SUEK in the coal market:

strategic challenges and recent developments in Far East region

November, 2009   **Anna Belova, Deputy CEO**
Strategy and Corporate Development Director

SUEK Highlights

- Company
  - SUEK is the No.1 coal producer in Russia and in top 10 globally
    - 91.1 mt of coal produced in 2008
    - Proven and probable reserves of 5.4 bt as of 1/1/2007 [1]
  - SUEK is one of the largest investors in Russian power sector with controlling and blocking stakes in 3 power companies in Siberia and the Far East with total installed capacity of 12.7 GW

- Coal Business
  - SUEK's core business is thermal coal production and distribution
  - In 2008, the Company sold 67.5 mt of coal in Russia and exported 28.2 mt
  - The principal consumer of thermal coal in Russia is the power generation sector, accounting for 74% of SUEK's domestic sales volume in 2008
  - Export customers include leading power generating and other industrial companies and well-established investment grade houses located in more than 30 countries

- Power Business
  - SUEK investments in power assets create additional opportunities for synergy in coal business
  - 38% of SUEK's total 2008 domestic sales volume was consumed by power companies related to SUEK
  - Value of the Company's power assets is predicted to grow going forward as a result of market growth and liberalisation of the electricity sector in Russia
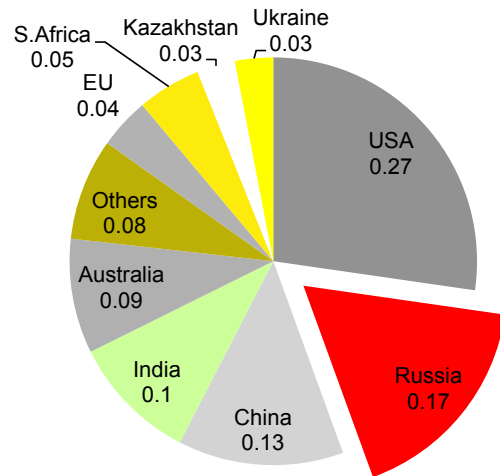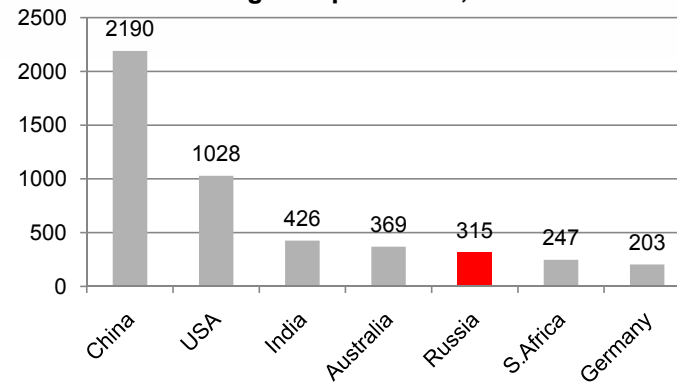
[1] Per SRK Consulting Report as of 1/1/2007.

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Russia on world coal market in 2008

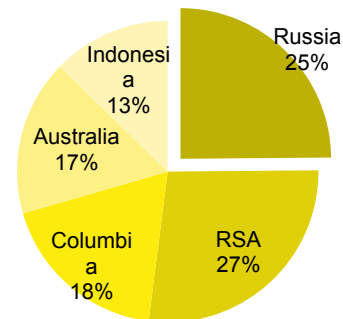**Russia has the second largest coal reserves in the world but is only the fifth largest coal producer**
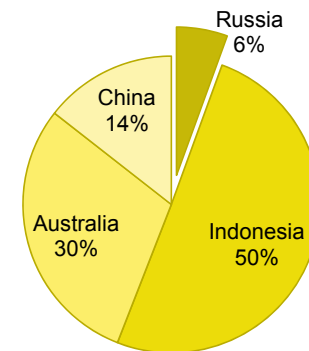
World coal reserves distribution

