RASPADSKAYA
OAO RASPADSKAYA

OAO Raspadskaya – Russia's Leader in Coking Coal

Clients relationships as a key business element and export perspectives of Russian coking coal suppliers

VI International Conference "CIS Coal 2010"

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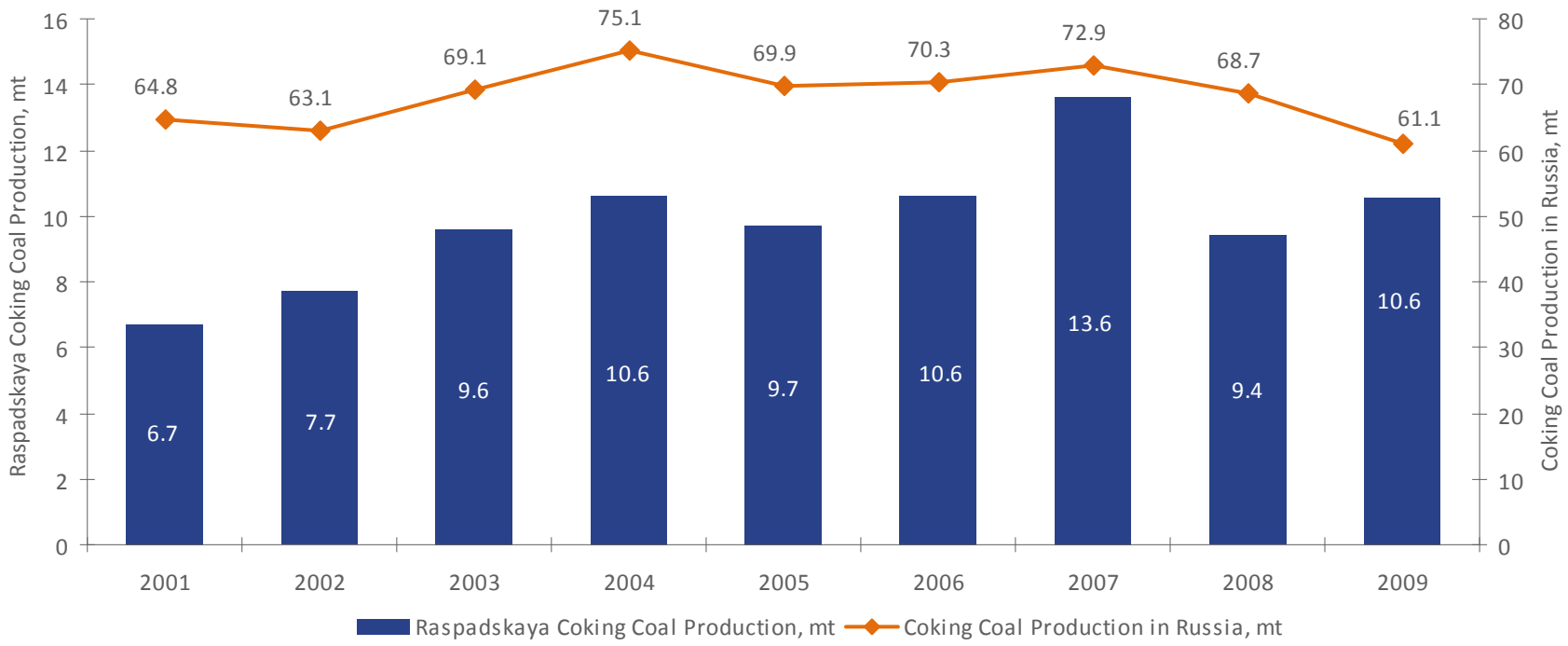
Russian Coking Coal Production

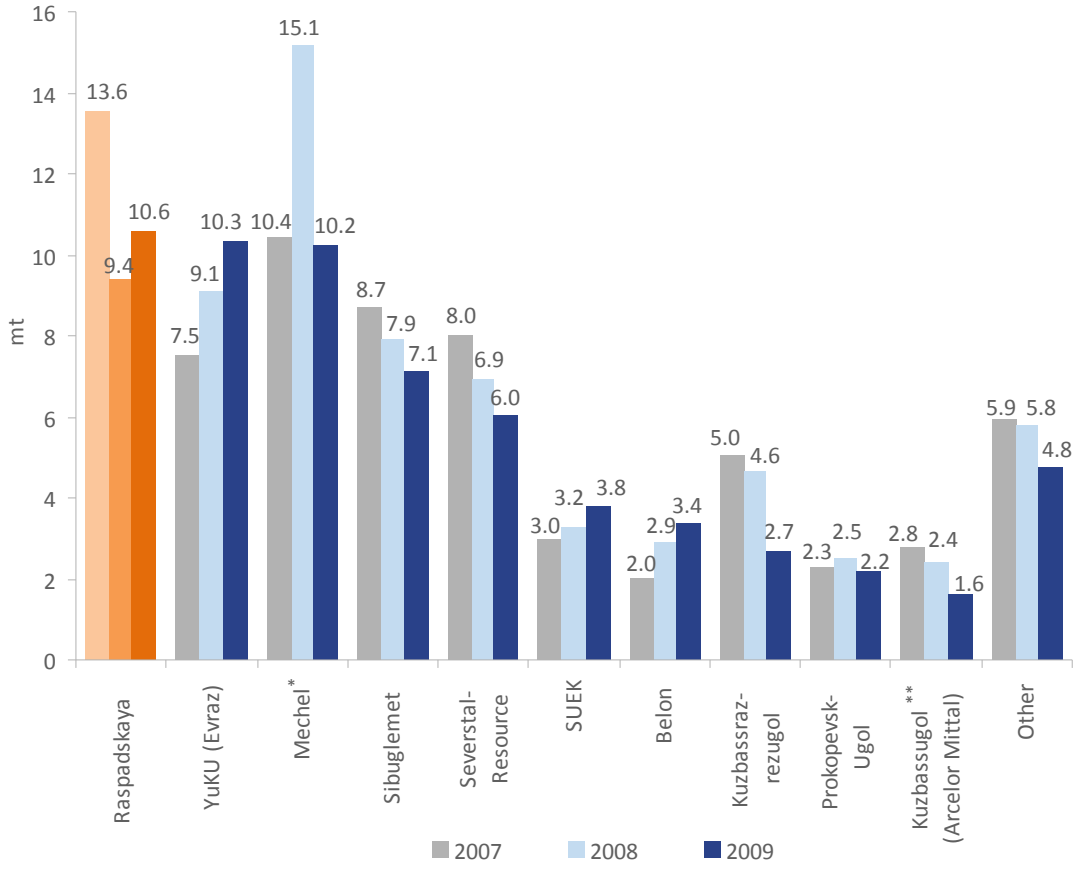
- Russian industrial production slowdown since 4Q2008 has resulted in 6% reduction of Russian production volumes in 2008 vs. 2007, in 2009 Russian coal production declined by 11% YoY
- Raspadskaya accounted for 17% and 14% of total Russian coking coal production in 2009 and 2008 respectively



Source: Raspadskaya, Rosinformugol, UDP-3.10 TsDU-TEK

Russian Coking Coal Production by Company and Raspadskaya Operating Results

Russian Coking Coal Production

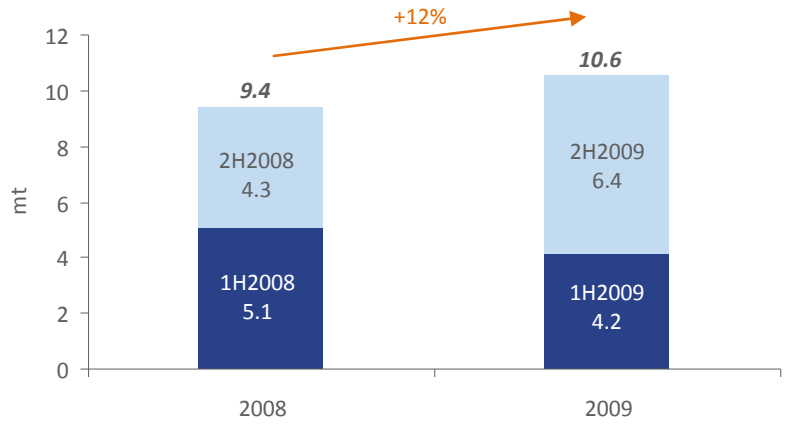


* Coking coal production volumes for 2009 include full consolidation of Mechel Bluestone (USA) operations (starting from 2Q2009)

