will be invested and it is expected to flatten at the maintenance level of \$40-50m per year from 2009 onwards



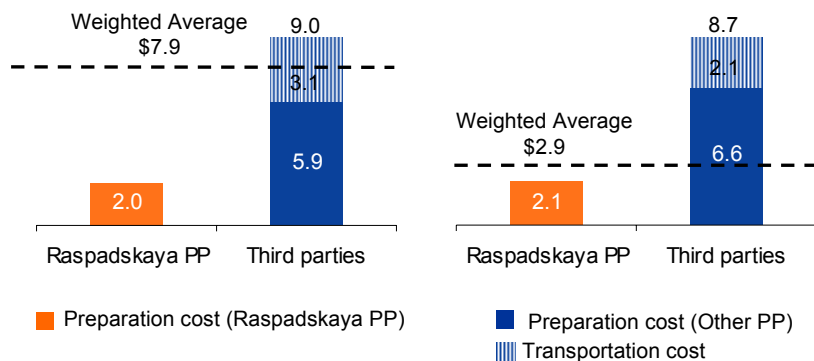
(1) – historical data based on management accounts  
Source: Raspadskaya

- Built in 2 years, launched in Q4 2005
- Current nameplate capacity at 7.5 mtpa
  - Effective capacity at ca. 8.75 mtpa based on 350 days of work
  - Potential to expand to 10.5 mtpa nameplate after the launch of Stage 2, planned for 2008 (construction started in Q4 2006)
- Weighted average coal preparation costs of concentrate decreased from \$7.9/t in 2005 to \$2.9/t in 2006
- Increased share of coal concentrate in total sales
- New environmentally friendly technology implemented: closed-loop water-slurry circuit

## Preparation Costs

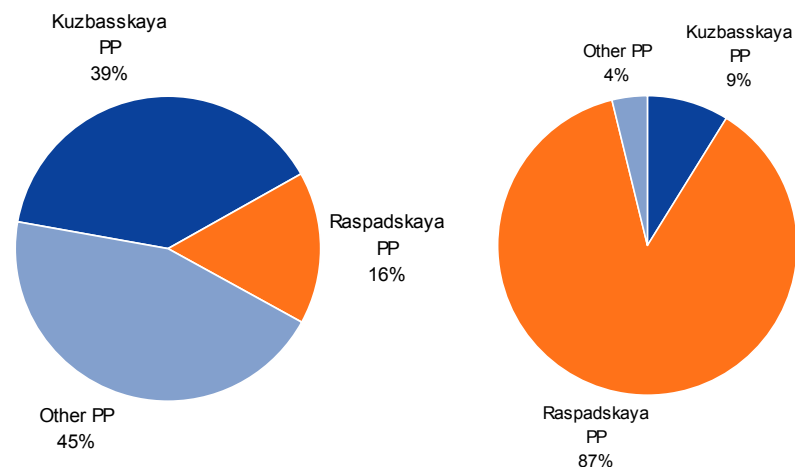


US\$ / ton of concentrate produced



Source: Raspadskaya

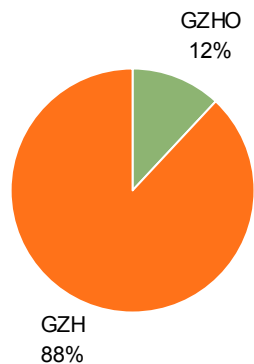
## Break down of Raspadskaya coal preparation, by plants



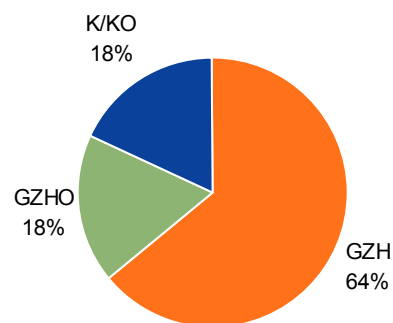
Source: Raspadskaya

## Quality of Raspadskaya coal concentrate

2006



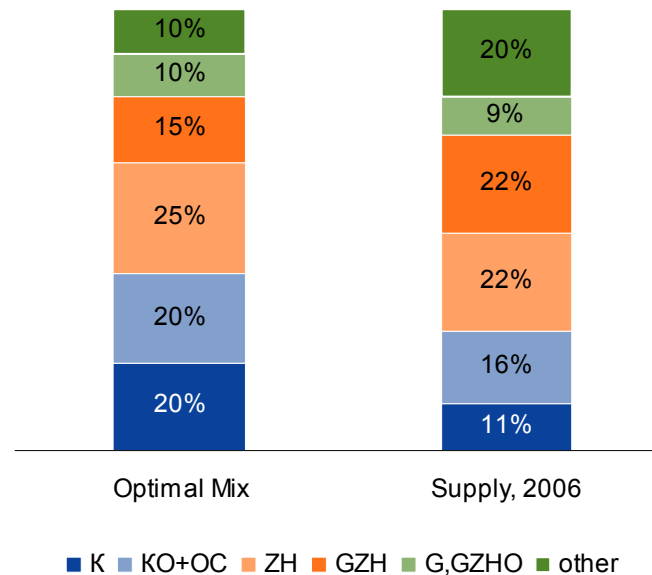
2010T



GZh – gas-fat coal	}	Semi-Hard Coking Coal (SHCC)
GZhO – gas-fat semi lean coal		
K – coking coal	}	Hard Coking Coal (HCC)
KO – coking semi lean coal		

Source: Raspadskaya




## Supply/Demand mismatch on the Russian coking coal market



Source: Rosinformugol

- K and KO grades production will allow to add coal concentrate of scarcely available hard grades
- K and KO grades will provide “pulling effect” for our existing core SHCC grades GZh and GZho due to production of more optimal mix

- Historically, Raspadskaya has been focused on domestic markets (Russia) – ca. 80% of total sales by volume in 2006, up from 75% in 2005
- Coal concentrate sales focused on Russia’s largest steel producers: MMK (23% of total sales in 1H2007), Evraz Group (13%) and NLMK (15%)
- Marketing strategy towards long-term supply contracts with the key customers
- Raspadskaya’s market share in Ukraine has been historically strong. In 1H2007, Ukraine accounted for 18% of Raspadskaya’s sales up from 11% in 1H2006

