

# Raspadskaya – Russia's Leader in Coking Coal

## Investor Presentation



*London, 24-25 October 2007*

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## Russian leading coking coal producer

- Largest high quality coking coal reserves in Russia
- Largest producer of coking coal in Russia
- Top-ten producer of coking coal in the world

## Efficiency

- Low cash cost of concentrate production – US\$17.2 per ton in 1H2007
- Labor productivity on par with global peers
- Compact integrated operating complex employing modern highly-productive equipment

## Professional management

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

## Strong financial performance

- 2006 Revenue - US\$469m and EBITDA - US\$259m (on pro-forma)
- EBITDA margin – c. 59% in 2005, 55% in 2006 and 59% in 1H2007
- 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

## Sound financial policies

- Net Debt / EBITDA below 3x
- Dividend pay out ratio in the range of 25%-50% of IFRS net income

- Coal production – 100% coking coal
- JORC reserves = 782 million tonnes<sup>1</sup>, resources = 1,461 million tonnes
- Long reserve life – over 70 years<sup>2</sup>

- Average number of employees – 7 390 in 1H2007
- Production per underground mining employee – over 16 000 tppy (2006)

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

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

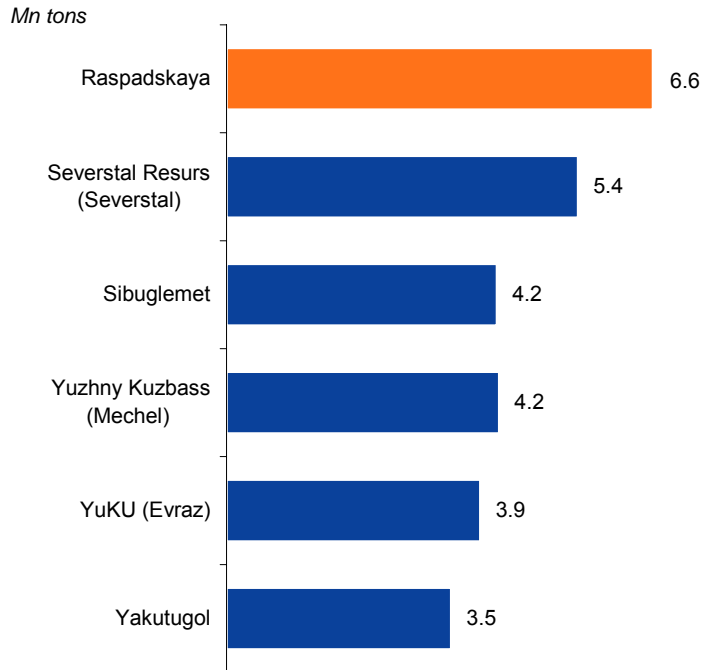
■ 1H 2007 Sales	US\$339 million	+55% half-on-half
■ 1H 2007 EBITDA	US\$199 million	+66% half-on-half
■ 1H 2007 EBITDA margin	59%	+4%

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

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

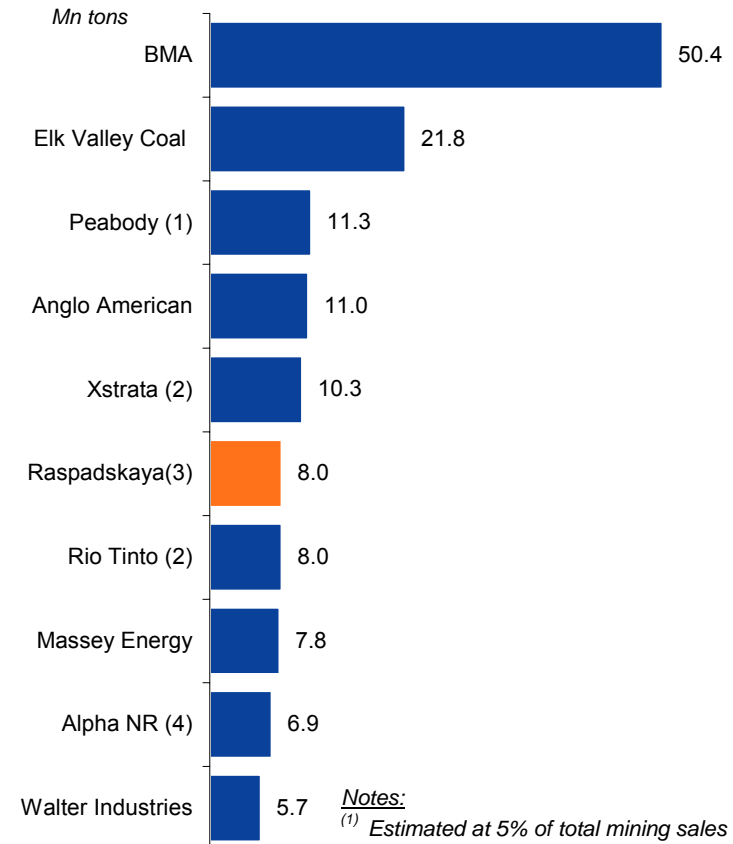
- Largest coking coal producer in Russia by volume and among top ten globally