**In April 2008 Severstal sold the Company to Arcelor Mittal

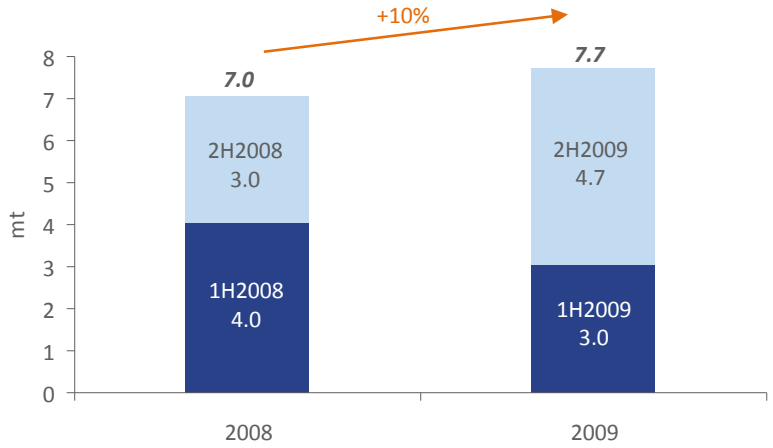
Source: Raspadskaya, UDP-3.10 TsDU-TEK, companies data

Raspadskaya Coking Coal Production



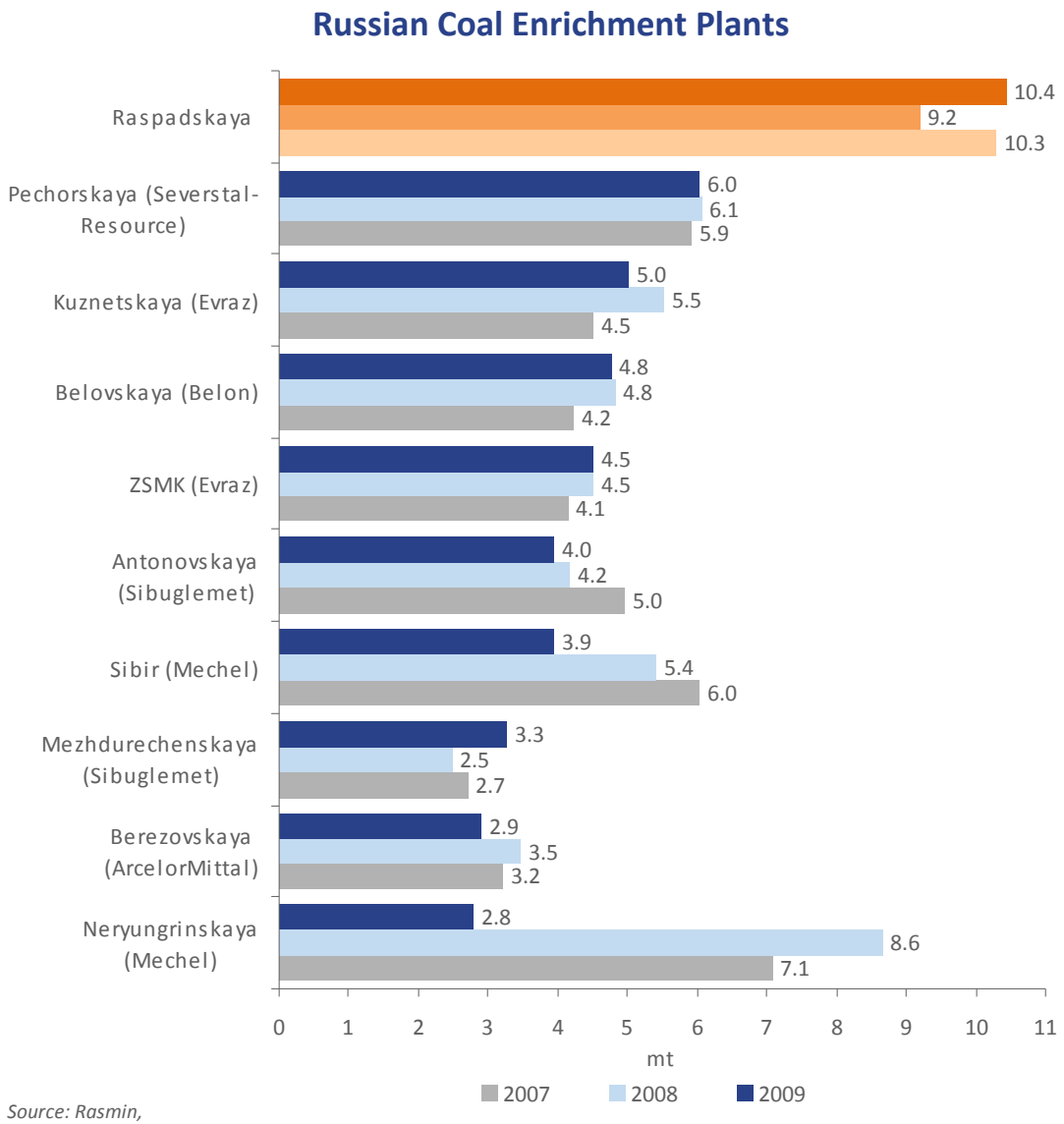
Source: Raspadskaya

Raspadskaya Coal Concentrate Production



Source: Raspadskaya

Russian Coal Enrichment Facilities



Source: Rasmin, Raspadskaya

- The average coal concentrate output ratio of the largest Russian enrichment plants amounted to more than 70 % in 2009
- Balance between production and coal enrichment facilities has been set for the last 10 years
- Many coal producers put new enrichment facilities into operation (Raspadskaya, Sibuglemet) and loaded already existing facilities (Yuzhkuzbassugol, Belon, Mechel)
- Today Raspadskaya enrichment plant is the largest in Russia and one of the largest globally with current production capacity up to 15mt of raw coal per year

Balance of Russian Coking Coal Concentrate Market

Russian Coking Coal Production by Coal Grades, mt

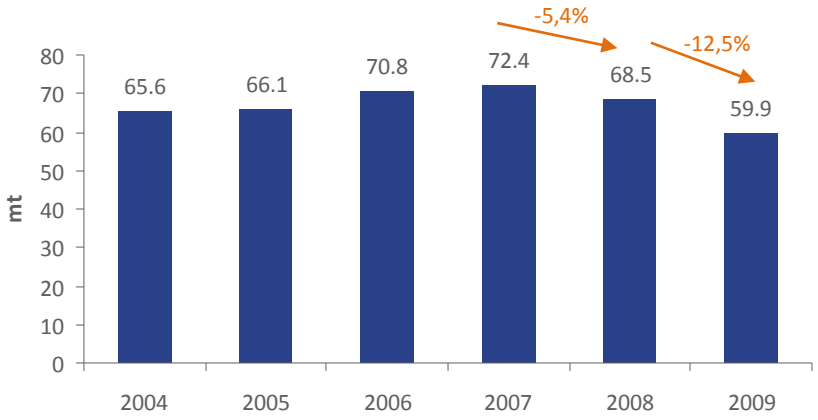
Coal Grade	2009	+/- 09/08 %	2008	+/- 08/07 %	2007
K	4.9	-51%	10.1	+8%	9.3
KO	4.4	-18%	5.3	+3%	5.2
KS	13.9	-6%	14.7	+3%	14.2
KSN	0.1	-88%	0.8	-14%	0.9
Zh	14.7	+3%	14.2	+2%	14.0
GZh	13.7	+6%	12.9	-23%	16.7
GZhO	1.8	-30%	2.6	-11%	2.9
G	3.0	+10%	2.7	+3%	2.7
TS	0.1	-64%	0.2	-29%	0.3
OS	4.5	-10%	5.0	-24%	6.6
Total	***61.1***	-11%	***68.7***	-6%	***72.9***