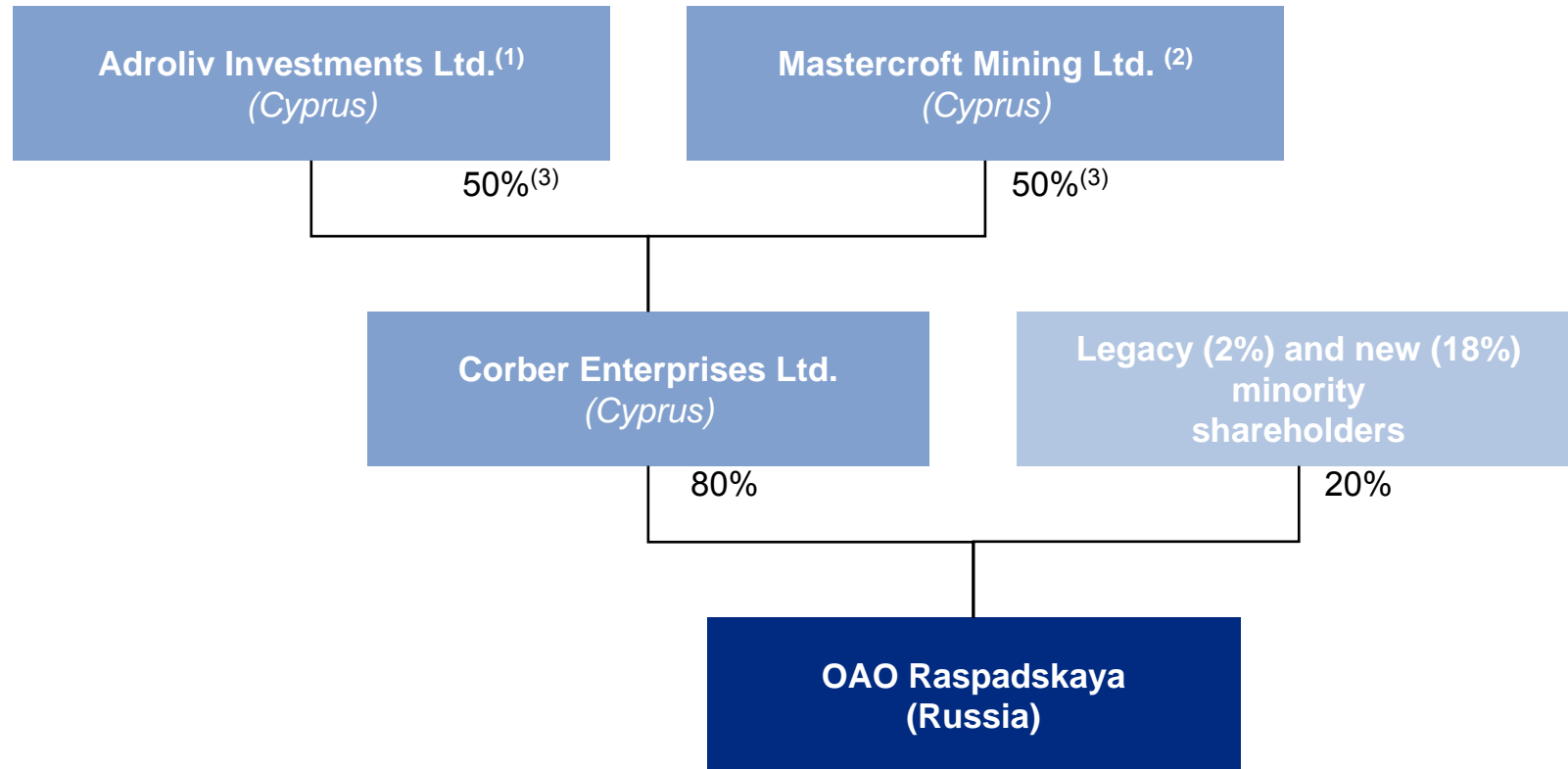
							UKRAINE	
	2005	2006	2005	2006	2005	2006	2005	2006
Steel Production Volume, mn tons	11.4	12.4	13.9	14.4	8.5	9.1	-	-
Raspadskaya Sales, mn tons <sup>(1)</sup>	1.59	2.13	1.81	1.32	0.37	1.00 <sup>(2)</sup>	1.49	1.17
as a % of Total <sup>(1)</sup>	23%	27%	28%	17%	4%	13% <sup>(2)</sup>	21%	15%
Share of Raspadskaya in overall consumption of concentrate	21%	30%	19%	13%	6%	10% <sup>(2)</sup>	-	-

(1) Rounded and calculated for the coal concentrate, raw coal sales converted into concentrate

(2) Sales to NLMK in 2006 include supplies to Altai-koks

Source: Raspadskaya, Companies' data





Source: Rospadskaya

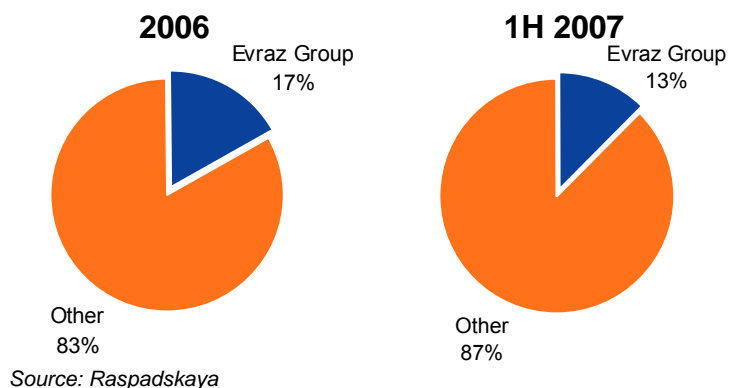
(1) Adroliv Investments Ltd. is beneficially owned by G. Kozovoy and A. Vagin

(2) Mastercroft Mining Ltd. is beneficially owned by Evraz Group S.A.