- S.Africa 0.05
- Kazakhstan 0.03
- Ukraine 0.03
- EU 0.04
- USA 0.27
- Others 0.08
- Australia 0.09
- India 0.1
- China 0.13
- Russia 0.17

Leading coal producers, mln. t

China	USA	India	Australia	Russia	S.Africa	Germany
2190	1028	426	369	315	247	203

European seaborne market

- Indonesia 13%
- Australia 17%
- Columbia 18%
- RSA 27%
- Russia 25%

Asian seaborne market

- Russia 6%
- China 14%
- Australia 30%
- Indonesia 50%

Small share but significant potential on Asian market if the logistics constraints are overcome

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Global trends: focus on Asia

Asian market will growth dramatically
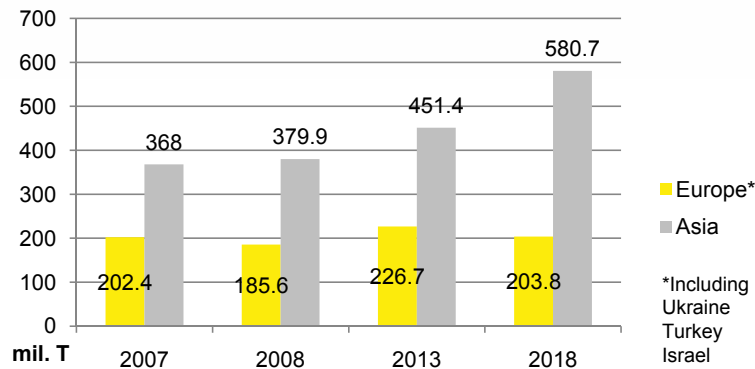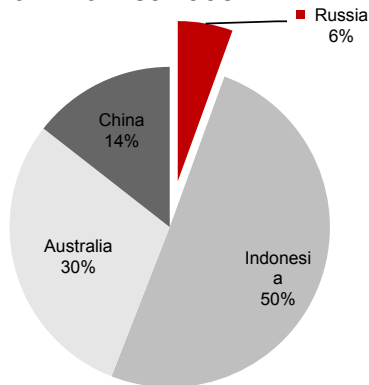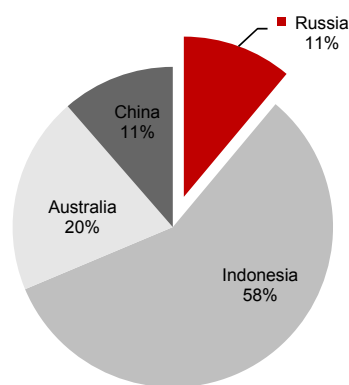

