

Russian Coal Company OAO Raspadskaya

Russia's domestic demand for coking coal and export opportunities



5th Coaltrans World Anthracite, Coke, Coking Coal and PCI Summit

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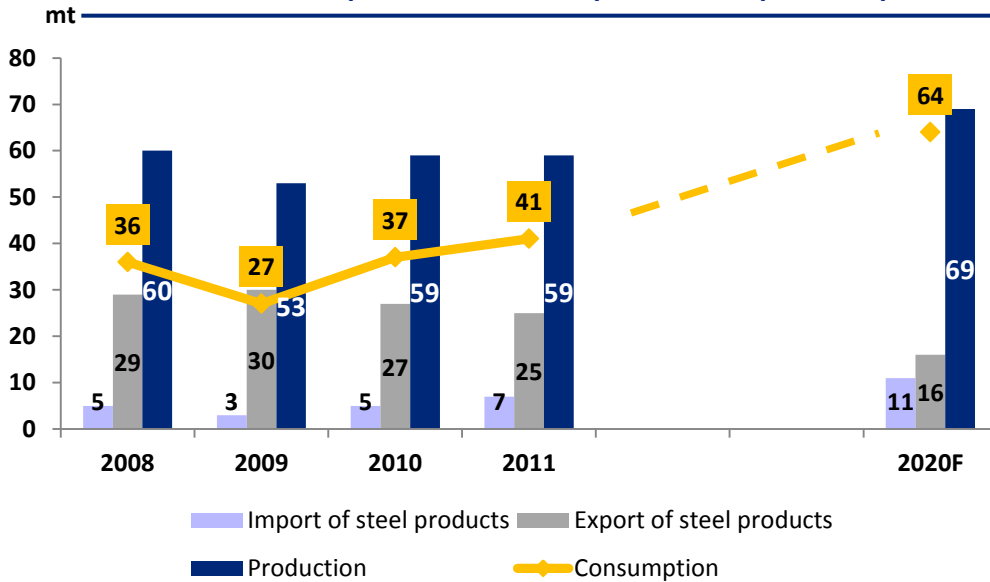
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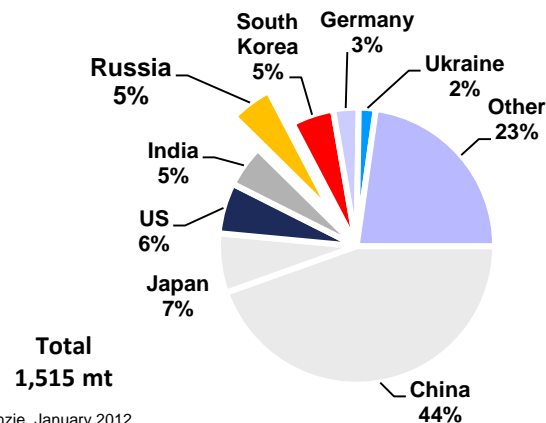
Production of steel products /Consumption and Export / Import



- Russia is the fifth largest steel producer globally
- Russian steelmakers produced 69 mln tonnes of crude steel in 2011 (+7,8%)
- Domestic demand for steel products is stable y-o-y and equal c.40 mt