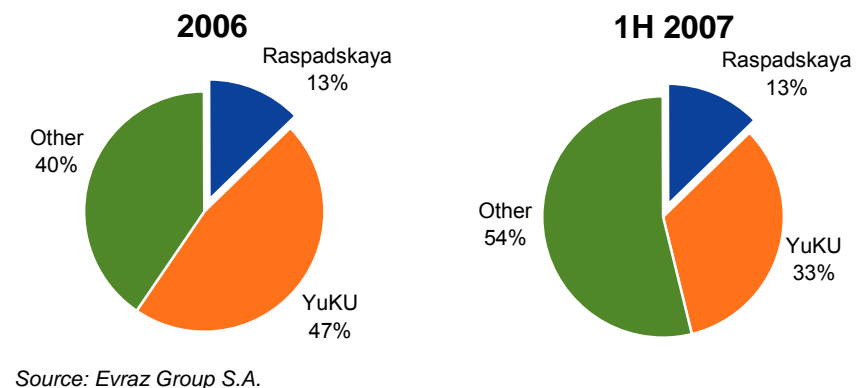
(3) % of voting shares

- Shareholders agreement between key shareholders provides for the following:
  - Unanimous adoption of resolutions on major issues
  - Adroliv appoints CEO and First Deputy CEO
  - Transactions effected at arm's length basis
- Long-term partnership
  - Evraz Group accounted for 17% of Raspadskaya total sales volumes in 2006
  - Raspadskaya accounted for 13% total procurement of coal by Evraz Group in 2006
  - Long-term contract for coal products supply
- Evraz Group's share in coal procurement from Raspadskaya will increase in the short term

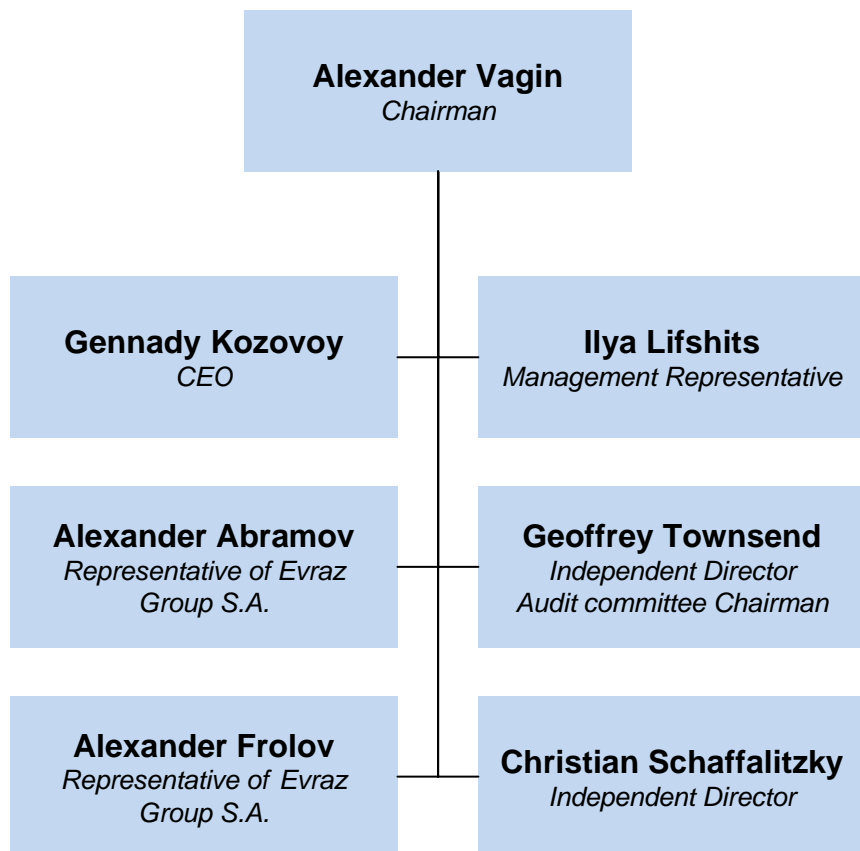
## Raspadskaya coal product sales to Evraz vs. Other



## Coal concentrate procurement structure of Evraz



## Board of Directors



- Sound corporate governance at Raspadskaya
  - Transparent ownership and shareholding structure
  - Full disclosure of corporate information in accordance with the Russian legislation
  - Transactions with related parties effected at arm's length basis
  - Audited IFRS financials since 2003 (Ernst & Young)
- Transition to global corporate governance standards
  - Audit of coal reserves in accordance with JORC Code (IMC)
  - Board of Directors' Audit committee
  - Two independent directors present on the Board
  - Internal Control Committee being formed