Source: Wood Mackenzie

- Asian market will grow rapidly during next decade
- European markets will have stable demand
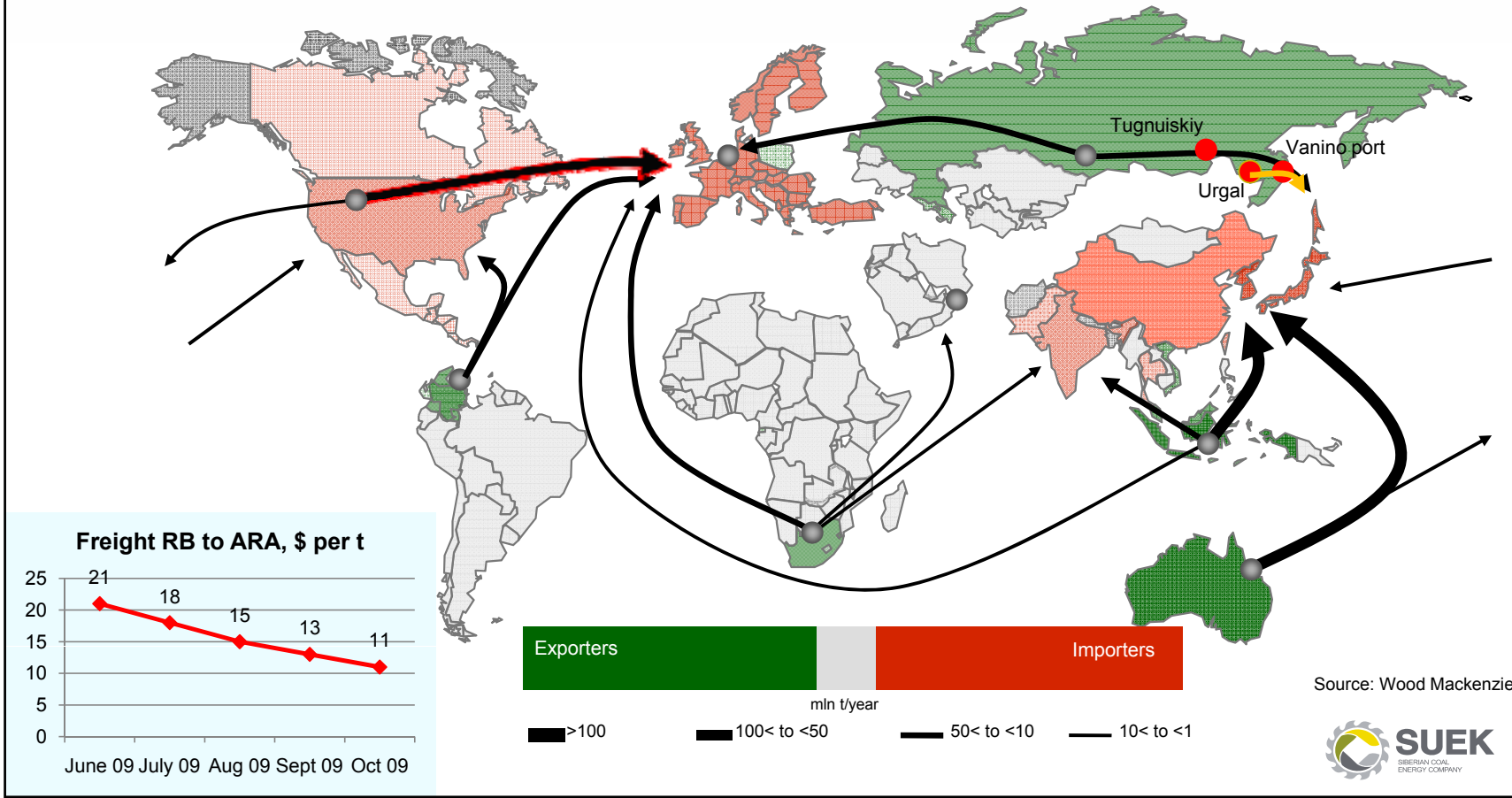- Russian companies will increase their share on Asian markets

Asian market is a key strategic choice for Russian coal companies.

Asian market 2008

Asian market 2018

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Sourse: Wood Mackenzie

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Global trends: cheap freight increase global competition. Focus on cash costs and efficiency.

Decline in freight price will increase global competition. American coal could be shipped to Europe.

Tugnuiskiy

Vanino port

Urgal

Freight RB to ARA, $ per t

21
18
15
13
11

25
20
15
10
5
0

June 09　July 09　Aug 09　Sept 09　Oct 09

Exporters		Importers

mln t/year

>100　　　100< to <50　　　50< to <10　　　10< to <1

Source: Wood Mackenzie

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Global trends: low gas price