Source: UPD-3.10 TsDU-TEK

- Traditionally level of coking coal concentrate consumption by metallurgical enterprises and coke-chemical plants in Russia amounted to 41– 47 mt per year
- Historically the surplus of coking coal concentrate, not consumed at the domestic market, was exported (mainly from Kuzbass to Ukraine suffering from traditional deficit of certain coal grades) and volumes within the framework of long-term contracts (from Southern Yakutiya to Japan). Exports composed 8-11mt per year*
- There was a surplus of all coking coal grades in Russia in 2009, partial exception was commercial delivery terms of the most valuable coal grades*
- The surplus of coking coal might increase considerably by 2015 due to coal production growth at existing mines and plants and production launching on new underground and open-pit mines. The main growth will be driven by valuable coal grades: baking coal and coke-forming*

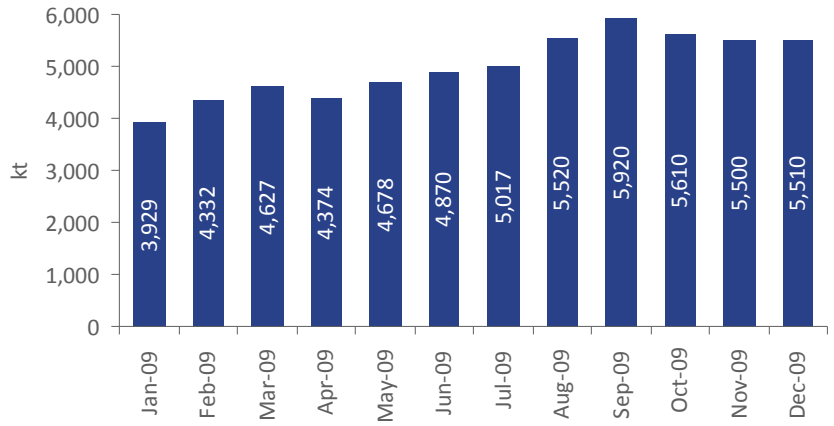
*Note: estimates of Russian Ministry of Industry and Trade for December 2009

Steel Production in Russia



Source : World Steel Association

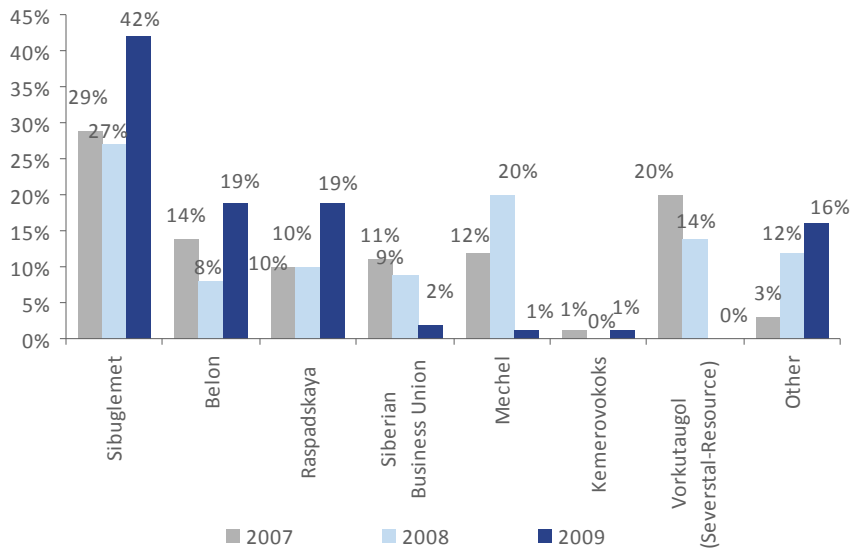
Russian Steel Production 2009



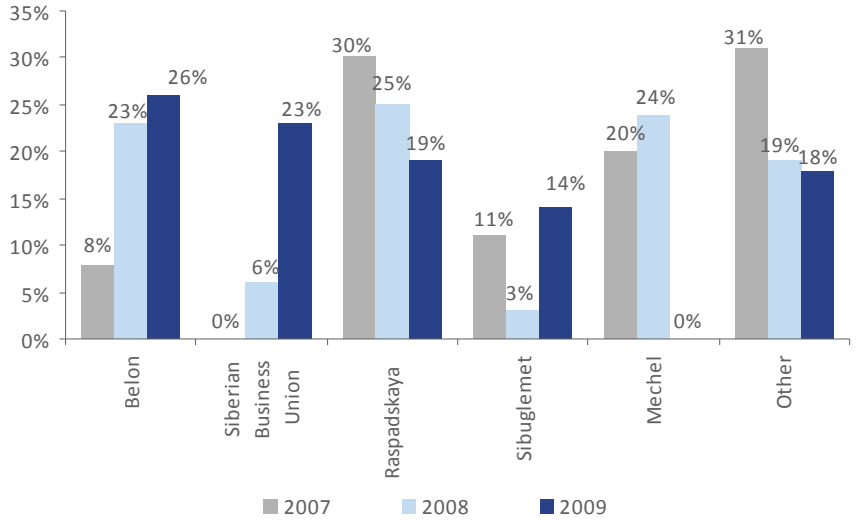
Source : World Steel Association

Coal Concentrate Supplies for Russian Steel Mills and Coke-Chemical Plants - 1

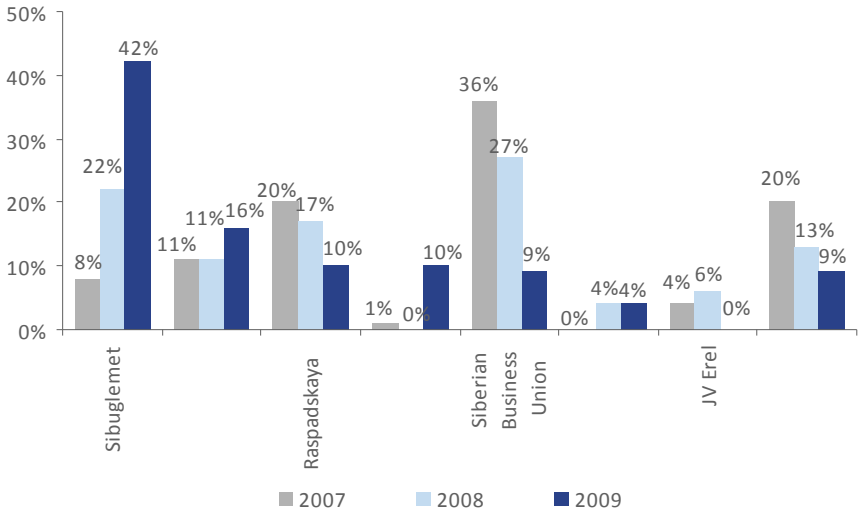
NLMK



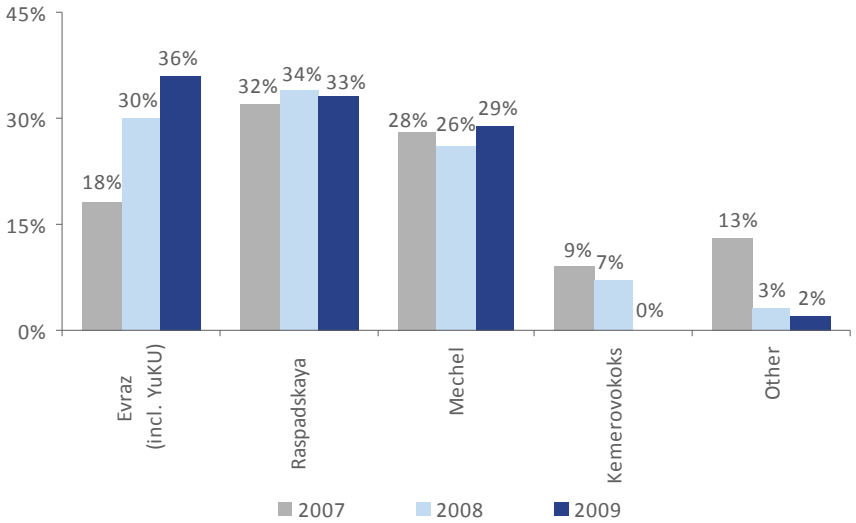
MMK



Altaykoks (NLMK)