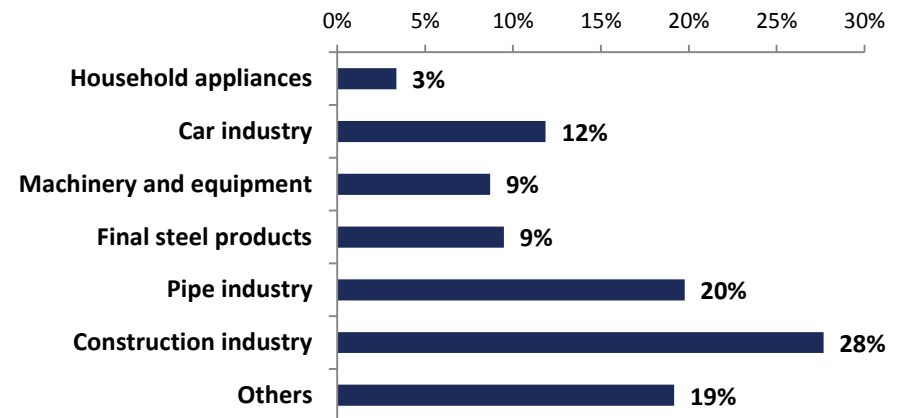
Source: NP Russian Steel, 2012

Global Crude Steel Production by Region



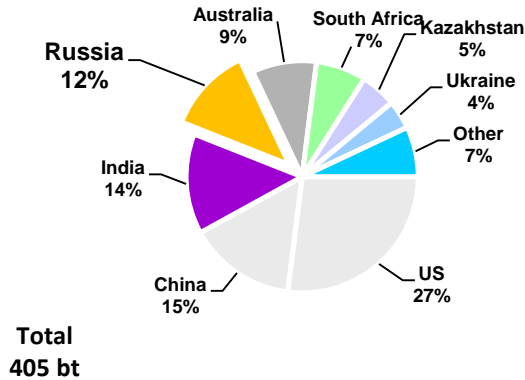
Source: Wood Mackenzie, January 2012

Consumption of Rolled Steel by Industry, 2011



Source: NP Russian Steel, 2012

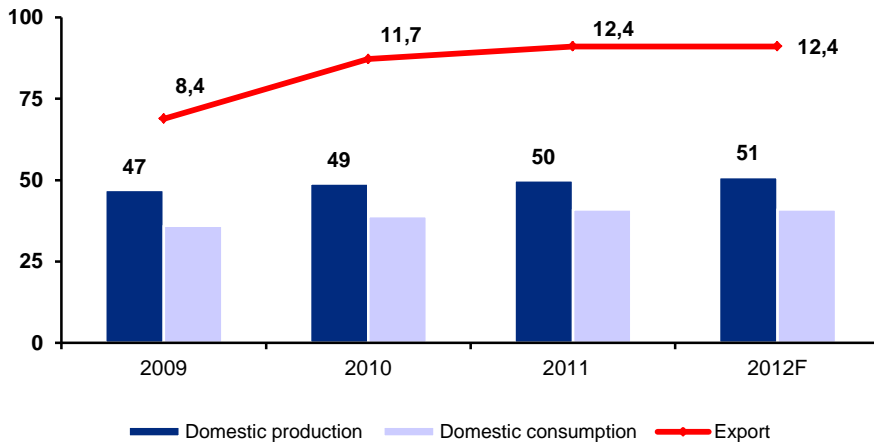
Significant share of Coal Reserve Base in Russia



Source: BP Statistical Review of World Energy (June 2011)

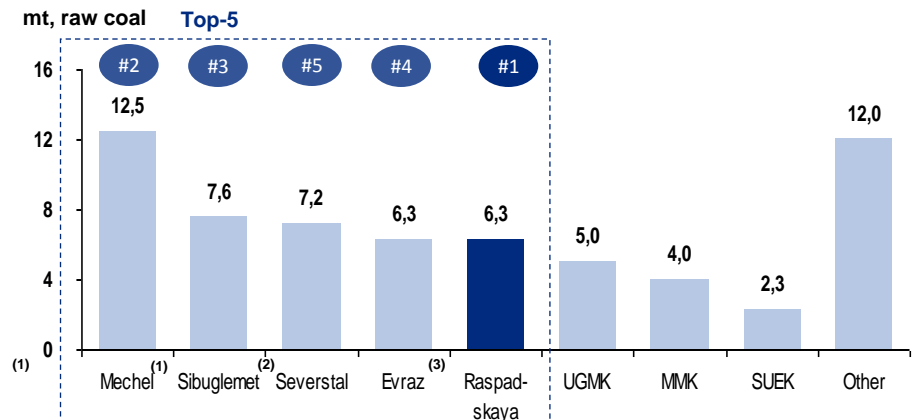
- Russia is the 4th largest country by hard coal reserves
- Kuzbass is Russia's largest coal field, with over 70% of reserves and around 78% of coal production
- Total coking coal production in 1H2012 in Kuzbass is equal 25.6 mln tonnes

Russian Coking Coal Concentrate Market Forecast



Source: Argus, CDU TEK, Metcoal

Major Coking Coal Producers in Russia in 2011



Notes:

(1) Includes production on Southern Kuzbass and Yakutugol

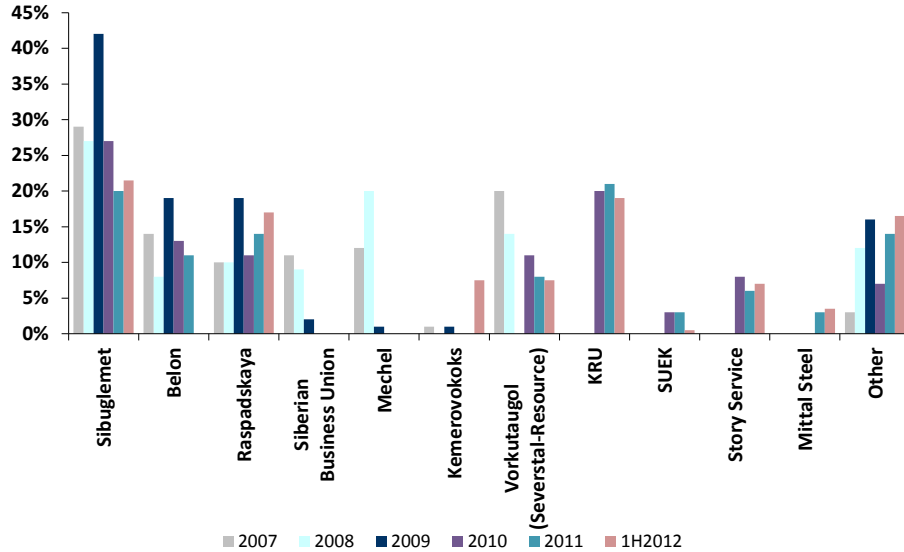
(2) Includes production on Mezhdurechie open pit and Polosukhinskaya, Bolshevik and Antonovskaya mines (based on CDU TEK)