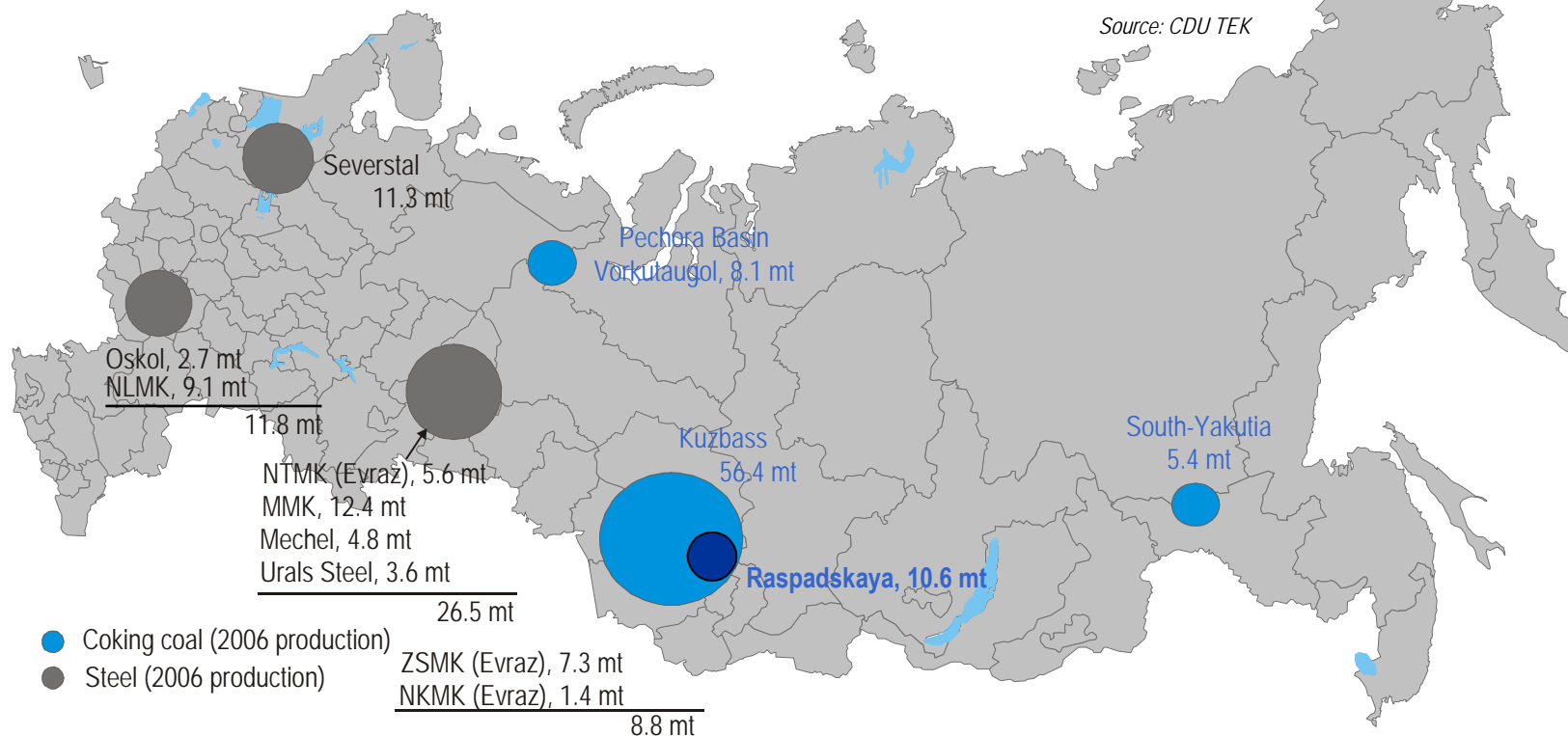
## 2. Market and Industry Overview



- Kuznetsk basin accounts for ca. 80% of total coking coal production in Russia which itself has 2nd largest coal reserves in the world
- Raspadskaya is a leading producer in Russia with proximity to core customers and easy access to railway transportation system

Largest Russian coking coal producers	Growth %	Production, mtpa	
		2006	2005
Yuzhkuzbassugol	-18%	10.7	13.0
<b>Raspadskaya</b>	<b>9%</b>	<b>10.6</b>	<b>9.7</b>
Severstal Resurs (Severstal)	2%	10.2	10.0
Yuzhnyi Kuzbass (Mechel)	11%	9.7	8.7
Sibuglement	-1%	8.2	8.3
Yakutugol	6%	5.4	5.0
Other	3%	15.5	15.1
<b>Total</b>	<b>1%</b>	<b>70.3</b>	<b>69.9</b>

Source: CDU TEK



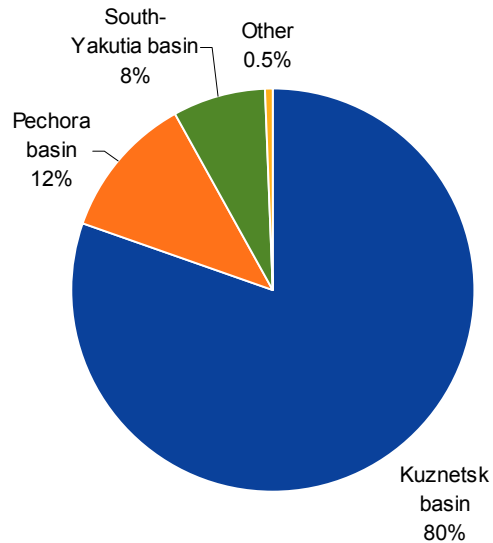
Source: Company Data

(1) BP Statistical Review of World Energy June 2006

(2) Rosinformugol

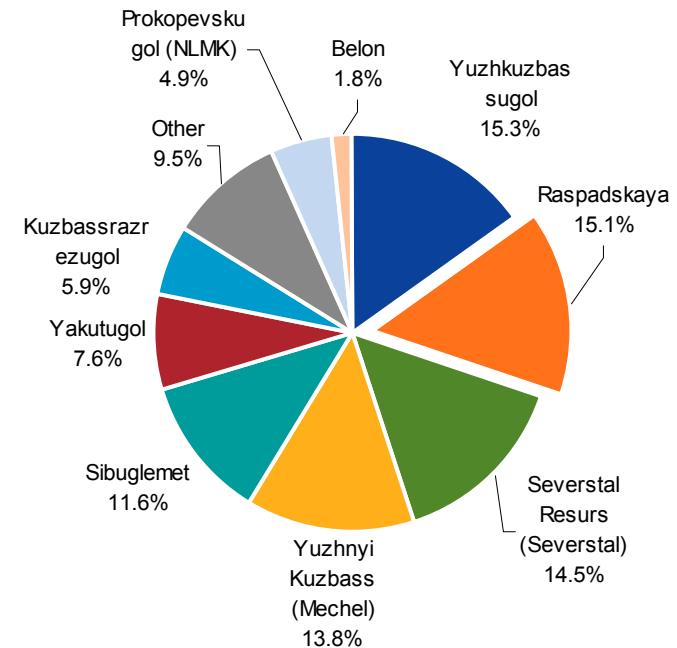
- Top 5 coking coal producers have 70% of the market
- Russian steel groups control over 30% of total coking coal production (Severstal Resurs, Yuzhnyi Kuzbass) but steel makers' track record in coking coal remains patchy
  - ProkopyevskUgol divested by NLMK for \$1 to the local administration
  - Neryungri-Ugol (Denisovskoe) sold by Evraz Group