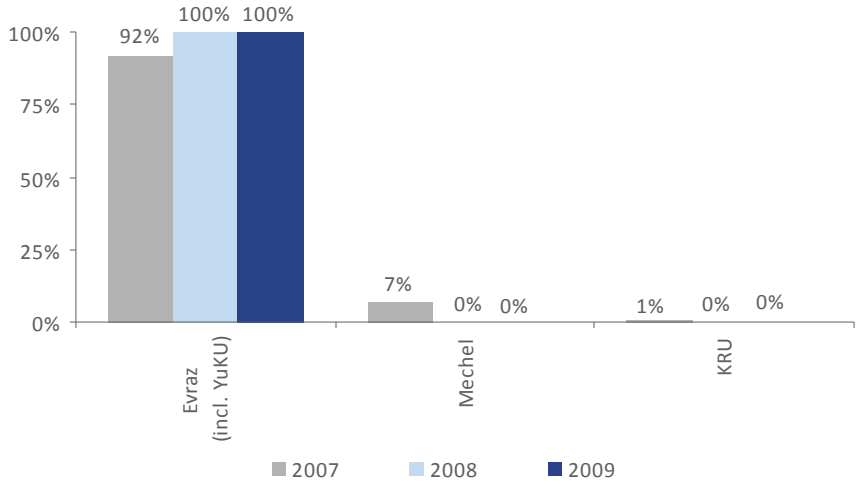
NTMK (Evraz)



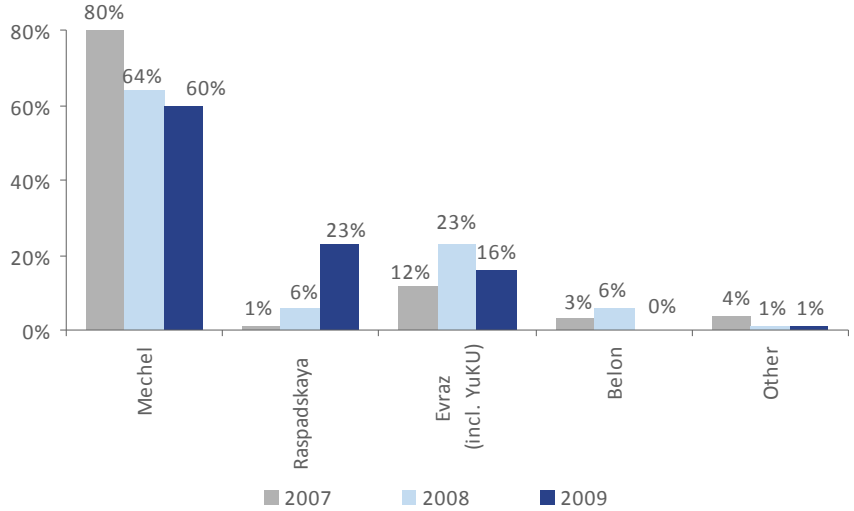
Source: Rasmin

Coal Concentrate Supplies for Russian Steel Mills and Coke-Chemical Plants - 2

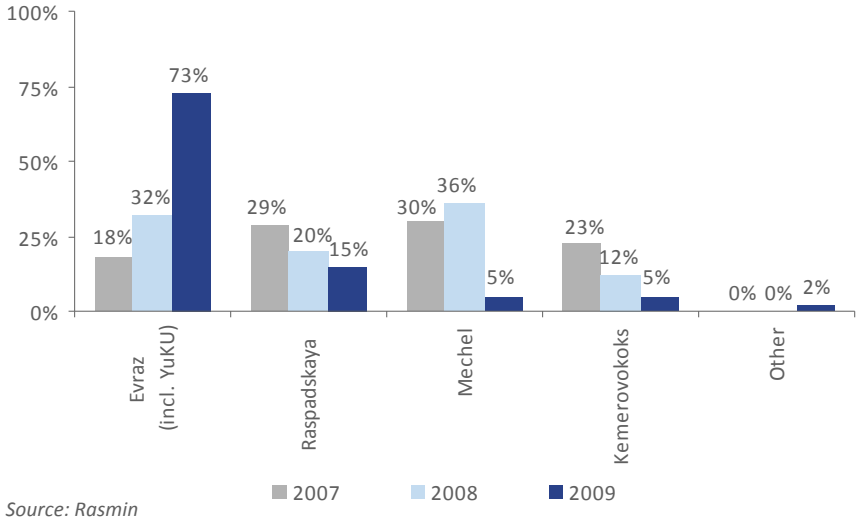
ZSMK (Evraz)



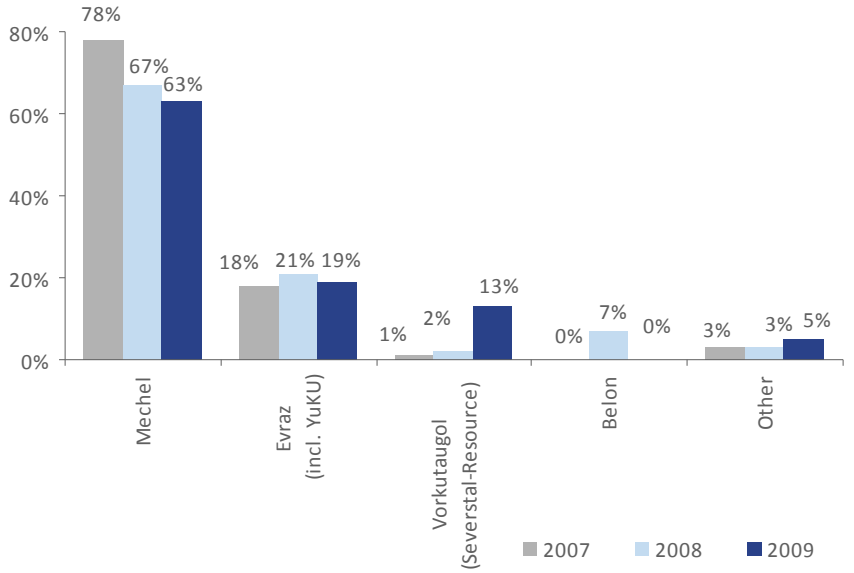
Chelyabinsk Metallurgical Plant (Mechel)



Novokuznetsk Metallurgical Plant (Evraz)