(3) Not accounting for 40% stake in Raspads-kaya

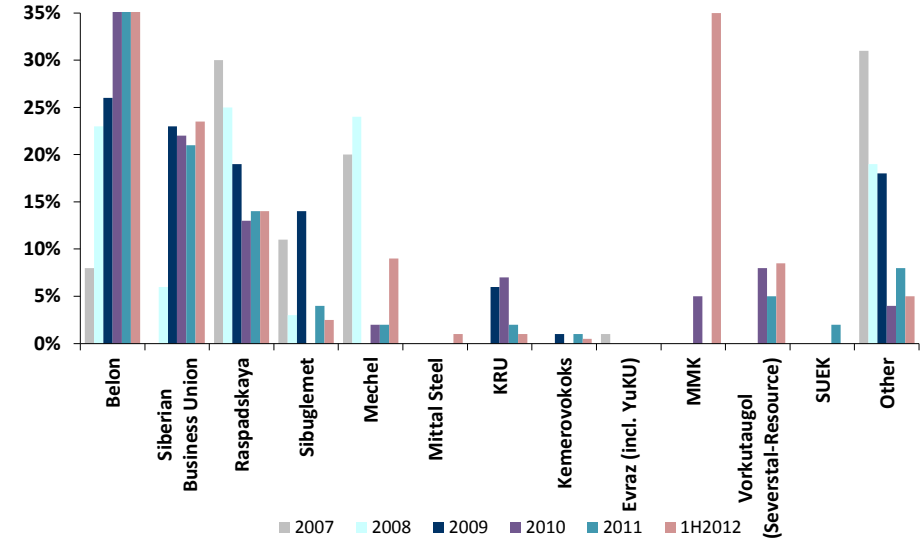
Source: IMC, Raspads-kaya, CDU TEK



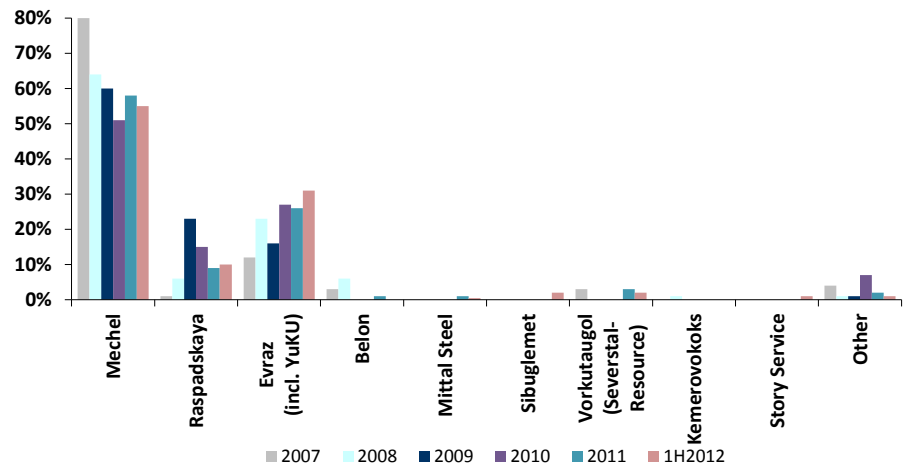
NLMK



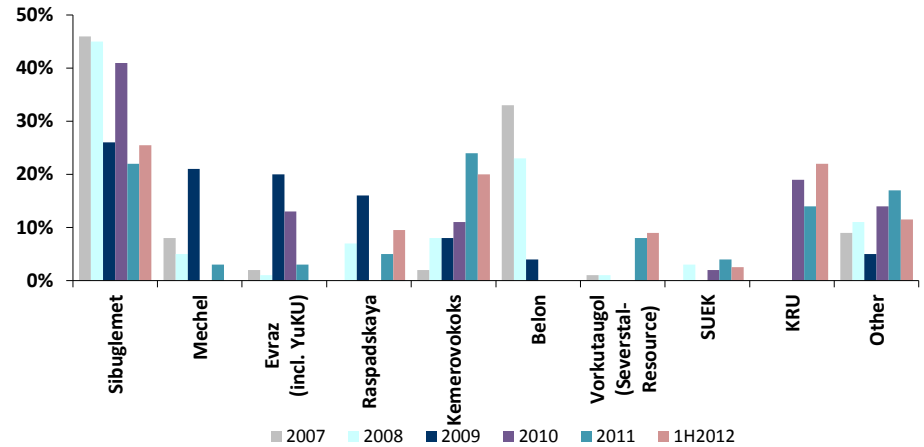