## Largest Russian coking coal producers in 1H2007



Source: CDU TEK form UDP-3.10

## Largest world companies producing coking coal concentrate in 2006



**Notes:**

(1) Estimated at 5% of total mining sales

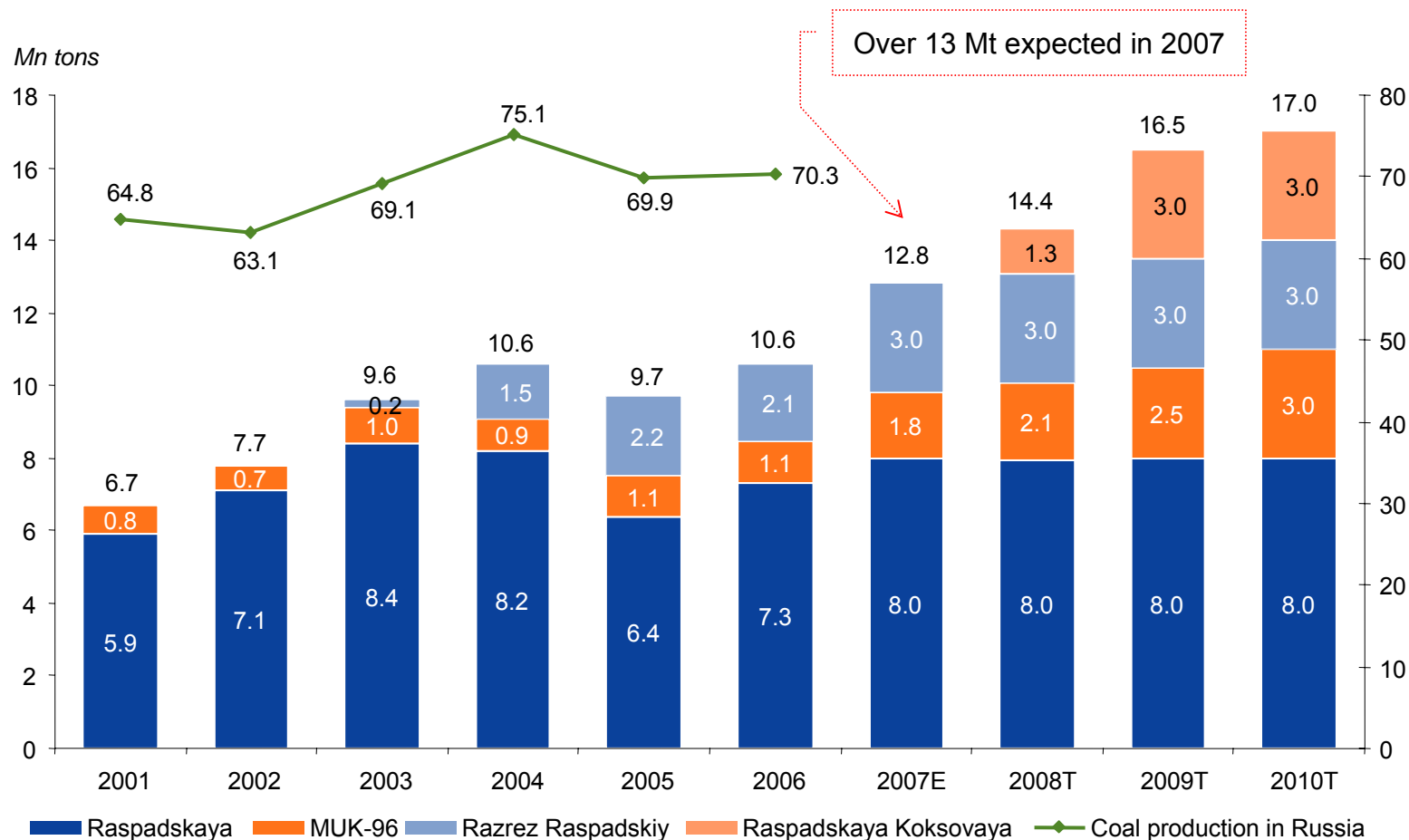
(2) Attributable production

(3) In tonnes of coal concentrate

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

Source: Companies' data

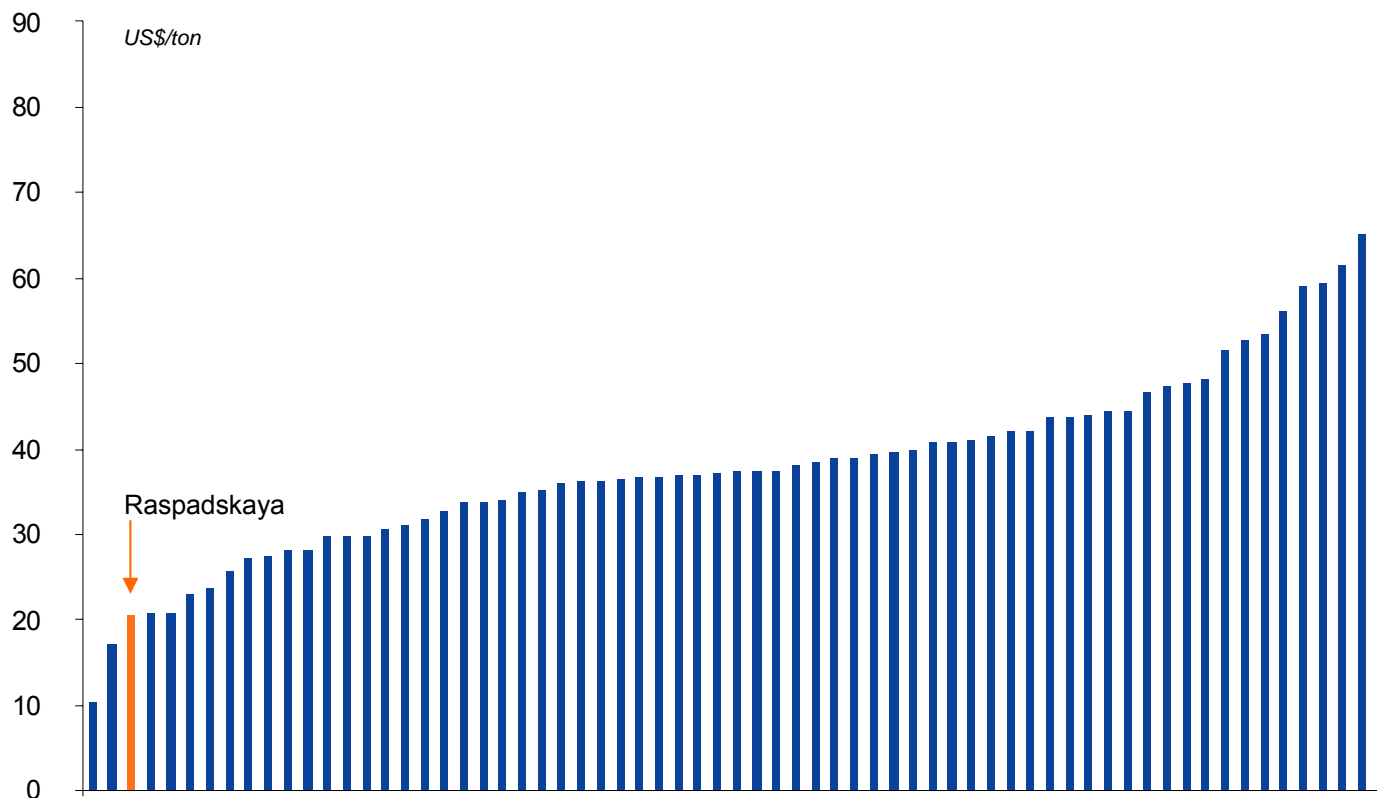
- Favourable mining and geological conditions: Forceful continuous seams (1.5 to 5 m) with flat dip <math><10^\circ</math>
- Average coal output growth at Rospadskaya in 2001-2006 was 10% in comparison with Russia's average of 2.8%
- Rospadskaya's share of total coking coal output in Russia has grown to 18% in 1H2007 from 10% in 2001