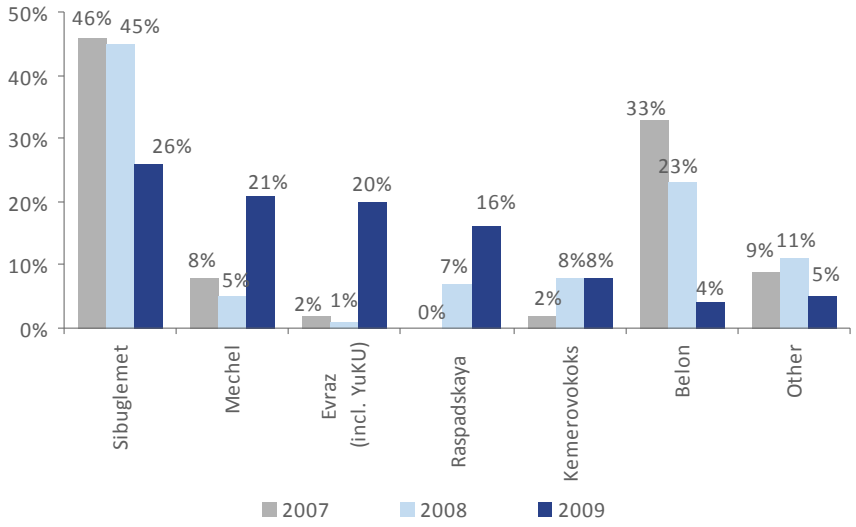
Moscow Coke and Gas Plant (Mechel)



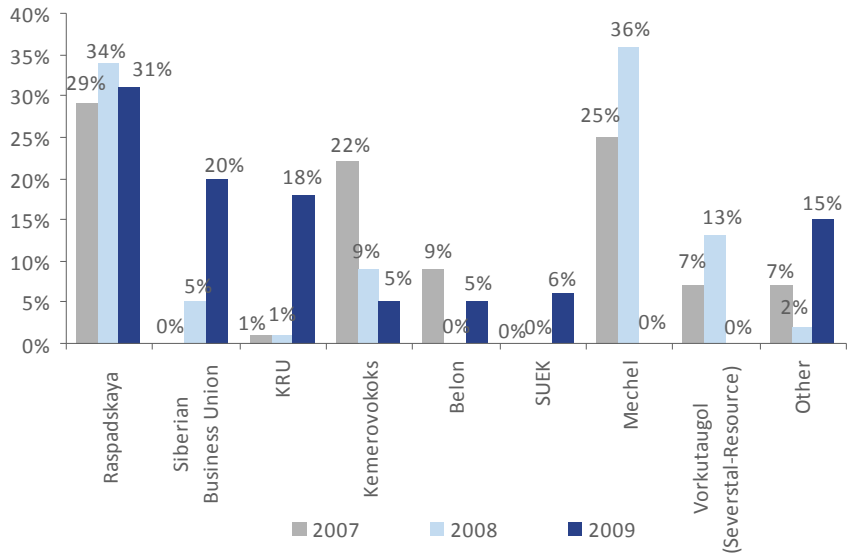
Source: Rasmin

Coal Concentrate Supplies for Russian Steel Mills and Coke-Chemical Plants - 3

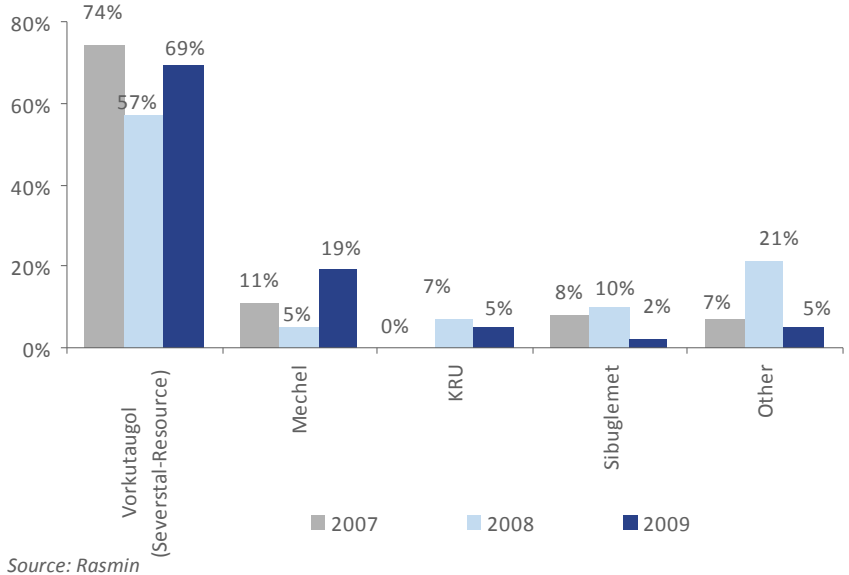
Urals Steel



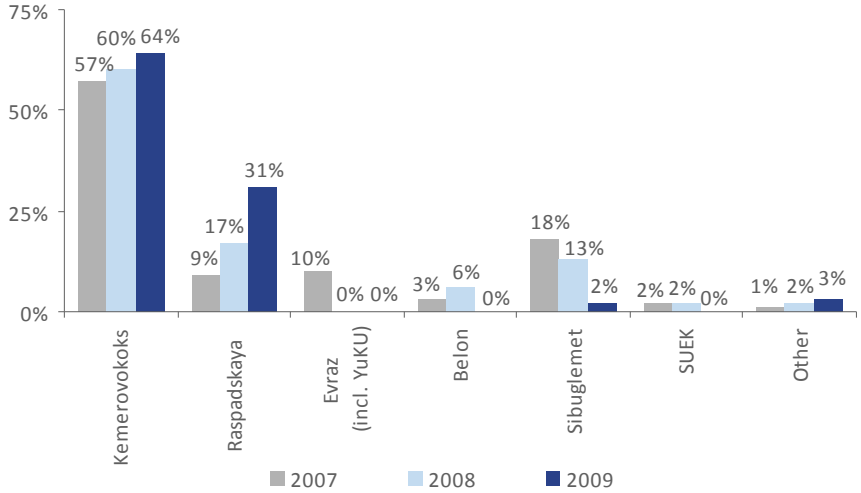
Gubakhinsky Coke-Chemical Plant



Severstal



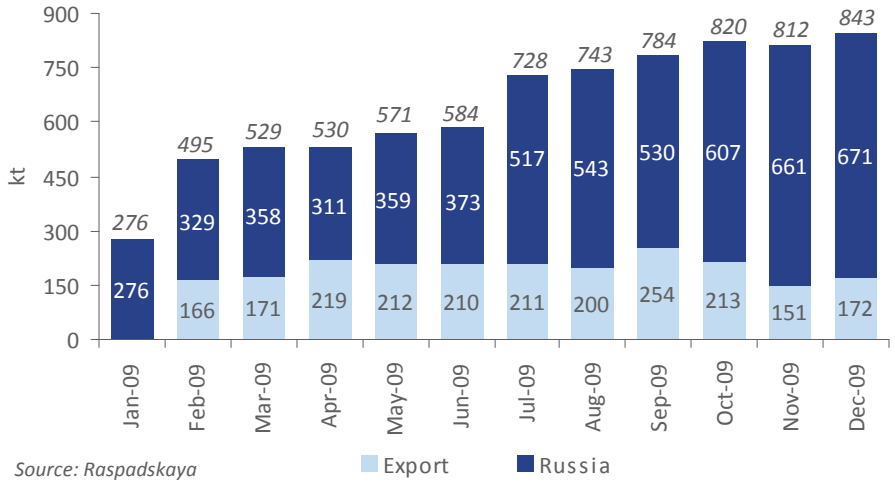
Kemerovokoks



Source: Rasmin

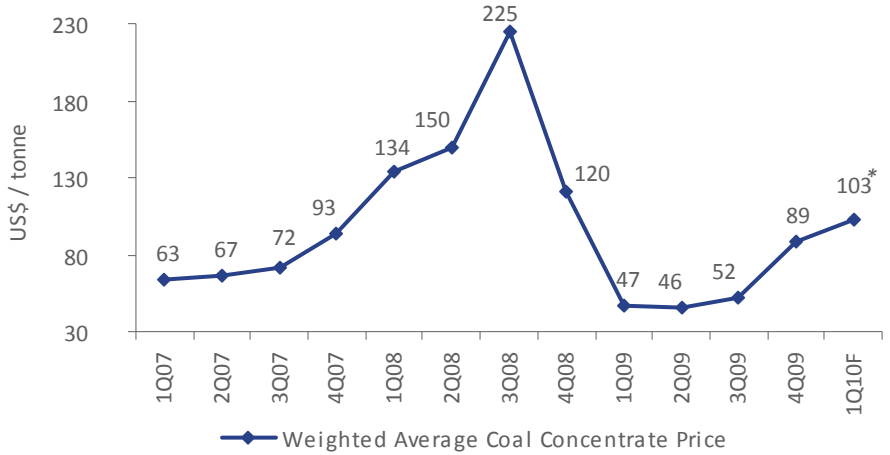
Impact of Industrial Crisis and Price Dynamics