Historical gas supply in USA

US gas price $ per mln BTU
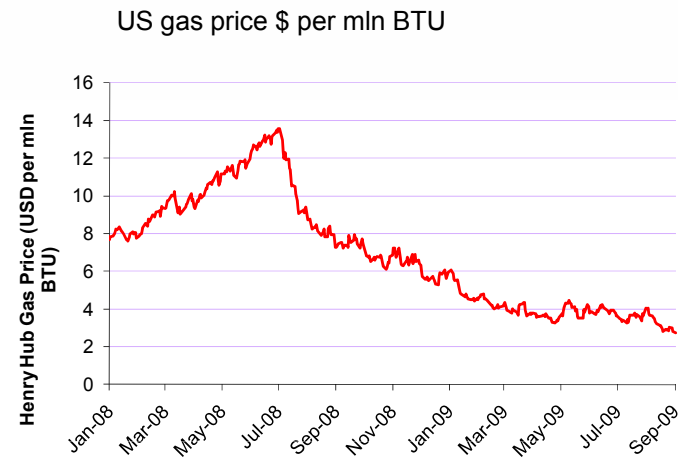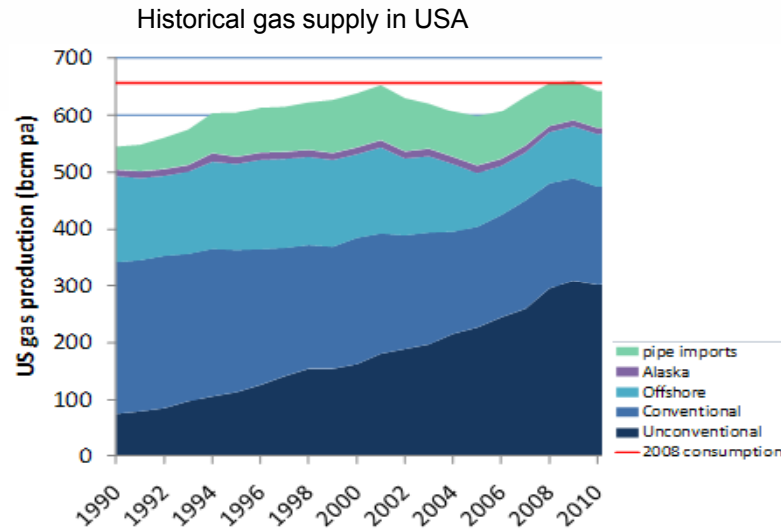
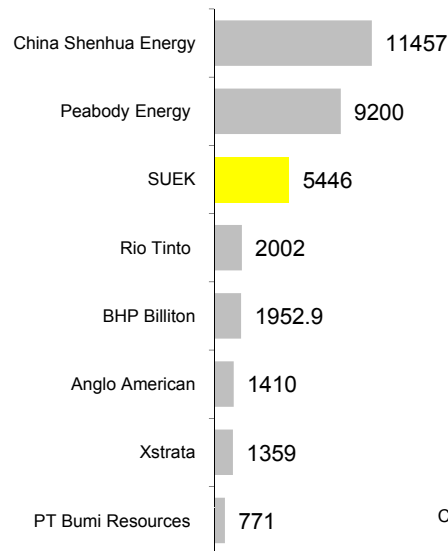❑ **Shale gas technology breakthrough has accelerated over past year. USA has doubled shale gas production in last decade. Europe is coming.**

❑ **Global oversupply of natural gas has dropped gas prices. CERA predicts no serious recovery in gas price before the end of 2010.**

❑ **In same cases coal prices could be depressed by low gas prices and wouldn't grow in recent years.**

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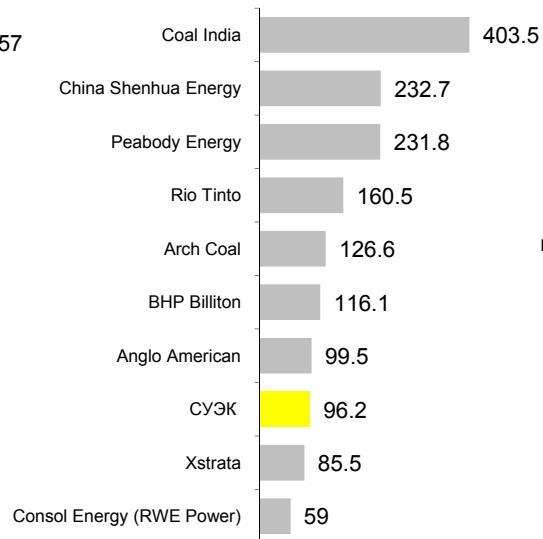**SUEK**
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SUEK in global market