Source: Rosinformugol, Rospadskaya

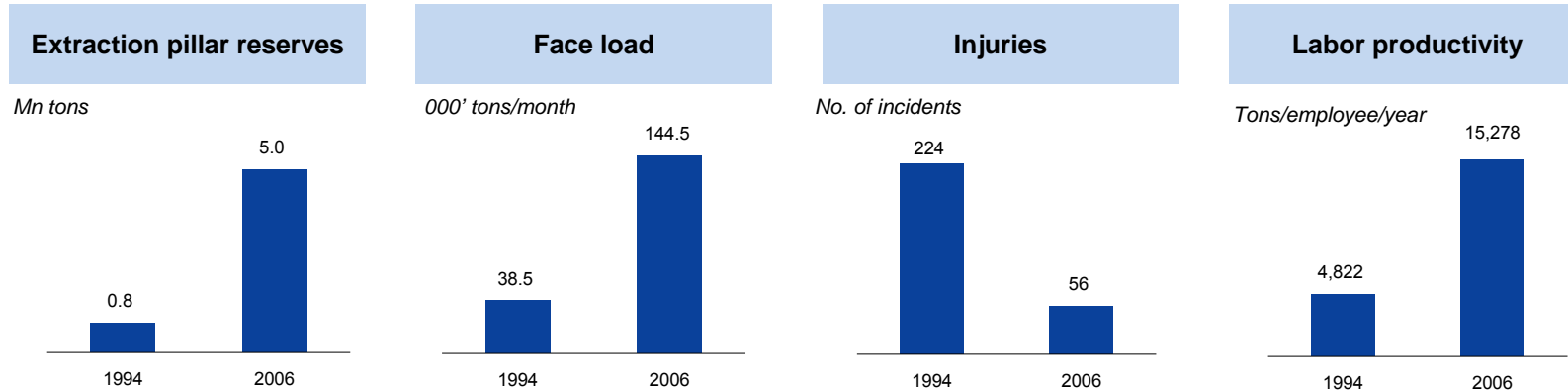
- Further substantial cash cost reduction: From US\$18.8/t in 2006 to \$17.2/t in 1H2007

## 2006 Concentrate cash costs by the largest global companies' mines, ex-works <sup>(1)</sup>



<sup>1</sup> Concentrate cash costs, including mine labour, other onsite and royalty, but 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, Massey Energy, Kuzbassrazrezugol, Raspadskaya, Yakutugol, Yuzhkuzbassugol 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

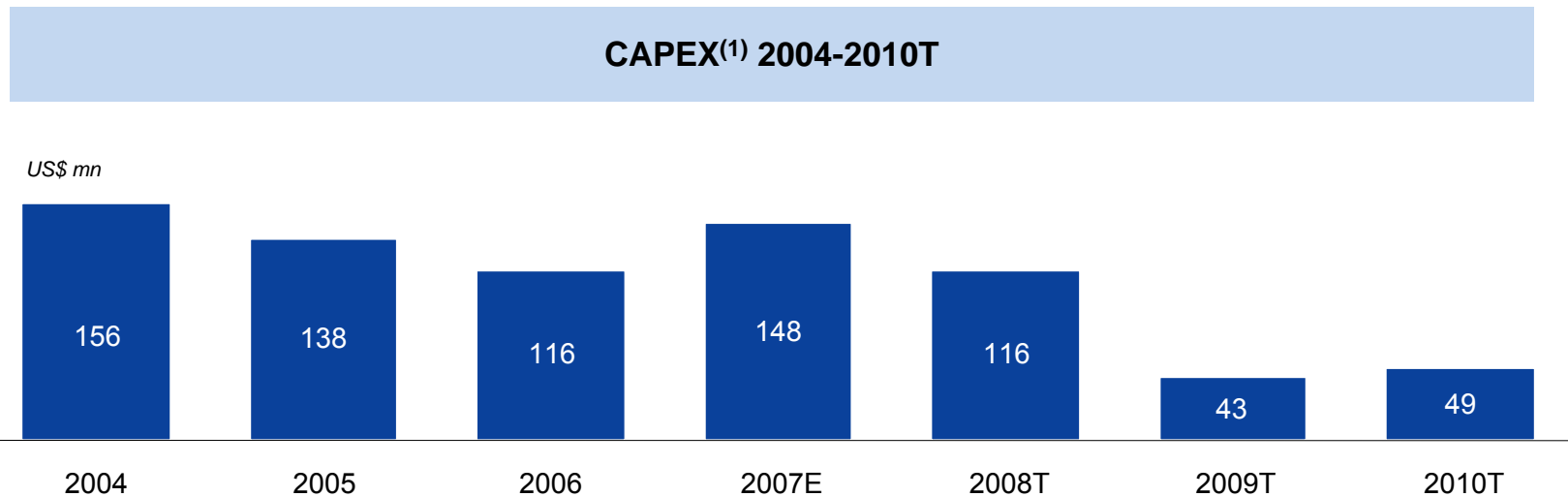


Note: Data only for Raspadskaya Mine for comparison consistency  
Source: Raspadskaya

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



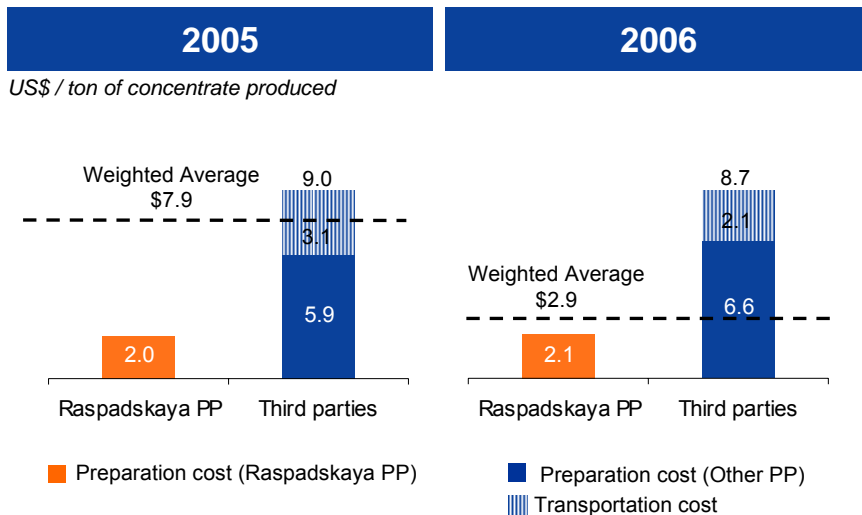
- 2004-2010 target capex programme in the amount \$766m is already over 50% complete
- Within 1.5 years the growth component of capex will be invested and it is expected to flatten at the maintenance level of \$40-50m per year from 2009 onwards
- CAPEX in 1H2007 amounted to \$64m, or 43% of the total 2007 budget



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

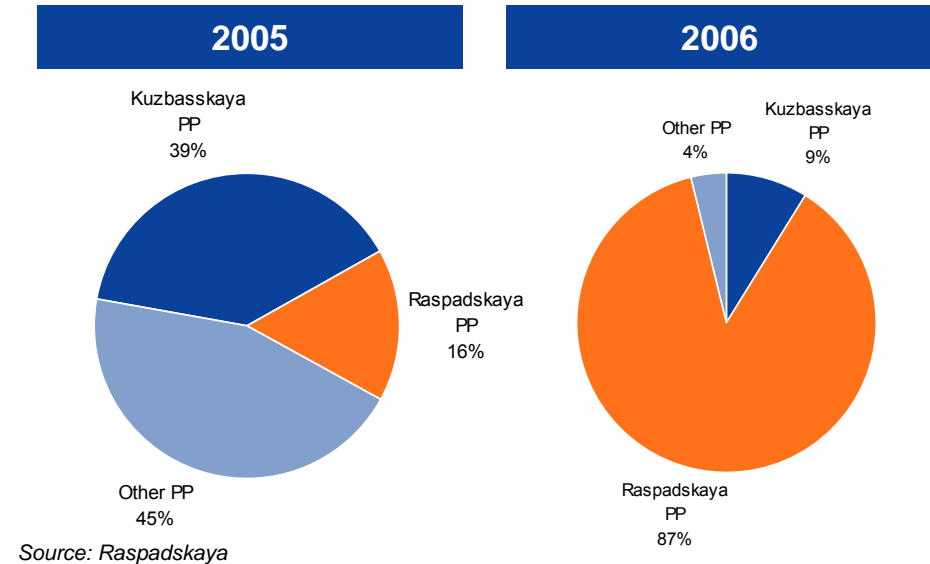
- Built in 2 years, launched in Q4 2005
- Current nameplate capacity at 7.5 mtpa
  - Effective capacity at ca. 8.75 mtpa based on 350 days of work
  - Potential to expand to 10.5 mtpa nameplate after the launch of Stage 2, planned for 2008 (construction started in Q4 2006)
- Weighted average coal preparation 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