**Russian coking coal production, by location (2006)**



Source: Rosinformugol

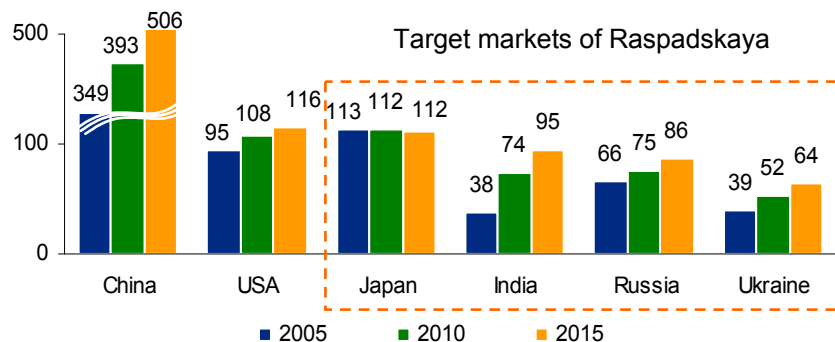
**Russian coking coal production, by company (2006)**



Source: Rosinformugol

## Crude Steel Production

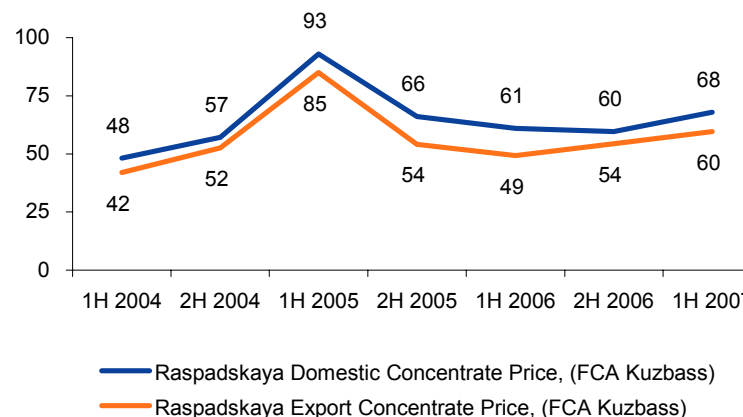
Mn tons



Source: IISI, McCloskey's Metallurgical Coal Quarterly

## Coking Coal Price Performance

\$/ ton



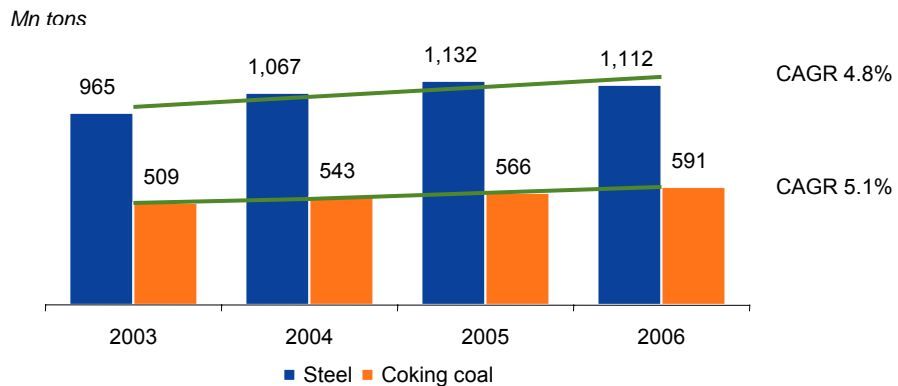
Source: Raspadskaya, Metallorg

- Russian crude steel production is expected to increase by 20% in 2010 compared to 2006, with increase coming both from construction of new electric-arc furnaces (EAF) and new blast furnace (BF) capacity
  - NLMK plans over the course of 2007-2011 to modernize and expand its BF and BOF shops by investing US\$2.4 billion, which should result in 3.4 million tonnes of new capacity, and create demand for additional 2.55 million tonnes of coking coal
- Major expansion projects announced for the next few years (Zhernovskoye-1, Zhernovskoe-3) are unlikely to be fulfilled on time/in-budget keeping domestic supply tight
- Russian coking coal prices are expected to stay at around US\$65/t in the long term but the short-term prices are expected to settle above LT trend

- Key drivers of the development of the coking coal market include:
  - Continued shortage in hard coals – coking K and coking semi-lean (KO+OS) grades
  - Significant volume of investment required both to maintain existing production and to build new capacity
  - Significant lead times to a production launch at green field underground mines (3-4 years to construct a 3 mtpa mine)
  - High disparity in costs and efficiency throughout the industry
  - Trend to go to deeper levels as a result of depletion as well as difficult geological and mining conditions
- Russia's export potential is expected to increase by 7-10 million tonnes by 2010 – 2.8% to 3.8% of forecast world trade of 250 million–260 million tonnes
- Raspadskaya plans to profit on shortages of hard coking coal and expects to produce 3m tonnes (out of 17m tonnes) of K-KO grades by 2010 as it sees strong demand for these grades from Russian steel producers
- Raspadskaya also plans to increase supplies to Ukraine, Eastern Europe and Asia