Raspadskaya Coal Concentrate Sales



Source: Raspadskaya

Raspadskaya Coal Concentrate Price Dynamics



* For Russian sales. Average price: Jan – 2,700 RUR/t, Feb,Mar – 3,300 RUR/t

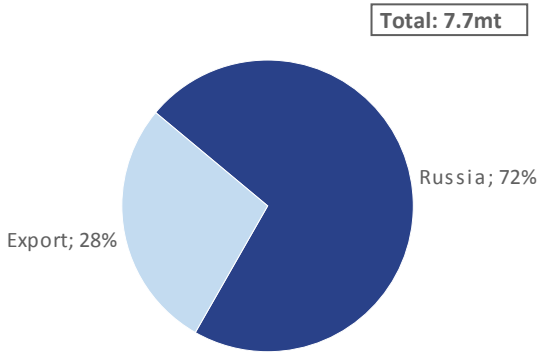
Source: Raspadskaya

- Industrial crisis started in October 2008 led to considerable fall of prices, production volumes and sales, default of long-term and annual contracts, exports sales fell to zero due to similar recession in Ukraine and disorganized communication with Asian consumers
- Starting from 2Q2009 – demand recovery, export sales revival despite internal logistics challenges
- In 2009, the Company's management achieved its previous production objectives
- In 4Q2009 and FY2009, coal concentrate sales volumes increased by 10% compared to 3Q2009 and 2008, respectively.
- During 2Q and 3Q2009, sales volumes of coal concentrate amounted to more than 100% of the pre-crisis level (3Q2008)
- During 9 months of 2009 Russian coal industry could only sell its production (coal concentrate) at price level not above 1,600-2,000 RUB (US$50-US$55) per tonne, at the same time the most topical and complicated questions were keeping safety level, preparation of coal stocks for future production, investment resources provision, maintaining industrial and financial stability, including through the new export markets launch
- In 4Q2009, weighted average price of coal concentrate increased QoQ, mainly due to Russian sales, which amounted to 78% of total sales volumes
- In 4Q2009, Raspadskaya was working with the utilization level at around 800,000 tonne of coking coal concentrate sales per month
- In 2010, Raspadskaya expects to increase its sales volumes by 10-15%, that considers gradual recovery of metallurgical industry and other related industries
- At the beginning of 2010 during negotiations of suppliers and consumers of coal production in Russia the prices were set exceeding on 15 % the level of the last quarter and on 22 % - level of the last month
- Since April 2010 there expected prices changes on the global market, at the same time the world contract system can be changed from long-term to quarterly
- The current coking coal prices at the global market reach US$200-US$240/tonne FOB Australia for hard coking coal, basically due to strong demand from China (import is about 3,5 - 4,0 mt per month. In 2009 net import of China amounted to 37.9 mt) **
- BHP Billiton has initiated sales of coking coal to customers in Japan and China under the new system of quarterly contracts. The price for the June quarter was set at $200/tonne of hard-coking coal, up from $129/tonne fixed for the 2009-10 Japanese financial year

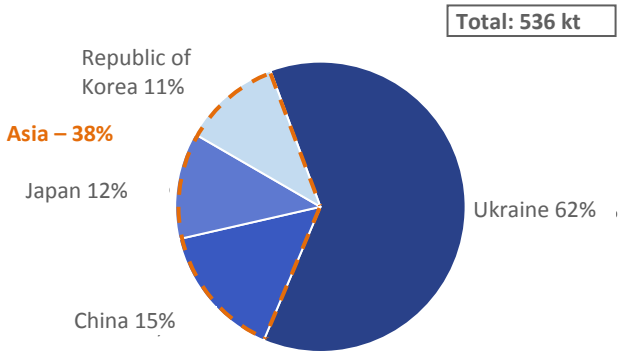
*** Source: Macquarie*

Clients Relationships is the Key Element of Coal Producers Business

Raspadskaya Sales Geography in 2009



Raspadskaya Coal Concentrate Export Sales Breakdown in 4Q2009



Source: Raspadskaya

- The following factors stimulate the focus of Russian coal industry on domestic consumers :
  - features of the Russian territorial-production complex;
  - coke quality linkage to grade composition and product of particular mining companies;
  - fast turnover of railway trains and flexible scheduling from the side of the Russian Railways and other cargo carriers;
  - reliable relationships between consumers and producers
  - improving pricing system
- Currently there is a gradual demand recovery for metallurgical products. Producers and consumers specify their medium-term development programs, taking into account industry trends, putting into operation and retirement of coking coal, coke and metal production facilities
- For long-term development of coal and metallurgical industries it is necessary to consider all negative impacts of the crisis period 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.).
- In 2009, share of coal concentrate export sales amounted to 28% of total sales volumes compared to 22% in 2008. During 2Q and 3Q2009, export sales share was even higher but was compensated by growing demand from Russian customers
- In 4Q2009, sales share on the key for Raspadskaya domestic market was 72% of total sales volumes due to Russian steel and coke production recovery
- Raspadskaya is secured with coal concentrate orders for 2010 taking into account overall demand from all key region markets
- In 2010, the Company will continue to focus on keeping its status as a reliable coal concentrate supplier for the Russian customers and at the same time maintaining high export share to Ukraine and Asia, among other things by using its well-established relationships with Far Eastern ports.

GDP Dynamics and Steel Production on Regional Coal Consuming Markets

Global Steel Production

Region	2009 mln.t	2008 mln.t	+/- 09/08 %
USA	58,1	91,5	*-36,4%*
Western Europe	115,8	166,3	*-30,4%*
Central and Eastern Europe	22,7	32,3	*-29,6%*
Inc.	0,0		
Slovakia	3,7	4,5	*-16,5%*
Romania	2,7	5,1	*-46,7%*
Hungary	1,4	2,1	*-33,2%*
Bulgaria	0,7	1,3	*-45,4%*
CIS	97,4	114,0	*-14,6%*
Inc.	0,0		
Russia	59,9	68,5	*-12,5%*
Ukraine	29,8	37,1	*-19,8%*
Asia	776,3	749,5	*+3,6%*
Inc.	0,0		
China	567,8	500,5	*+13,5%*
Japan	87,5	118,7	*-26,3%*
India	56,6	55,1	*+2,8%*
South Korea	48,6	53,5	*-9,1%*
Latin America	37,8	47,6	*-20,5%*
Others	111,5	128,6	*-13,3%*
Total world	1 219,7	1 329,7	***-8,3%***
Total world (excl. China)	651,9	829,2	***-21,4%***