Source: Raspadsкая

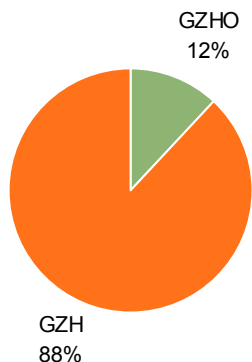
## Break down of Raspadsкая coal preparation, by plants



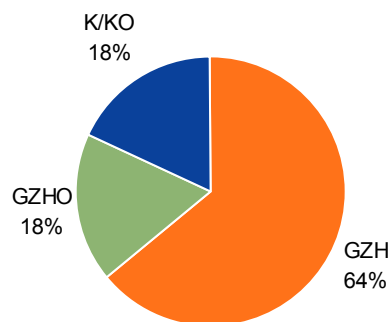
Source: Raspadsкая

## Quality of Raspadskaya coal concentrate

2006



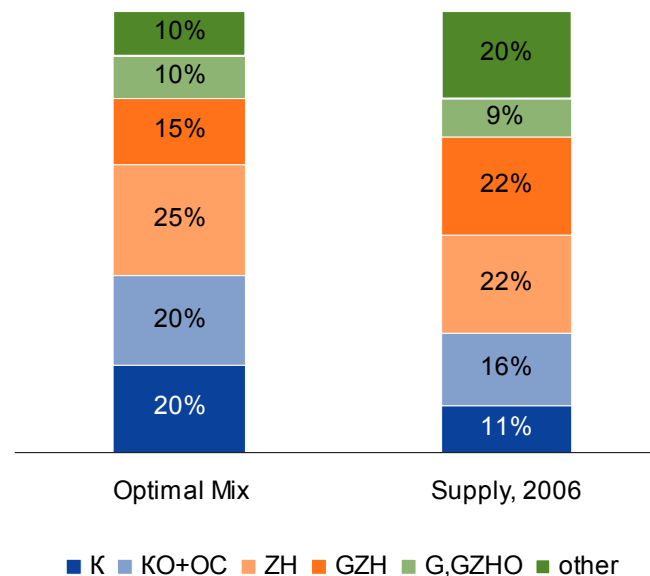
2010T



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

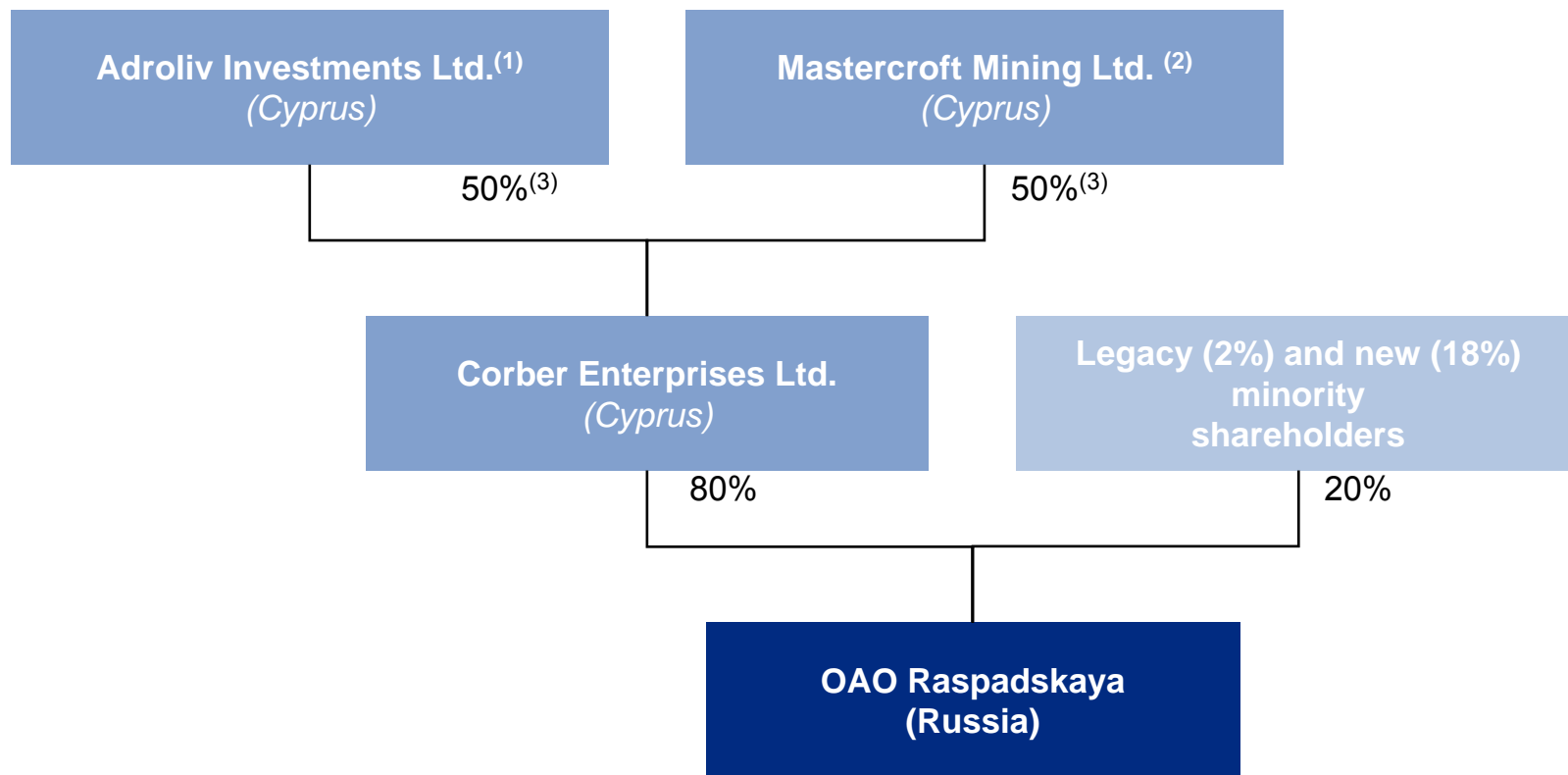
- Historically, Raspadskeya has been focused on domestic markets selling 70 - 80% of its production by volume in Russia
- Coal concentrate sales focused on Russia's largest steel producers:
  - In 1H2007, MMK accounted for 23% of total sales, NLMK -15% and Evraz Group - 13%
- Marketing strategy towards long-term supply contracts with the key customers
- Raspadskeya's market share in Ukraine has been historically strong. In 1H2007, Ukraine accounted for 18% of Raspadskeya's sales up from 11% in 1H2006