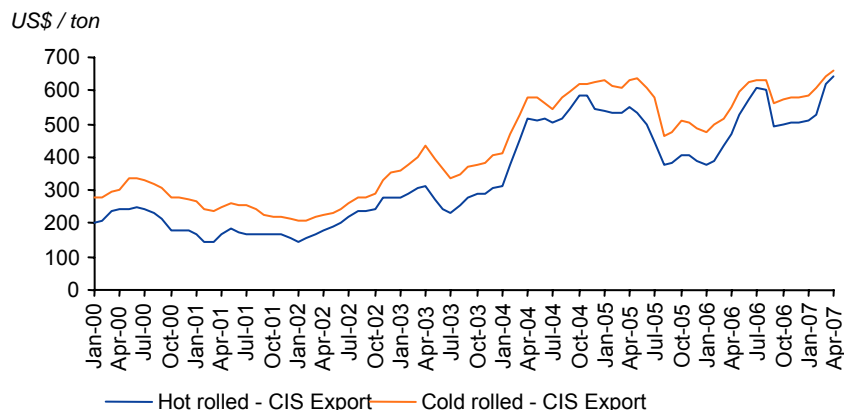


## Global steel and coking coal production dynamics



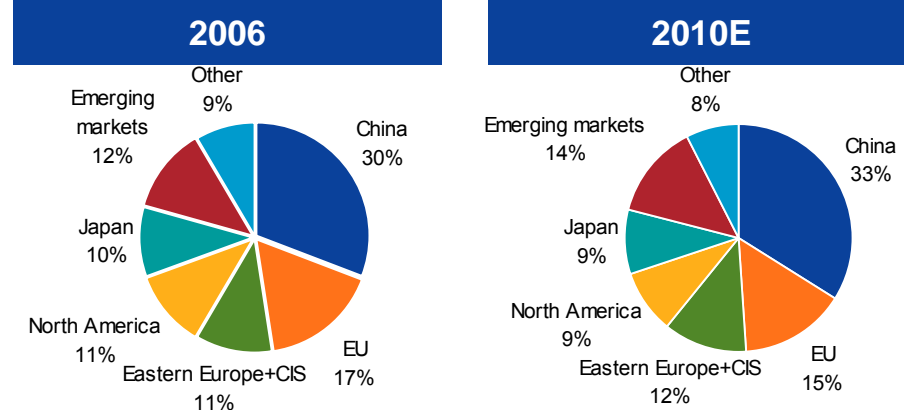
Source: IISI, Rosinformugol, Abare

## Steel Price Performance



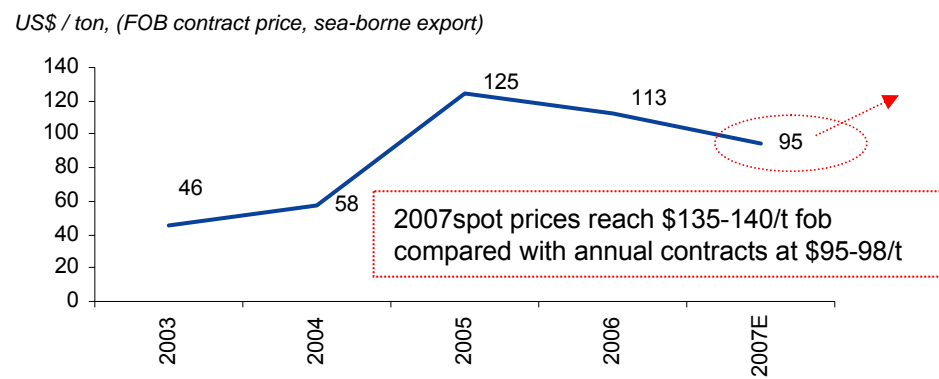
Source: Metal Bulletin

## Changing steel production geography



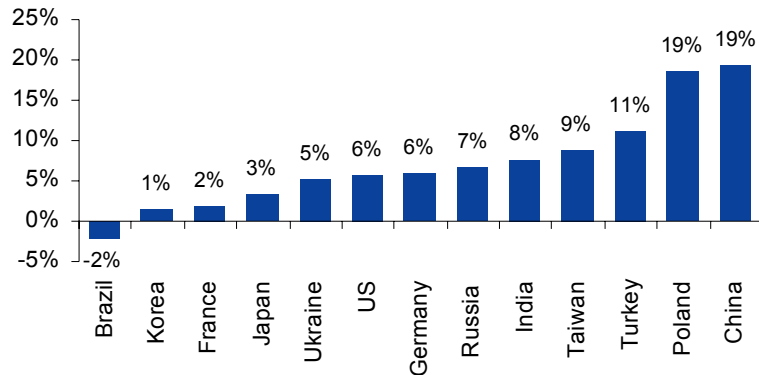
Source: Abare

## Hard Coking Coal Price Performance



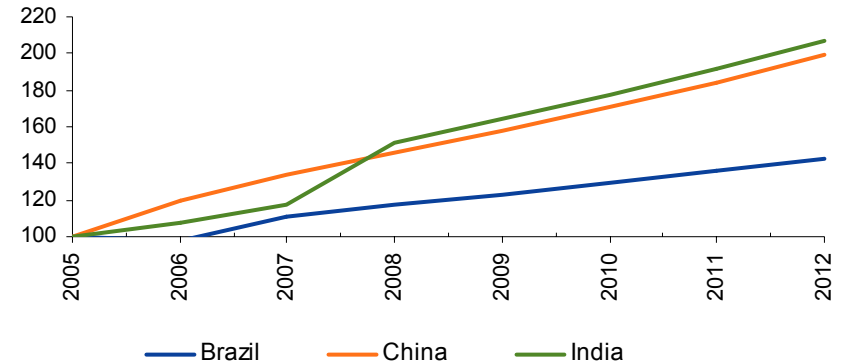
Source: AME, McCloskey's, Macquarie Research as of 10 Aug 2007

## 2006 steel production growth



Source: IISI

## Crude steel production growth forecast (rebased)



Source: IISI, UBS estimates

- Demand for coking coal is driven mainly by demand from the blast furnace steel production which still accounts for almost 70% of the global steel industry
  - Global steel production growth should be bolstered by continued strong investment in China, with support from India and Brazil, and renewed growth in the U.S. Global steel production is projected to grow to 1.41 billion tons in 2011, 17% growth compared to 2006
- Global coking coal contract prices peaked in 2005 at US\$125/t (FOB, hard coking coal) and then saw a 10% decline in 2006. 2007 contract levels are US\$95-98/t but current spot prices at \$135-140/t point to a further increase in 2008.
- Slow supply response to high prices from Australia and Canada driven by constraints on skilled labour, engineering lead time combined with ongoing strong demand should keep prices up in 2008.