Source: World Steel Association

Forecasted GDP

Region	Indicator	2008	2009П	2010F	2011F	2012F
Central and Eastern Europe, inc.	GDP, US$bn	839	814	822	847	879
	Change, %	*+4.4%*	*-3.0%*	*+1.0%*	*+3.1%*	*+3.7%*
- Slovakia	GDP, US$bn	61	58	59	60	62
	Change, %	*+6.4%*	*-5.5%*	*+1.5%*	*+2.6%*	*+3.5%*
- Romania	GDP, US$bn	121	112	113	118	123
	Change, %	*+7.1%*	*-7.5%*	*+1.0%*	*+3.8%*	*+4.6%*
- Hungary	GDP, US$bn	117	108	107	110	115
	Change, %	*+0.6%*	*-7.0%*	*-1.0%*	*+2.8%*	*+3.9%*
- Bulgaria	GDP, US$bn	33	31	31	32	34
	Change, %	*+6.0%*	*-5.3%*	*+1.0%*	*+3.4%*	*+4.4%*
Russia	GDP, US$bn	940	874	896	933	975
	Change, %	*+5.6%*	*-7.0%*	*+2.5%*	*+4.1%*	*+4.5%*
Ukraine	GDP, US$bn	102	85	86	89	93
	Change, %	*+2.4%*	*-17.0%*	*+1.0%*	*+3.6%*	*+4.8%*
China	GDP, US$bn	3,165	3,425	3,719	4,032	4,374
	Change, %	*+9.0%*	*+8.2%*	*+8.6%*	*+8.4%*	*+8.5%*
Japan	GDP, US$bn	4,719	4,428	4,484	4,531	4,582
	Change, %	*-0.7%*	*-6.2%*	*+1.3%*	*+1.1%*	*+1.1%*
India	GDP, US$bn	1,029	1,085	1,153	1,243	1,343
	Change, %	*+6.1%*	*+5.5%*	*+6.3%*	*+7.8%*	*+8.1%*
South Korea	GDP, US$bn	955	946	972	1,014	1,052
	Change, %	*+2.2%*	*-1.0%*	*+2.8%*	*+4.3%*	*+3.7%*
World	**GDP, US$bn**	**49,755**	**48,564**	**49,595**	**50,815**	**52,310**
	Change, %	***+1.8%***	***-2.4%***	***+2.1%***	***+2.5%***	***+2.9%***

Source: Economist Intelligence Unit

Coal Consumers on Regional Sales Markets

Major Steel Producer in Russia, kt

Producer	2009	2008	% change 09/08
MMK	9,652	11,945	-19.2%
Severstal	9,550	11,061	-13.7%
NLMK	8,516	8,511	0.1%
ZSMK (Evraz)	5,997	6,565	-8.7%
NTMK (Evraz)	3,896	5,190	-24.9%
Mechel	4,624	4,830	-4.3%
Metalloinvest	3,276	3,265	0.3%
OEMK (Urals Steel)	3,244	3,047	6.5%
NKMK (Evraz)	1,397	1,323	5.6%

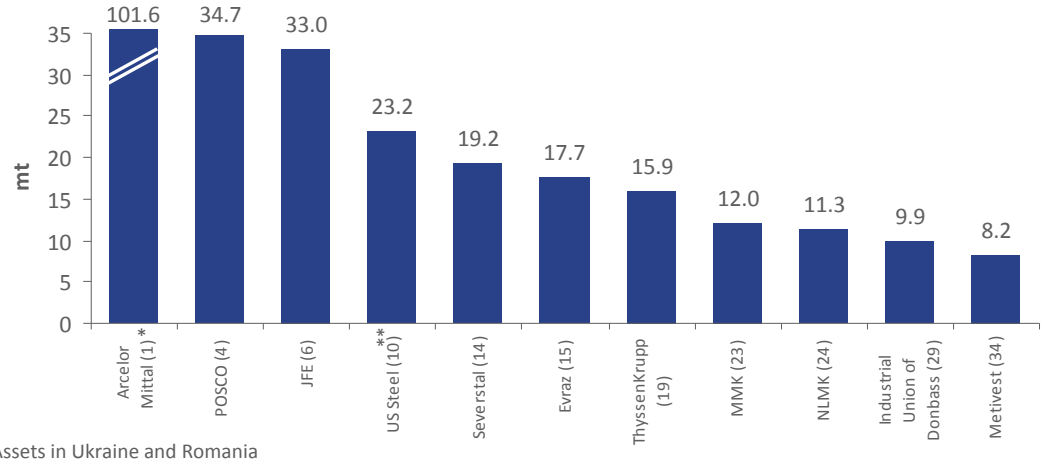
Source: MetalExpert

Major Steel Producers in Ukraine, kt

Producer	2009	% change 09/08
Arcelor Mittal Kryviy Rih	5,056	-19%
Ilyich	4,267	-24%
Azovsteel	4,653	-16%
Alchevsky MP	3,639	-17%
Zaporizhstal	3,284	-17%
Dneprovsky MP	3,455	4%
Enakievsky MP	2,382	-13%
Petrovskogo DMZ	964	-11%
Donetsk MP	521	-40%
Donetsk EMZ	530	-49%
Interpipe	313	-52%
Dneprospetsstal	258	-46%

Source: MetalExpert

Raspadskaya Clients are Among Leading Companies by Volumes of Steel Production



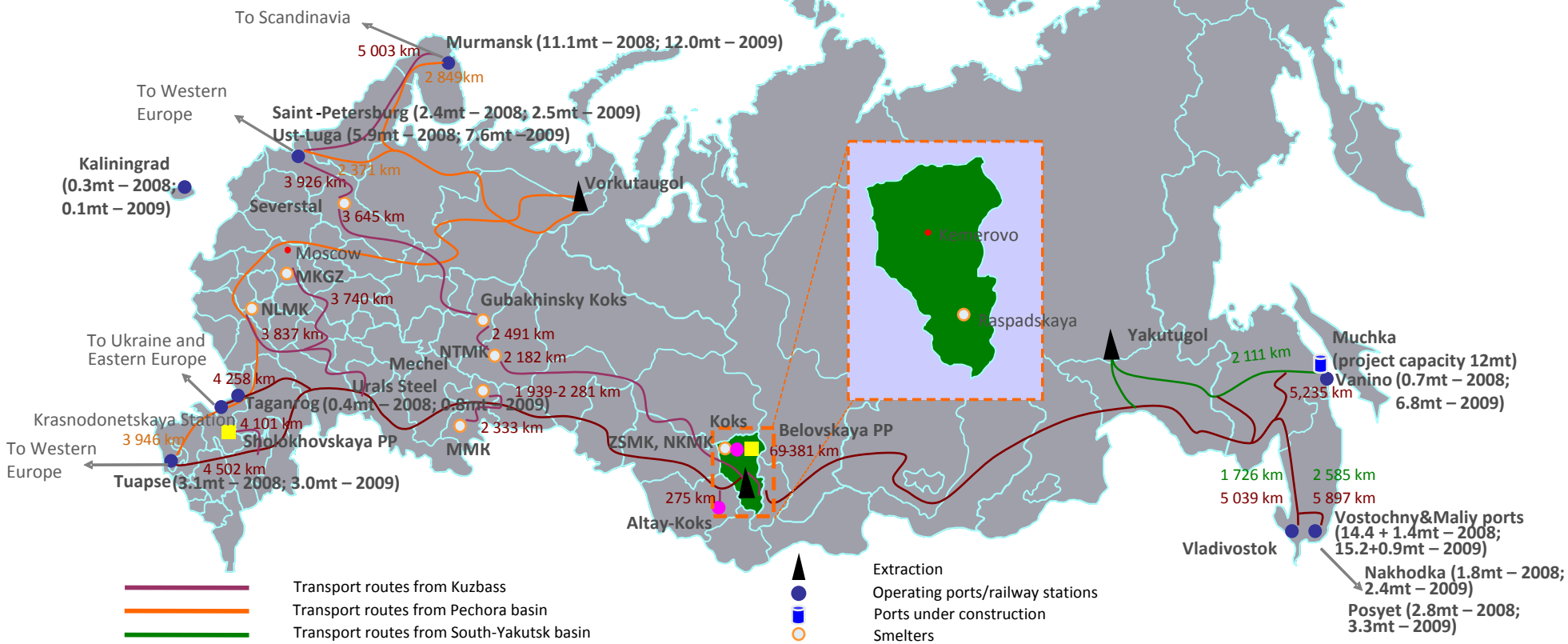
* Assets in Ukraine and Romania
** Assets in Bulgaria