MMK



Mechel

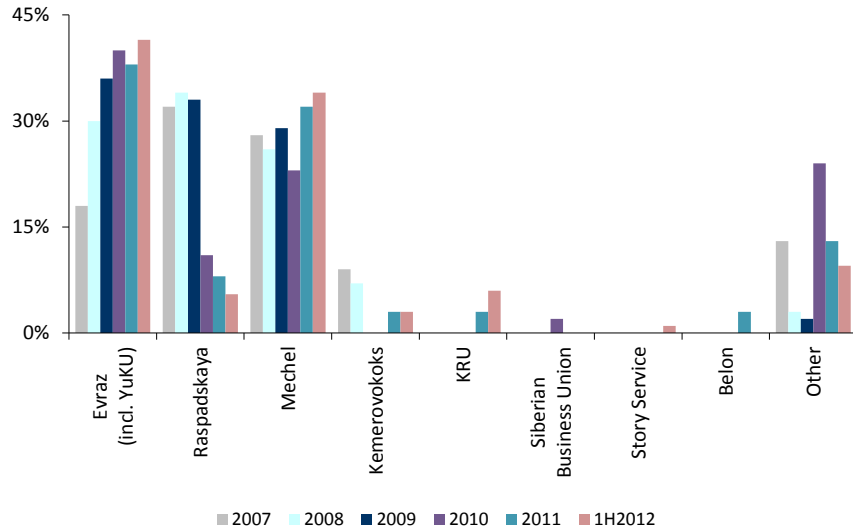


Urals Steel

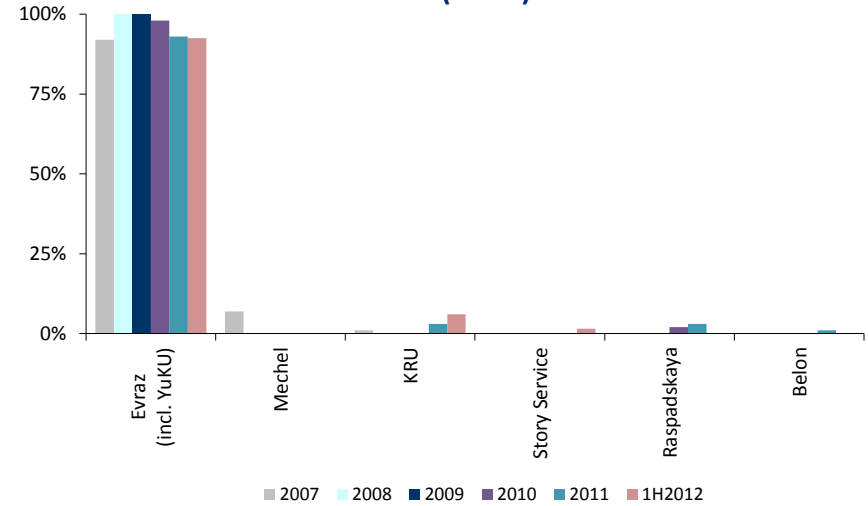


Source: Metcoal

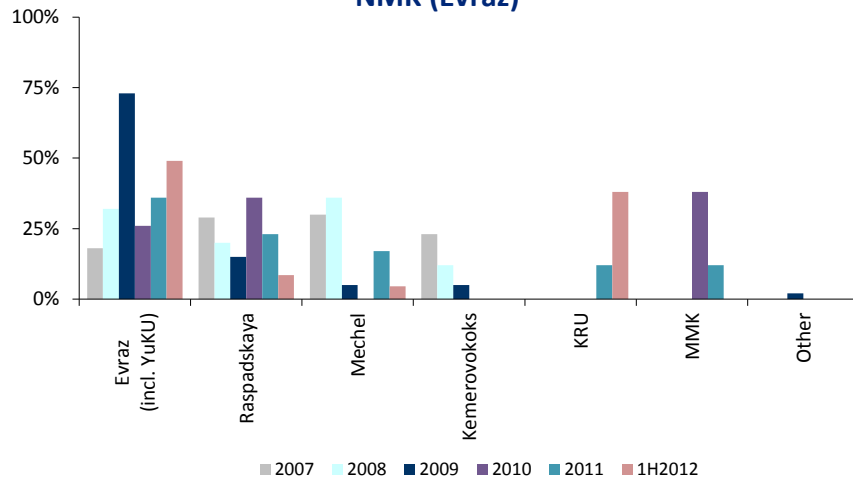
NTMK (Evraz)