## 3. Strategy and Financial Overview

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## Increase scale

- Grow production volumes
- Increase market share in Ukraine and Eastern Europe, enter Asian markets
- Grow reserves through new licenses and resource reclassification
- Explore growth opportunities through selective, value-enhancing acquisitions

## Strengthen domestic market position

- Continue to be a supplier of choice through reliability and product consistency
- Secure long-term contracts with existing customers
- Capitalise on scarcity of K-grade coal (hard coking coal), increase quality of coal concentrate

## Maintain financial discipline

- Maintain cost leadership
- Focus on high rate of return projects
- Adhere to prudent capital structure
- Consistently pay dividends to shareholders

## Corporate governance and social responsibility

- Maintain strong corporate governance standards
- Recruit and retain highly qualified staff
- Keep focus on sustainability (health, safety and environment)

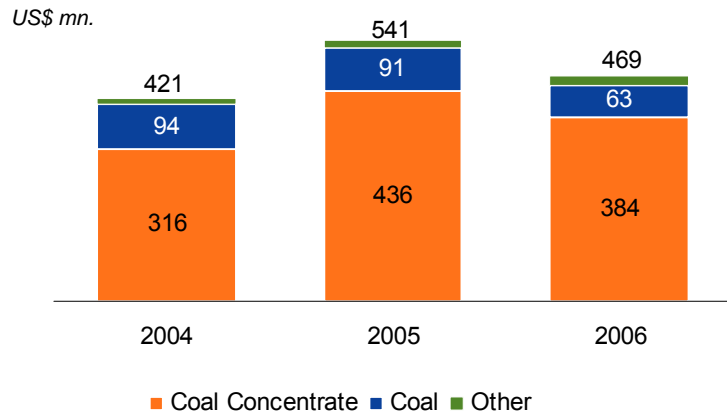
	Raspadskaya consolidated financials (US\$ m)				Pro-forma <sup>1</sup> (US\$ m)		
	2003A	2004A	2005A	2006A	2004A	2005A	2006A
<b>Revenue</b>	131	392	549	472	421	541	469
<i>Growth, %</i>		198%	40%	-14%	na	29%	-13%
<b>EBITDA</b>	48	188	216	219	259	322	260
<i>Margin, %</i>	36%	48%	39%	46%	62%	59%	55%
<b>EBIT</b>	4	150	185	150	179	235	167
<i>Margin, %</i>	3%	38%	34%	32%	43%	43%	35%
<b>Net Income</b>	2	106	133	103	128	165	112
<i>Margin, %</i>	2%	27%	24%	22%	30%	31%	24%
<b>Balance sheet</b>							
Total assets	221	354	421	1,502	1,355	1,362	
Total debt	10	44	64	358	72	88	
Net debt	(5)	(4)	37	259	20	56	
Shareholders' equity	(77)	(45)	(9)	858	698	708	
<b>Cash flow statement</b>							
Cash flow from operating activities	39	139	155	179	Not compiled		
Cash flow from investment activities	(28)	(98)	(92)	(376)			
Cash flow from financing activities	(4)	(11)	(82)	215			

Same as consolidated financials

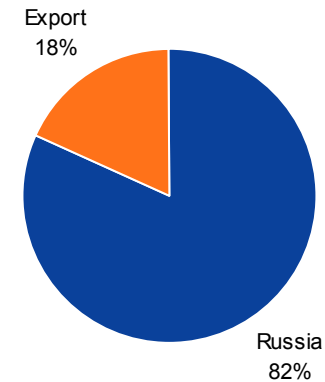
Note: <sup>1</sup> Pro-forma financials include financial results of OAO "MUK-96" and full-year ZAO "Razrez Raspadskiy", while consolidated include those starting from 1 June 2006, when the assets were acquired

Source: Raspadskaya

## Revenue structure, by product (pro-forma, 2004-2006)

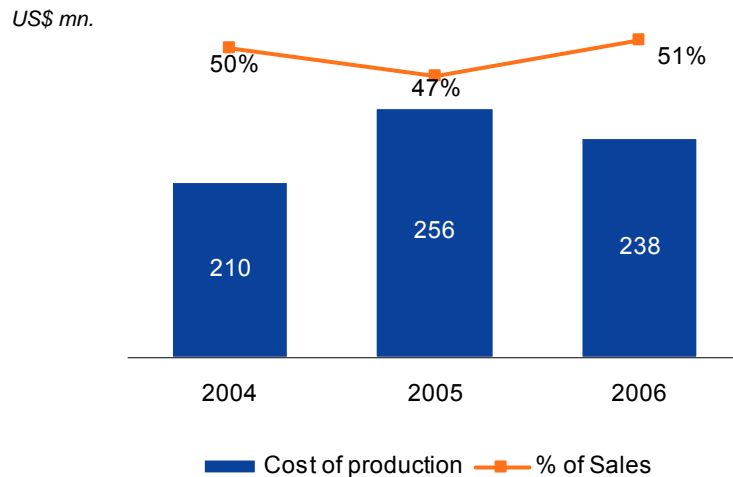


## Sale of goods structure, by geography (raw coal and concentrate, 2006\*)

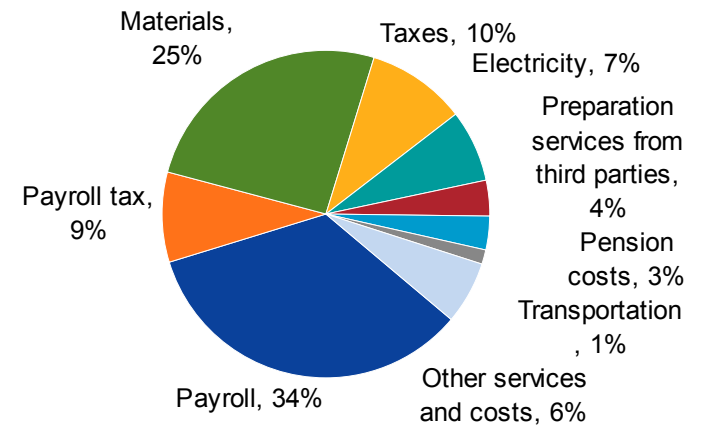


Note: \* Excluding railway tariff

## Cost dynamics (2004-2006)



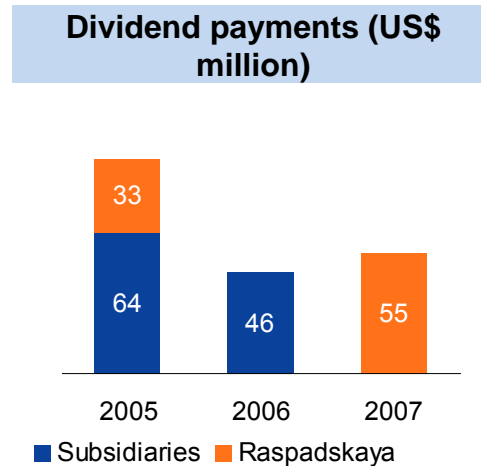
## Cash cost structure (2006)