Source: World Steel Association, 2008

- In 2009, steel production volumes in Russia and Ukraine decreased by about 30% and 20% YoY respectively, that proves further steel production upside potential
- Demand decrease from major clients allowed medium-sized customers to establish long-term relationships with Raspadskaya
- Partial shift of metallurgical and coke-chemical producers to export (India, China, Middle East) allowed Raspadskaya to get additional demand on its coking coal
- Contracts length (currently for a quarter) is defined mainly by customers offers, including the situation at their sales markets (coke, pig iron, steel products etc.).
- In whole, Russian coal industry is ready to work in frames of long-term contracts taking into account production facilities recovery, demand/supply balance and appropriate pricing
- The biggest global metallurgical companies as well as almost all Russian coke producers and about a half of coke producers in Ukraine currently are among Raspadskaya clients
- In frames of its medium term strategic program on client base and sales markets diversification Raspadskaya plans to maintain the following balance:
  - 10-12 clients in Russia;
  - 10-12 clients in Eastern Europe, including Ukraine;
  - 5-10 customers in Asia (Japan, S.Korea, China)

Transportation System for Coal Sales

- Russia has 2nd largest coal reserves globally and Kuznetsk coal basin accounted for 68% and 79% of total Russian coking coal output in 2009 and 2008 respectively
- Share of Russia in the global coking coal trading accounts for about 4-5% and could increase in the next 3 years. Sales in Russia are mostly on FCA terms (i.e. customers absorb railway tariff). Sea-born transportation export to Asia requires FOB competitive positions on a FOB basis at the Far East ports.
- In-Russian transportations of coal concentrate are carried out by railways with use of the state and private carriers. Vehicles are used basically for local transportations (Mine/open-pit - enrichment plant - loading station)
- Russian existing railway network and seaports remain bottlenecks in realization of coal industry strategy on export of surplus coal products that have not been consumed in Russia
- In the future turnover of foreign trade and development of long-term relations on new regional markets it will be necessary to consider all transport factors, including redistribution of railway trains between carriers, putting into operation new coal reloading facilities, land border transitions potential, interstate agreements terms realization



Note: 2008 and 2009 port tonnage for coal exports

Source: Industrial Cargo

Competition on Regional Markets – Factors of Influence-1

Pricing

- Increasing impact of world market prices
- Historical and predictable timing for new prices negotiations (December-January – for Russia, March-April – for Asia)
- Impact of short (quarterly) contracts with maximum consideration of spot market prices
- Backup of volumes for spot markets and clients
- Taking into account stock market indices
- Export parity and system of premiums and discounts for coal concentrate, keeping export advantages for downstream products (coke, pig iron, metal production)
- Use of quality Russian coal in a mix with high quality Australian coal makes a system of discounts for quality more flexible
- Competition of main coal production regions (CIS, Australia, North America)
- Calculation of price advantages on all world trade delivery bases (FCA Siberia, FOB Far East, DAF Ukrainian border, CIF Asian-Pacific region ports)

Contractual Relations between Producers and Consumers of Coal Production

- Long-term contracts priority
- Extra volumes competition through contracts length
- Consumption trends of developing (Russia, Ukraine, Japan, South Korea, Eastern Europe) and emerging (China, India) markets
- Taking into account a situation of contract execution refusals during the industrial crisis
- Additions to force majeure description
- 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

Competition on Regional Markets – Factors of Influence-2

- **Corporate / Commercial Partnerships**
  - Delivery guarantees to suppliers through delivery contracts of customers (as an example, increase of coal concentrate purchase volumes by Kemerovo-Koks by having an export contract for coke delivery to India)
  - Evidence of partnerships logics through indirect presence on hard accessible markets (Russia – India, Russia – Western Europe through Ukraine, Russia – Brazil through Asia)
  - Use of advantages of self port facilities through production volumes guarantees and port tariffs regulations (Far East ports)
  - Transnational industrial holdings and raw materials provision (Russia – Ukraine, Ukraine – Russia, Ukraine – Russia – Kazakhstan – Eastern Europe, Asia – Russia)
  - Existing trend of searching for responsible and flexible Russian suppliers instead of traditional Australian counter partners by Asian customers

- **Logistics**
  - Constant predictable / budgetary increase of tariffs of OAO “RZhD” and its subsidiaris
  - Railways bottlenecks, taking into account a wide variety of competing products (coking and thermal coal, coke, pig iron, metal production, mineral fertilizers, oil and oil products)
  - Commitment for cargo volumes and terms of delivery through interstate agreements
  - Border trade potential with cost saving on transportation and ports (Russia-China, Mongolia – China)

- **Administrative Resources**
  - Availability/implementation of import/export duties (with validity period not less than 9 months according to legislation)
  - Regulation of a ratio between local and foreign prices
  - Mutually beneficial cooperation of government and coal industry in terms of foreign trade through volumes increase, reasonable tariffs policy and insurance against overproduction

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Operational Measures and Strategy of Raspadskaya as Coal Industry Leader

Production Policy	▪ Maintain production capabilities and increase output under favourable market conditions ▪ Extension of coal grades assortment in the medium-term ▪ Guaranteed support of output plans by licenses, enrichment facilities, drifting and transportation facilities ▪ Possibility consideration of selective assets acquisitions in accordance with mining and geological conditions and further business growth potential criteria
Sales Policy	▪ Priority to long-term relations with strategic customers ▪ Diversification of client base ▪ Maintain optimal balance between domestic and export sales ▪ Focus on export share increase in the short-term period ▪ Keeping historically high share of Russian export sales to Ukraine ▪ Expansion of export geography due to customers in Europe and especially in Asia (main international coal sales market) ▪ Improving of contract relations with clients ▪ Strengthen competitive positions due to modern production and infrastructure, stability of supply and quality of production ▪ Constant attention to transportation and products transhipment
Financial and Economic Policy	▪ Cost control toughening, reduction of fixed costs share, keeping production and coal sales costs at competitive level for all regional markets ▪ Keeping of business high level profitability, that is vital for maintenance of operating production and long-term development (through mining-capital works, timely stocks preparation considering difficult mining-geological factors, equipment modernization, that supports infrastructure) ▪ Maintain optimal balance between investments in production maintenance and perspective industrial development ▪ Maintain high liquidity and optimal capital structure ▪ Control of accounts receivable and accounts payable
Social Responsibility, Shareholder and Investor Relations	▪ Constant attention to staff health protection, safety discipline and environmental protection ▪ Retention of highly qualified personnel while keeping the number of employees at optimal level ▪ Realization of social-economic partnership agreements with regional authorities and industrial labour unions ▪ Policy of building long-term relations with existing and potential shareholders, continue to pursue the policy of disclosure of material information, perfection of corporate governance procedures

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Industrial & IR Calendar for January-April 2010

Period	Event	Location
14th January	4Q2009 and full 2009 preliminary operating results announcement	Moscow, Mezhdurechensk
January-March 2010	Mid-term strategic program update	Mezhdurechensk
3rd-5th February	Troika Dialog Russia Investment Forum	Moscow
10th February	Signing of annual agreement with Kemerovo Region Administration about social-economic cooperation	Kemerovo
18th-19th February	XV Annual Summit of Adam Smith Institue «CIS Metals»	Moscow
1st March	Site visit to Raspadskaya production assets for sell-side analysts	Mezhdurechensk
10th-12th March	VI International Conference “CIS Coal 2010"	Ukraine, Alushta
Mid April	FY2009 IFRS Financial Results, 1Q2010 preliminary operating results	Moscow, Mezhdurechensk
2nd half of April	Investment meetings and conferences organized by Russian and foreign banks	London

Contacts

Alexander Andreev
Deputy General Director
for Strategic Planning
tel.: +7 (499) 147 15 17
andreev@raspadskaya.ru

Marina Badudina
Head of Investor Relations
tel.: +7 (499) 147 15 17
mbadudina@raspadskaya.ru

www.raspadskaya.com