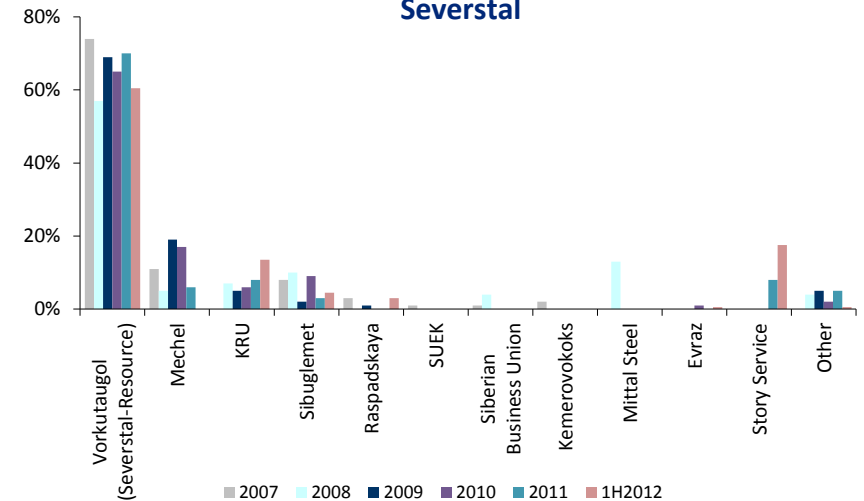
ZSMK (Evraz)



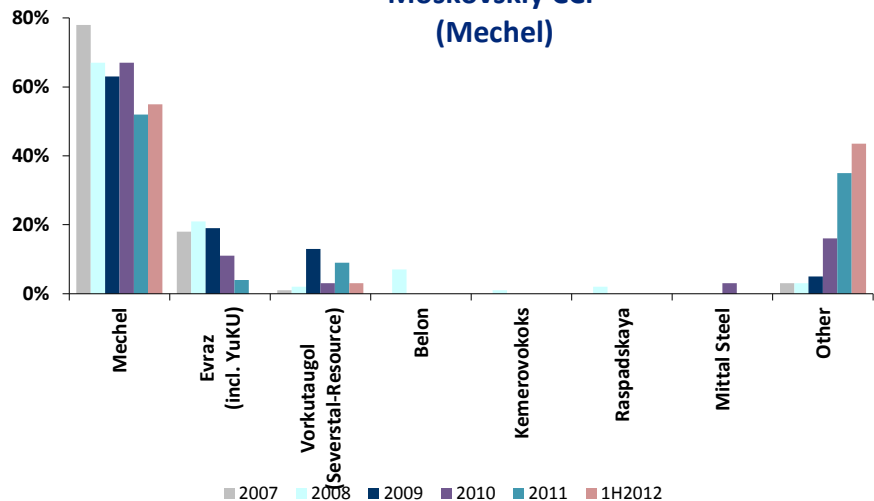
NMK (Evraz)



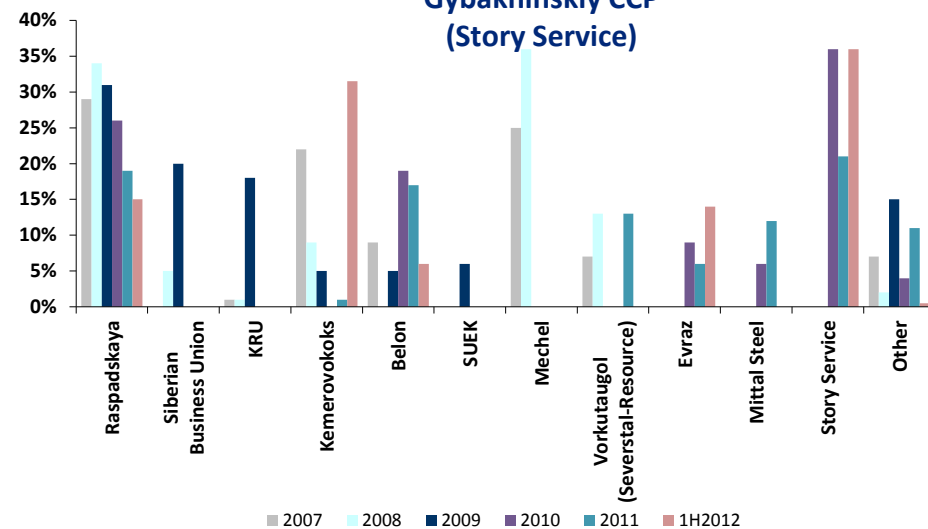
Severstal



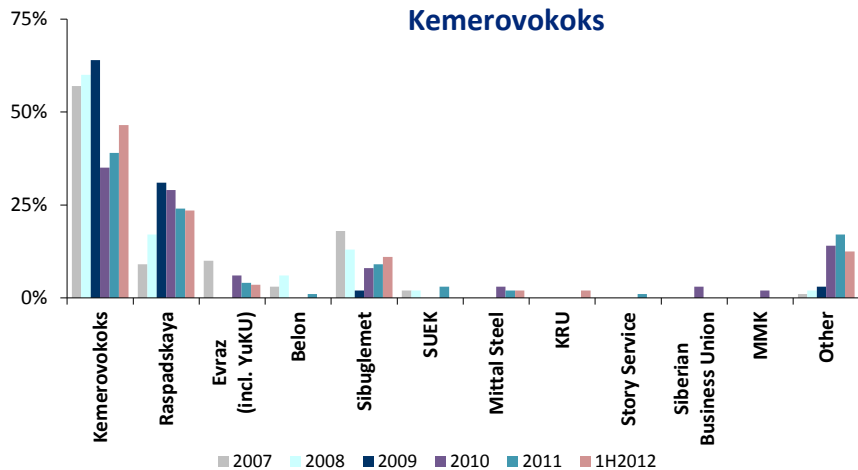
Moskovskiy CCP (Mechel)