Source: Rospadskaya

Source: Rospadskaya

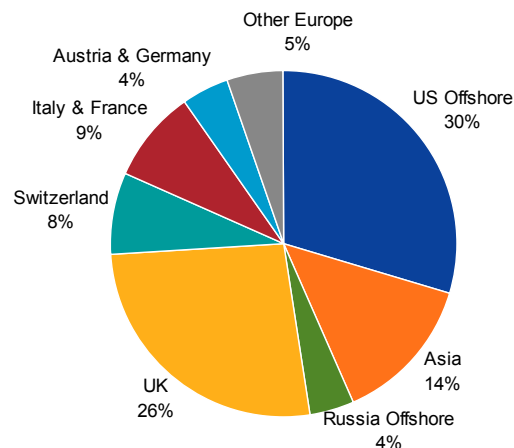
- Company's internal financial policies are as follows:
  - a) Net Debt/EBITDA of 1.5x (on a standalone basis)
  - b) Dividend pay out ratio in the range of 25% - 50% of IFRS net income
  - c) We will maintain bank facilities or cash balance that cover our working capital requirements
  
- Board of Directors approved target payout ratio of at least 25% of IFRS net income, subject to future cash flows and investments
  
- Total dividend payments in 2005-2006 amounted to US\$143mn
  
- Board of Directors recommended a dividend payout of 1.94 RUR per share for 2006 (ca. US\$55m in total) – yet to be approved by the AGM on 15 June 2007
  
- On the upside, a significant percentage of our CAPEX program has now been completed giving us a significant advantage in the operationally leveraged business
  
- As downside risk, we recognize our exposure to coking coal prices and will pursue a conservative financial policy to compensate



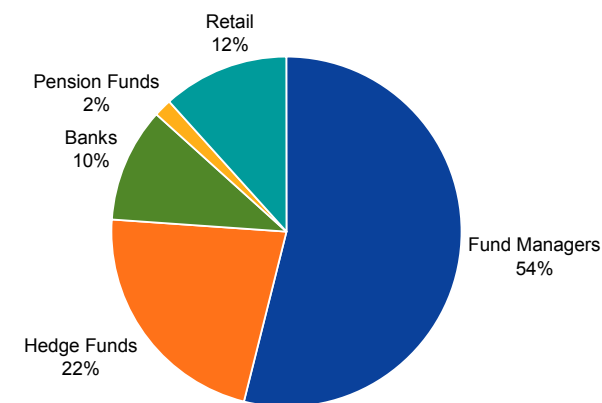
<b>Issuer</b>	Raspadskaya Securities Ltd (Ireland)
<b>Borrower</b>	OJSC Raspadskaya
<b>Ratings</b>	Moody's Ba3 / Fitch B+
<b>Format</b>	Reg S
<b>Amount</b>	US\$ 300 million
<b>Maturity</b>	22 May 2012 (5 years)
<b>Redemption option</b>	NA
<b>Re-offer Yield / Price</b>	7.50% / 100%
<b>Spread to mid-swaps</b>	245 bps
<b>Use of Proceeds</b>	100% refinancing of the existing short-term debt
<b>Listing</b>	London Stock Exchange
<b>JLMs and Bookrunners</b>	Citigroup, UBS

- A debut issue for the Russian coal industry and for Raspadskaya
- Ba3 rating from Moody's on par with Evraz
- Despite competing EM supply, the book was 5 times oversubscribed with 127 investors participating in the issue
- Initial price guidance was "mid-swaps + 275bps area" (7.75% yield equivalent), while final price range was set at coupon of 7.5-7.6% at par
- Proceeds from the bond issue were applied 100% towards refinancing existing short-term debt, thus company's leverage has not been increased

**Geographic Distribution**



**Type of Investors**





2Q 2007 TRADING UPDATE		2Q 2007	2Q 2006	± % 2Q07 / 2Q06	± % 2Q07 / 1Q07	1Q 2007
<b>ROM</b>						
Raspadskaya Mine	' 000 t	2,062	1,851	11%	-14%	2,400
Razrez Raspadsky	' 000 t	743	515	44%	15%	646
MUK-96	' 000 t	531	250	112%	134%	227
<b>ROM total</b>	<b>' 000 t</b>	<b>3,335</b>	<b>2,616</b>	<b>28%</b>	<b>2%</b>	<b>3,273</b>
<b>SALES</b>						
Concentrate - Domestic	' 000 t	1,370	1,229	11%	1%	1,361
Concentrate - Export	' 000 t	801	356	125%	6%	758
<b>Total sales of concentrate</b>	<b>' 000 t</b>	<b>2,171</b>	<b>1,585</b>	<b>37%</b>	<b>2%</b>	<b>2,118</b>
Raw coal - Domestic	' 000 t	316	373	-15%	-36%	496
Raw coal - Export	' 000 t	0	0	0%	0%	0
<b>Total sales of raw coal</b>	<b>' 000 t</b>	<b>316</b>	<b>373</b>	<b>-15%</b>	<b>-36%</b>	<b>496</b>
<b>Weighted-average prices *</b>						
Concentrate - Domestic	US\$ / t	70.9	61.1	16%	9%	65.0
Concentrate - Export	US\$ / t	59.7	50.5	18%	-1%	60.5
<b>Weighted-average price of concentrate</b>	<b>US\$ / t</b>	<b>66.8</b>	<b>58.7</b>	<b>14%</b>	<b>5%</b>	<b>63.4</b>
Raw coal - Domestic	US\$ / t	34.1	35.0	-2%	-3%	35.3
Raw coal - Export	US\$ / t	0.0	0.0	0%	0%	0.0
<b>Weighted-average price of raw coal</b>	<b>US\$ / t</b>	<b>34.1</b>	<b>35.0</b>	<b>-2%</b>	<b>-3%</b>	<b>35.3</b>

\* Presented on the basis of FCA Mezhdurechensk

Note: Results in accordance with the Russian accounting standards may differ from the IFRS results.

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