			 EVRAZ GROUP				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	-	-
Raspadskeya 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 Raspadskeya 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: Raspadskeya, Companies' data



Source: Rospadskaya

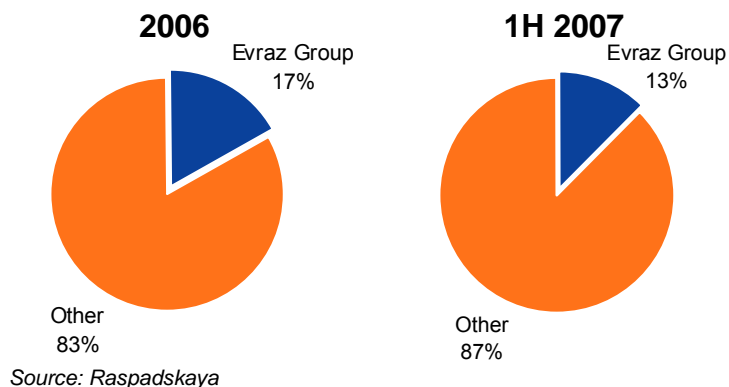
(1) Adroliv Investments Ltd. is beneficially owned by G. Kozovoy and A. Vagin

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

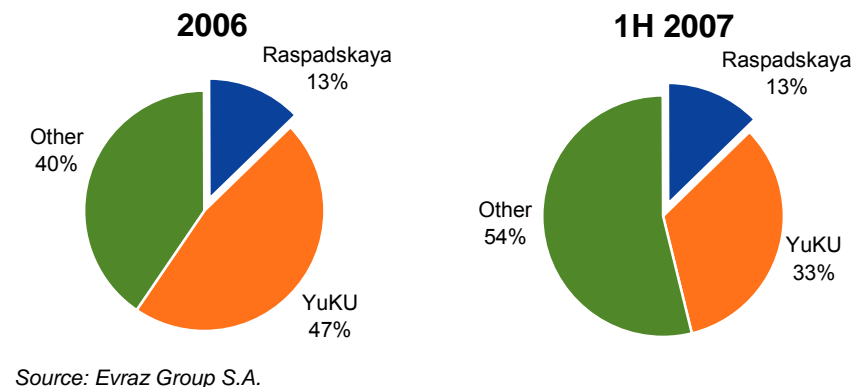
(3) % of voting shares

- 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

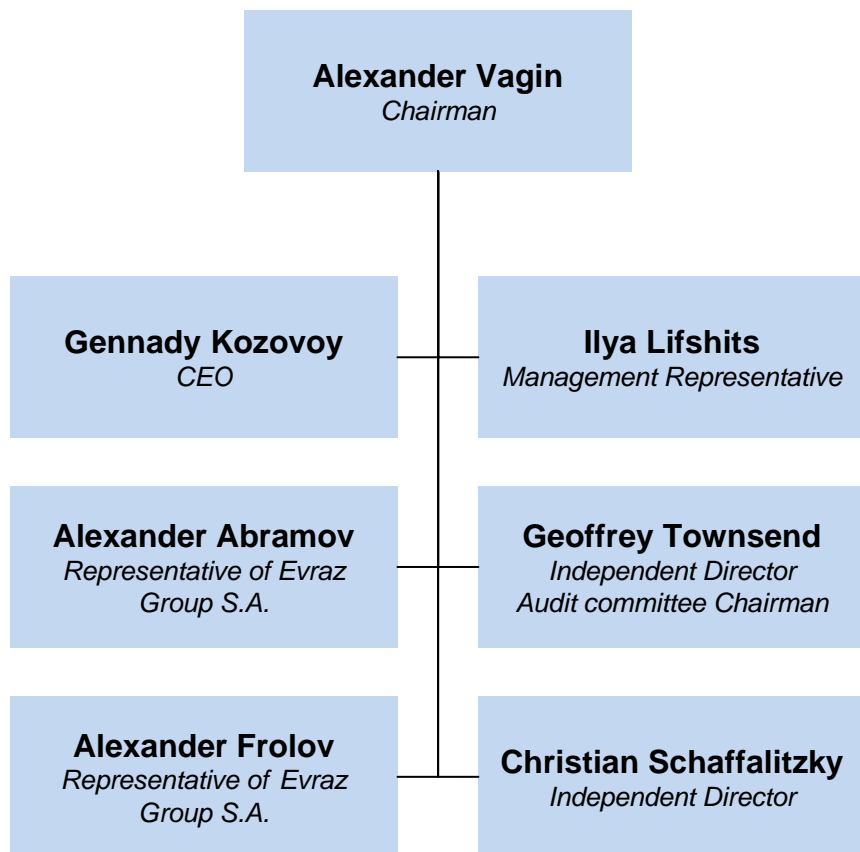
## Raspadskaya coal product sales to Evraz vs. Other