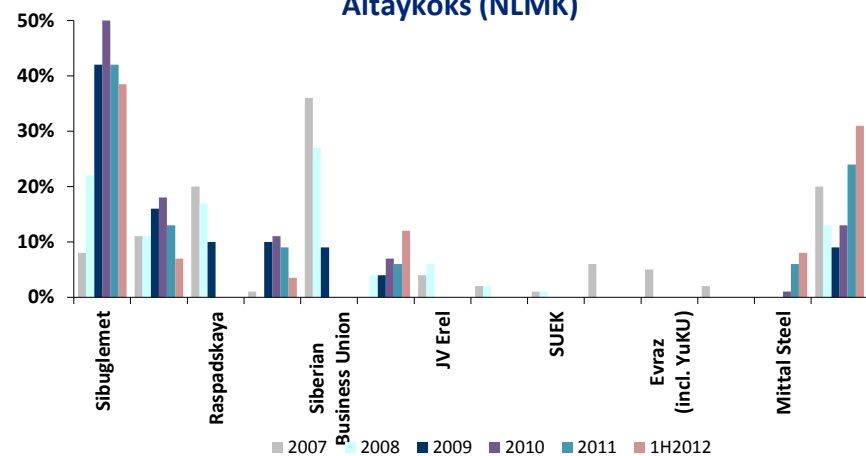
Gybakhinskiy CCP (Story Service)



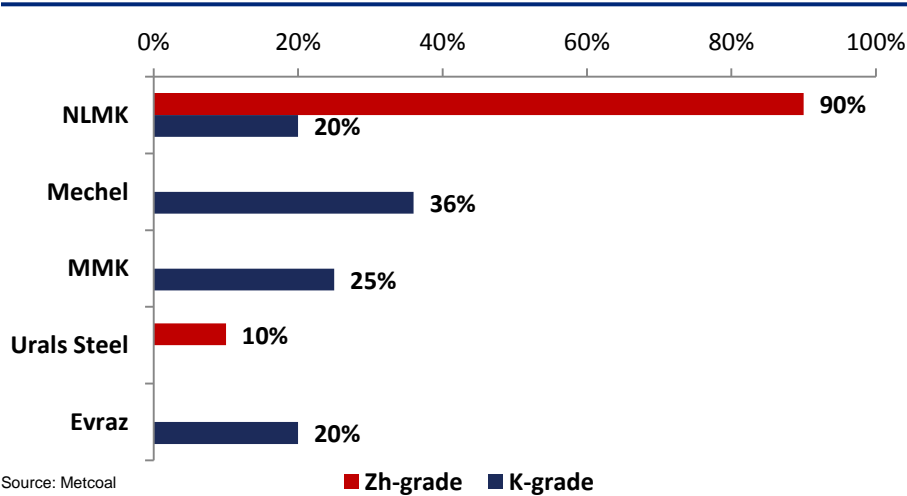
Kemerovokoks



Altaykoks (NLMK)



Major Russian Coal Importers in 1H2012



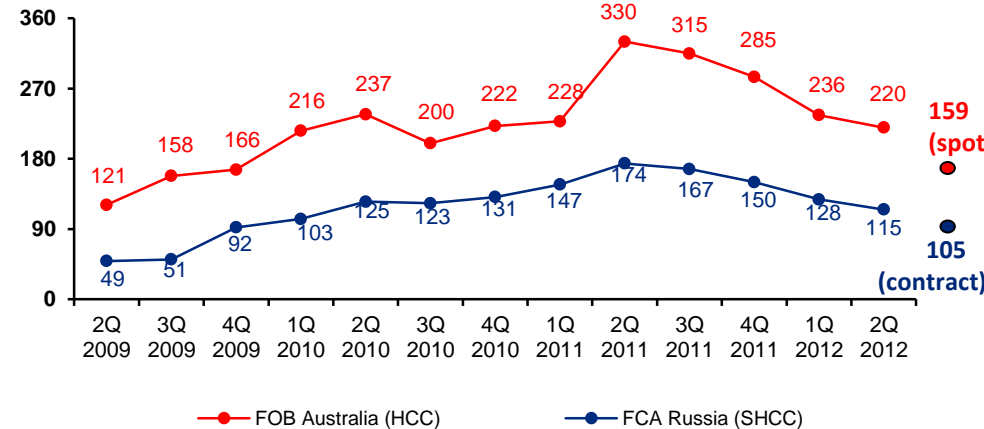
Russian Main Import Directions

- USA: 664 kt Zh-grade coal imported from US in 1H2012
- Kazakhstan: 1, 106 kt K-grade coal imported from Kazakhstan in 1H2012

Russian Main Export Directions

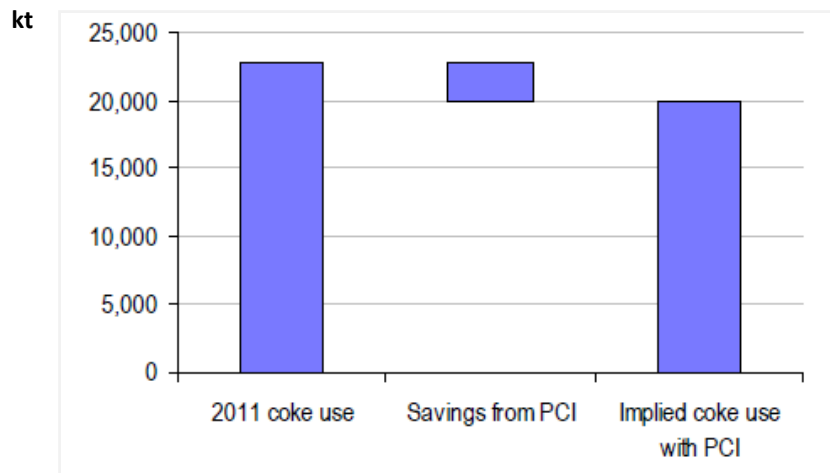
- Ukraine: More than 10 captive suppliers and 7 consumers
- Eastern Europe: 3 main and 10 others suppliers and 5 ports and boarder cross points
- Northwest through Baltic: 4 suppliers and 2 ports
- Asia: 7 suppliers and 5 ports and terminals

Historical Coking Coal Prices

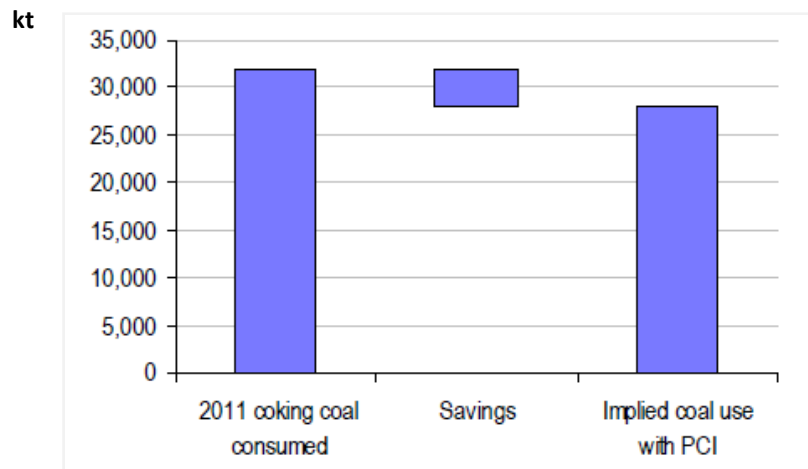


Source: Raspadksya, Wood Mackenzie, CRU

Approximate coke use savings from PCI for Russian Steel Industry



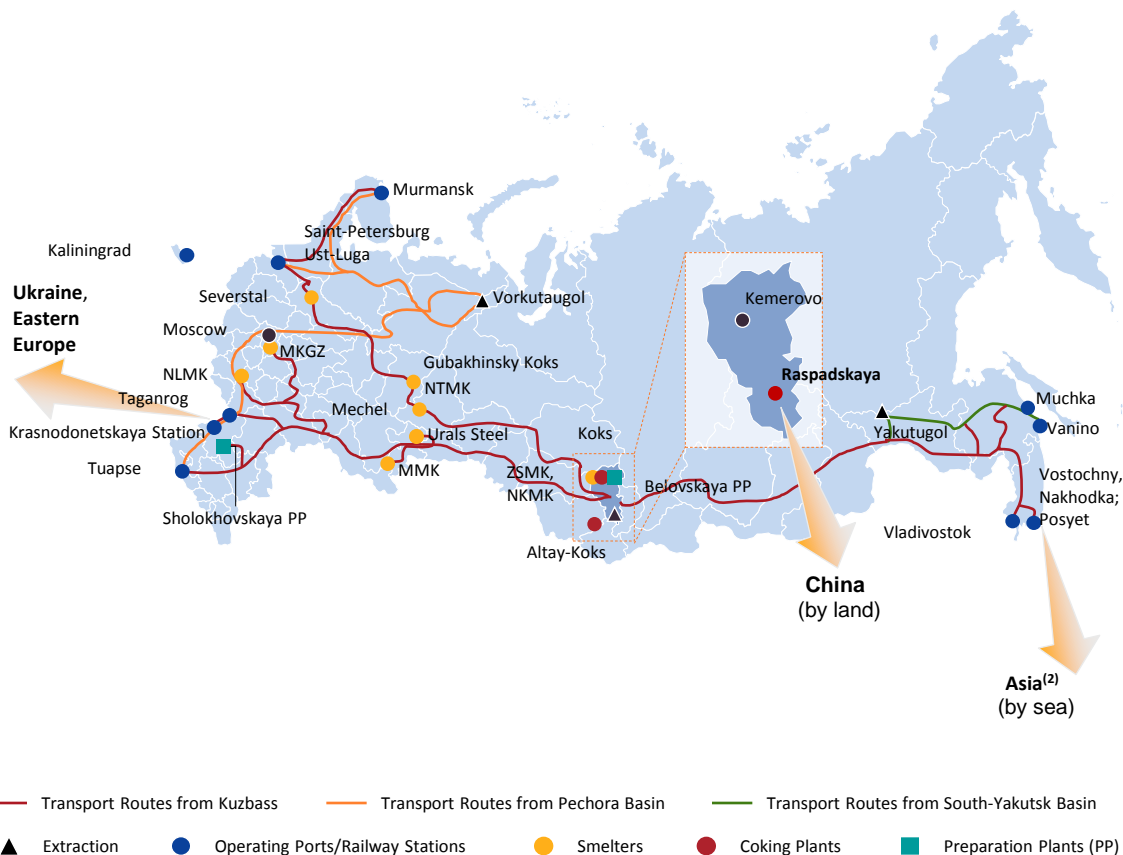
Approximate met coal use savings from PCI for Russian Steel Industry