## Coal concentrate procurement structure of Evraz



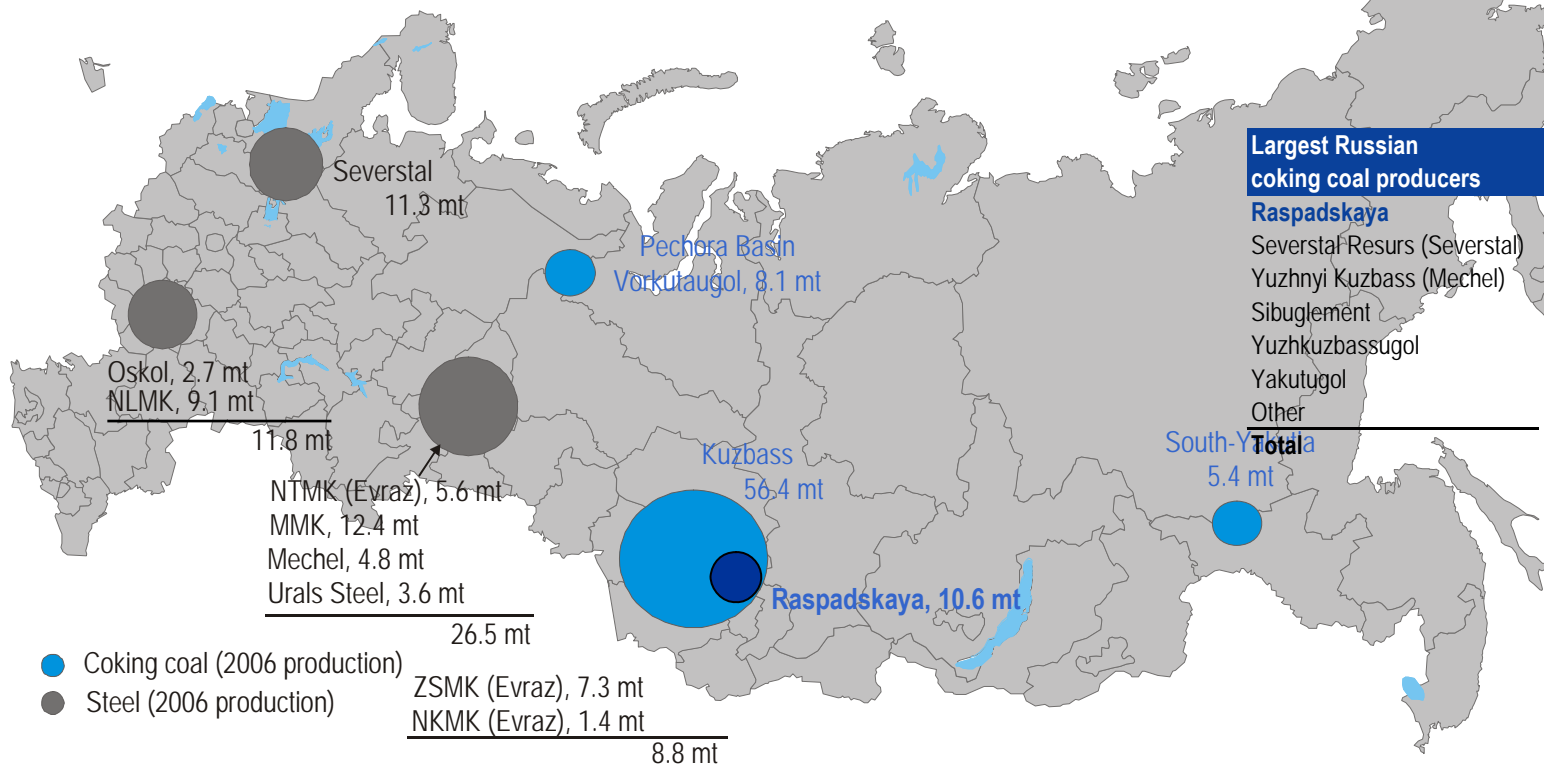
## Board of Directors



- 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

- 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	Production, mtpa 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>



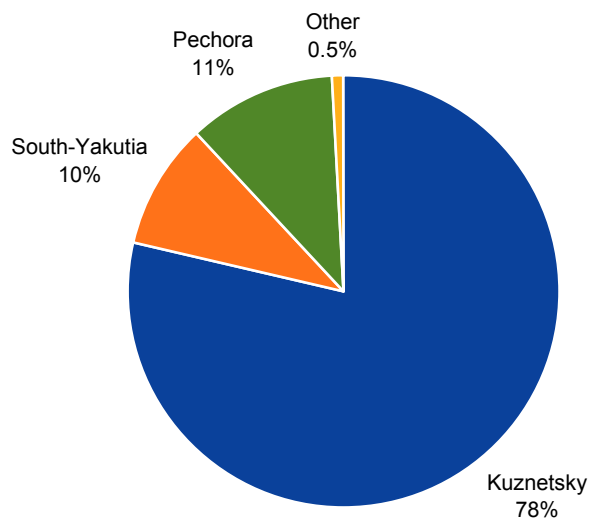
Largest Russian coking coal producers	Growth %	Production, mtpa 1H2007	Production, mtpa 1H2006
<b>Raspadskaya</b>	<b>29%</b>	<b>6.6</b>	<b>5.1</b>
Severstal Resurs (Severstal)	6%	5.4	5.1
Yuzhnyi Kuzbass (Mechel)	-6%	4.2	4.5
Sibuglement	12%	4.2	3.7
Yuzhkuzbassugol	-15%	3.9	4.6
Yakutugol	30%	3.5	2.7
Other	16%	20.5	17.7
<b>Total</b>	<b>9%</b>	<b>36.3</b>	<b>33.3</b>

Source: Company Data  
 (1) BP Statistical Review of World Energy June 2006  
 (2) Rosinformugol



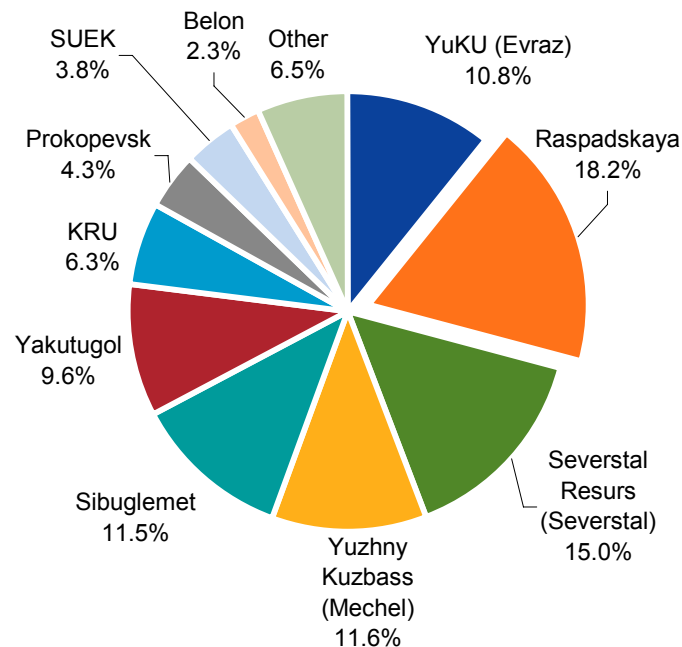
- Top 5 coking coal producers have c.70% of the market
- Russian steel groups control nearly 40% of total coking coal production (Evraz, Severstal Resurs, Yuzhny Kuzbass) but steel makers' track record in coking coal remains patchy
  - Prokopyevsk-Ugol divested by NLMK for \$1 to the local administration
  - Neryungri-Ugol (Denisovskoe field) sold by Evraz Group
  - At the same time, MMK has purchased a strategic minority stake of 10.75% in Belon in October 2007

**Russian coking coal production, by location (1H 2007)**



Source: Rosinformugol

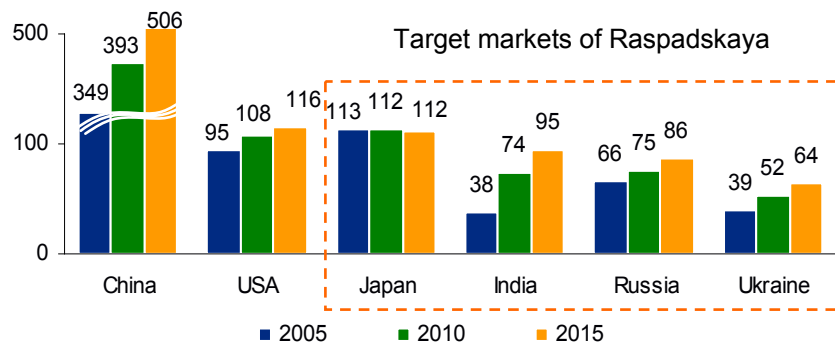
**Russian coking coal production, by company (1H 2007)**



Source: Rosinformugol

## Crude Steel Production

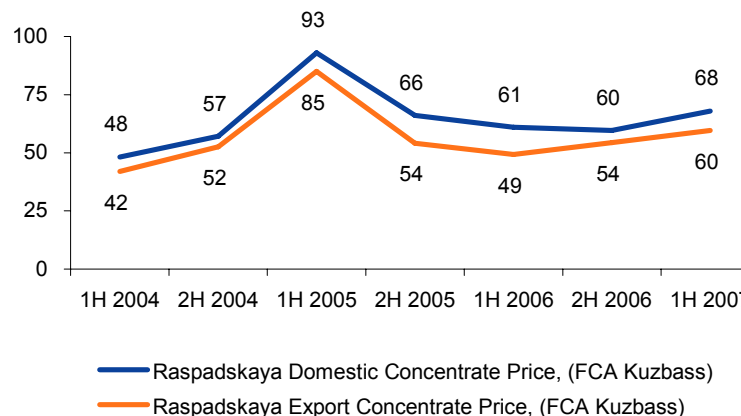
Mn tons



Source: IISI, McCloskey's Metallurgical Coal Quarterly

## Coking Coal Price Performance

\$/ ton

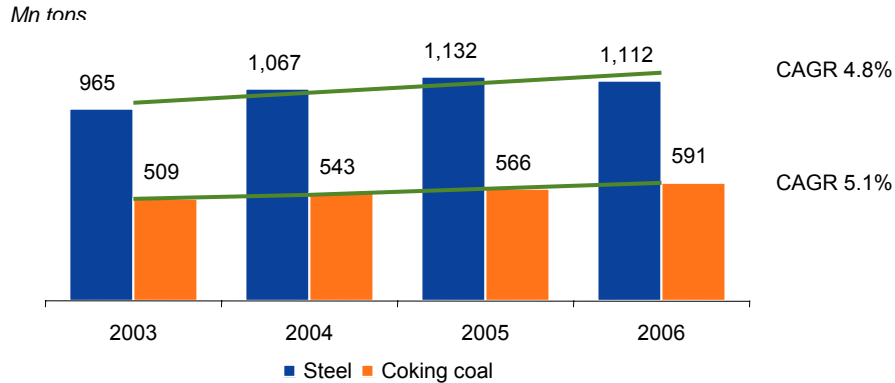


Source: Raspadskaya, Metaltorg

- 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

- 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
- Raskadskaya 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
- Raskadskaya also plans to increase supplies to Ukraine, Eastern Europe and Asia

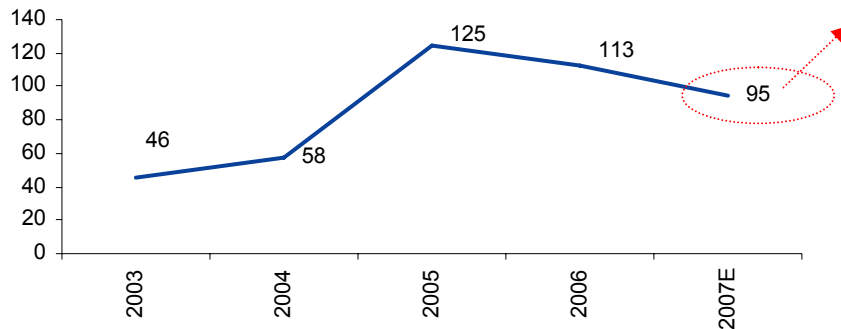
## Global steel and coking coal production dynamics



Source: IISI, Rosinformugol, Abare

## Hard Coking Coal Price Performance

US\$/ ton, (FOB contract price, sea-borne export)



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

- Demand for coking coal is driven mainly by demand from the blast furnace steel production – almost 70% of the global steel industry
  - Global steel production growth should be bolstered by continued strong investment in BRIC
  - Global steel production is projected to grow to 1.45 billion tons by 2010, 6.3% '06-10E CAGR
  - However, healthy steel demand growth is unlikely to outpace steel capacity growth projected at above 7%'06-10E CAGR
  
- 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
  
- Delays in contract shipments from Australia shall lead to material carry-over shipments at current prices increasing producers desire to maximise 2008 price increases

## 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)

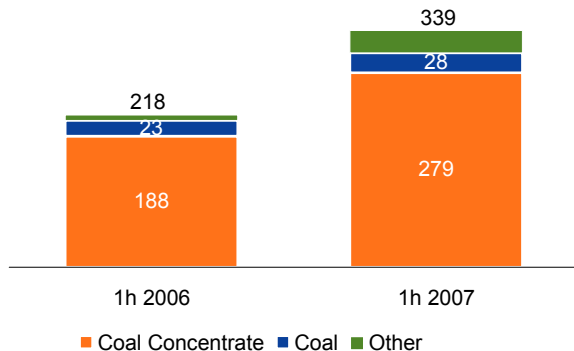
	Pro-forma (US\$ m)	Consolidated (US\$ m)	
	1H 2006A	1H 2006A	1H 2007A
<b>Revenue</b>	218	222	339
<i>Growth, %</i>	<i>NM</i>	<i>NM</i>	55%
<b>EBITDA</b>	200	125	200
<i>Margin, %</i>	55%	56%	59%
<b>EBIT</b>	76	60	138
<i>Margin, %</i>	35%	27%	41%
<b>Net Income</b>	51	40	92
<i>Margin, %</i>	23%	18%	27%
<b>Balance sheet</b>			
Total assets		1,439	1,583
Total debt		108	356
Net debt	Not compiled	46	287
Shareholders' equity		770	904
<b>Cash flow statement</b>			
Cash flow from operating activities		95	122
Cash flow from investment activities	Not compiled	(8)	(61)
Cash flow from financing activities		(45)	(55)

- Pro-forma financials include financial results of MUK-96 and Razrez Raspadskey as if they were purchased on 1 Jan. 2006
- Consolidated financials include financial results of MUK-96 and Razrez Raspadskey starting from 1 June 2006, when the assets were indeed acquired and recognised by the auditors
- However, only pro-forma 1H2006 and Consolidated 1H2007 represent operationally comparable periods

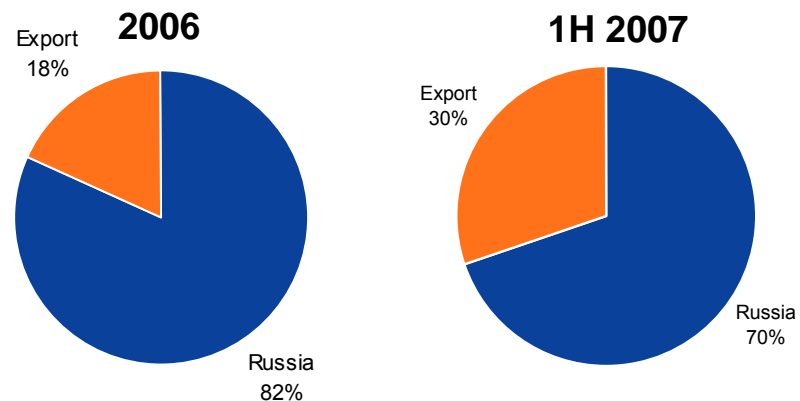
Source: Raspadskeya

## Revenue structure, by product

US\$ mn.