- A few Russian M&M companies such as Evraz, NLMK have already announce plans to implement PCI technologies to their Russian metallurgical plants
- A few companies in addition to coking coal also produced PCI (for example Mechel produced 1, 074 kt in 1H2012 as compared with 710 kt in 1H2011)
- Switch to PCI by large producers would reduce the total coking coal demand from Russian steel industry by c.4 mnt or 12-13% of total requirements
- These steps together with the common market situation will impact to export of Russian coking coal
- Changes in domestic balance and increasing export

Geographic Location of Many Russian Coal assets and Transportation Routes in Russia

Key matters



- For long-term development of coal and metallurgical industries it is necessary to consider all negative impacts of the crisis periods and to find optimum balance between domestic and export sales by the efforts of producers on export directions and government support (railway transportation and tariffs, development of port facilities, interstate agreements etc.).

Existing Infrastructure Supporting Coal Exports from Russia ⁽¹⁾

Port/Place of Shipment	Distance	Annual Throughput
Vostochny (KRU)	5,900 km	16 mt
Nakhodka (Evraz)	5,900 km	2.7 mt
Muchka (SUEK)	5,250 km	12 mt
Posyet (Mechel)	5,900 km	3.6 mt
Vanino (State)	5,250 km	9.3 mt
China Rail Crossing	3,600 km	10 mt

Total

c. 54 mt

Notes:

(1) Annual throughput is based on 2010 data

(2) Including Japan, Republic of Korea and China

Relations between Producers and Consumers of Coal Production

- Long-term contracts priority and simultaneously current deliveries under quarterly and monthly Supplementary Agreements
- Consumption trends of Russian, Ukrainian, Japan, South Korean and Eastern Europe markets
- Developing of new markets, such as Vietnam, Taiwan
- Taking into account a situation of contract execution / refusals during current unstable market situation
- Opportunity / necessity of hedging terms implementation for minimal securing of budgets of mining companies through fixing “take-or-pay” terms for historically average volumes of purchases

Logistics

- Constant predictable / budgetary increase of railway parties tariffs
- Influence of railway tariffs in competition on FOB basis
- Railways bottlenecks into direction of Far East ports, taking into account a wide variety of competing products (coking and thermal coal, coke, pig iron, metal production, mineral fertilizers, oil and oil products)
- Border trade potential as an additional way to deliver coal to China
- Mutually beneficial cooperation of government and coal industry in terms of foreign trade through volumes increase, reasonable tariffs policy, insurance against overproduction and elimination of infrastructure bottlenecks

As an example: Own transportation network at Mezhdurechensk Railway Station of Rospadskaya Coal Company. Strong Chartering Arm, providing opportunities to charter the vessels at CIS Pacific Region to meet the requirements of our customers in delivery coal on CFR basis

Corporate / Commercial Partnerships

- Delivery guarantees to suppliers through delivery contracts of customers
- Use of advantages of self port facilities through production volumes guarantees and port tariffs regulations (Far East ports)
- Existing trend of searching for responsible and flexible Russian suppliers instead of traditional Australian counter partners by Asian customers

Pricing

- Increasing impact of world market and local regional market prices
- Historical and predictable timing for new prices negotiations (December-January – for Russia, March-April – for Asia)
- Commitment for cargo volumes and terms of delivery through interstate agreements without strong obligations to suppliers and according to the market conditions
- Impact of short (quarterly) contracts with maximum consideration of spot market prices
- Backup of volumes for spot markets and clients
- Export parity and system of premiums and discounts for coal concentrate
- Competition of main coal production regions (Australia, North America, CIS), sometimes with low quality.
- Increasing impact of production cash cost.

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