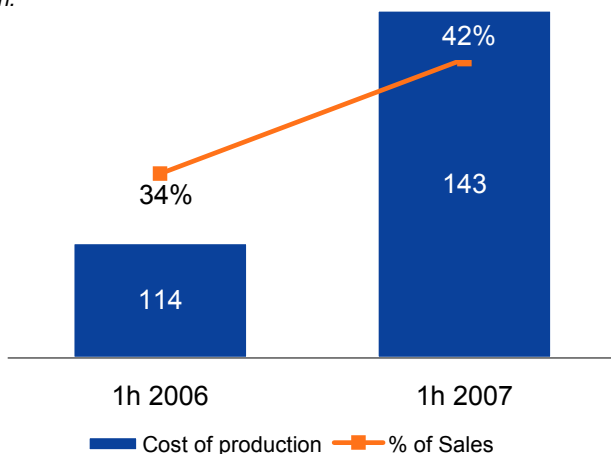
## Sale of goods structure, by geography (raw coal and concentrate)



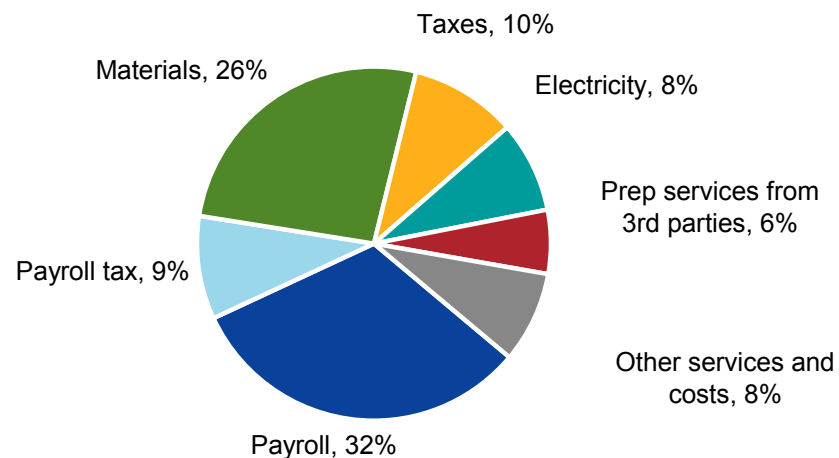
Note: Excluding railway tariff

## Cost dynamics

US\$ mn.



## Cash cost structure (1H 2007)

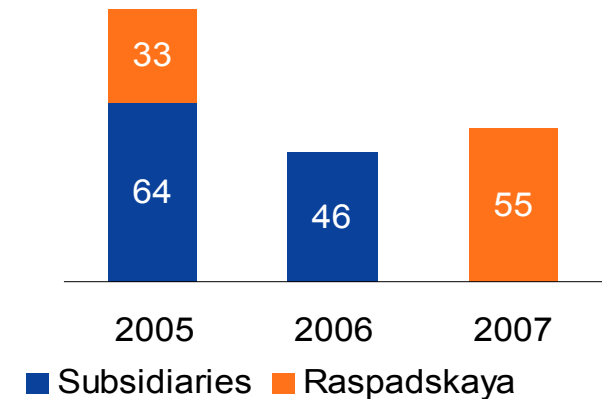


Source: Rospadskaya

Source: Rospadskaya

- Company's internal financial policies are as follows:
  - ✓ Net Debt/EBITDA of 1.5x (on a standalone basis)
  - ✓ Dividend pay out ratio in the range of 25% - 50% of IFRS net income
  - ✓ 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
- Dividend payout of 1.94 RUR per share for 2006 (ca. US\$58m, out of which US\$23m have been paid)
- Net debt was US\$287m as of 30 June 2007 compared with US\$310m as of 31 Dec 2006

Dividend payments (US\$ million)



- ✓ On the upside, over 50% of CAPEX programme is now complete and substantial volume growth realised providing the Company with a significant advantage in an operationally leveraged business
- ✗ As downside risk, Raspadskaya recognizes its exposure to coking coal prices and intends to pursue a conservative financial policy to compensate



3Q 2007 TRADING UPDATE		3Q 2007	3Q 2006	± % 3Q07 / 3Q06	± % 3Q07 / 2Q07	2Q 2007
<b>ROM</b>						
Raspadskaya Mine	' 000 t	2 255	1 754	29%	9%	2 062
Razrez Raspadsky	' 000 t	825	428	93%	11%	743
MUK-96	' 000 t	604	345	75%	14%	531
<b>ROM total</b>	<b>' 000 t</b>	<b>3 684</b>	<b>2 528</b>	<b>46%</b>	<b>10%</b>	<b>3 335</b>
<b>SALES</b>						
Concentrate - Domestic	' 000 t	1 655	1 132	46%	21%	1 370
Concentrate - Export	' 000 t	621	408	52%	-22%	801
<b>Total sales of concentrate</b>	<b>' 000 t</b>	<b>2 277</b>	<b>1 540</b>	<b>48%</b>	<b>5%</b>	<b>2 171</b>
Raw coal - Domestic	' 000 t	579	500	16%	83%	316
Raw coal - Export	' 000 t	0	63	NA	NA	0
<b>Total sales of raw coal</b>	<b>' 000 t</b>	<b>579</b>	<b>563</b>	<b>3%</b>	<b>83%</b>	<b>316</b>
<b>Weighted-average prices *</b>						
Concentrate - Domestic	US\$ / t	73,4	59,1	24%	3%	71,1
Concentrate - Export	US\$ / t	66,4	50,4	32%	13%	58,6
<b>Weighted-average price of concentrate</b>	<b>US\$ / t</b>	<b>71,5</b>	<b>56,8</b>	<b>26%</b>	<b>8%</b>	<b>66,5</b>
Raw coal - Domestic	US\$ / t	40,4	30,9	31%	18%	34,2
Raw coal - Export	US\$ / t	0	28,1	NA	NA	0
<b>Weighted-average price of raw coal</b>	<b>US\$ / t</b>	<b>40,4</b>	<b>30,6</b>	<b>32%</b>	<b>18%</b>	<b>34,2</b>

\* FCA Mezhdurechensk

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

- Record monthly production level of 1,335.9 thousand tonnes achieved in September
- On track to exceed 13 million tonnes production target for the entire 2007
- Growth in domestic concentrate sales as result of sharp demand increase on part of the Russian steel makers
- Spot prices reaching now above \$100 per tonne of concentrate

## **Oleg Kuzakov**

Deputy General Director,  
Head of Capital Markets and Investor Relations

Tel: +7 (495) 147 1517

Mob: +7 (915) 298 0638

[kuzakov@raspadszkaya.ru](mailto:kuzakov@raspadszkaya.ru)