- No.3 global reserve holder with proven and probable reserves of 5.4 bt[1]

- No.8 global thermal coal producer based on production

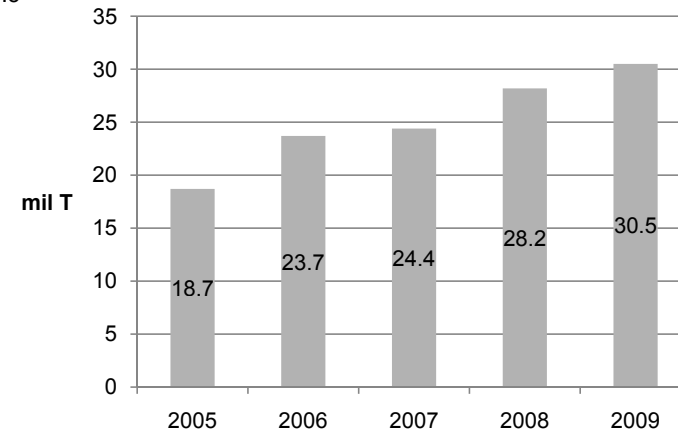- No.7 market position in global export thermal coal market

Reserves, 2008
In millions metric tonnes

Company	Value
China Shenhua Energy	11457
Peabody Energy	9200
SUEK	5446
Rio Tinto	2002
BHP Billiton	1952.9
Anglo American	1410
Xstrata	1359
PT Bumi Resources	771

Production, 2008
In millions metric tonnes

Company	Value
Coal India	403.5
China Shenhua Energy	232.7
Peabody Energy	231.8
Rio Tinto	160.5
Arch Coal	126.6
BHP Billiton	116.1
Anglo American	99.5
СУЭК	96.2
Xstrata	85.5
Consol Energy (RWE Power)	59

SUEK Thermal Exports
In millions metric tonnes

mil T

Year	Value
2005	18.7
2006	23.7
2007	24.4
2008	28.2
2009	30.5

Source: Companies' filings.
(1) Proven and probable reserves, SRK Consulting as of 01.01.2007 for SUEK.

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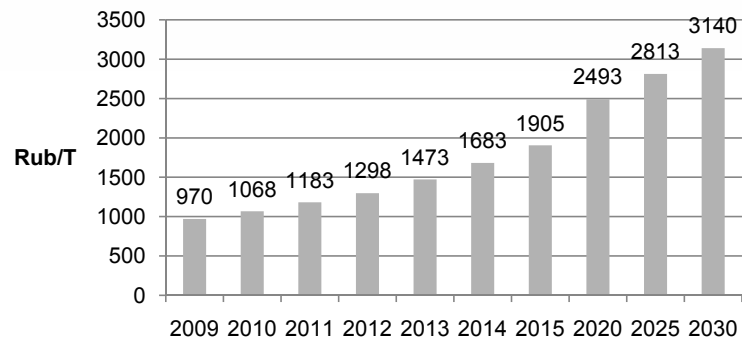**© ERINA**

Trends on Russian coal market

Russian State Energy strategy was accepted on 27 August, 2009

- Decrease gas share in energy balance

- Liberalize gas prices inside Russia

- Increase coal share in energy balance

- Government support to clean coal technologies

Russian CPT coal price

Rub/T

Bars: 970 (2009), 1068 (2010), 1183 (2011), 1298 (2012), 1473 (2013), 1683 (2014), 1905 (2015), 2493 (2020), 2813 (2025), 3140 (2030)

Coal production in Russia, mln T

Bars: 326 (2008), 350 (1 stage), 410 (2 stage), 470 (3 stage)

Russian coal production and coal prices in going to increase according government strategy

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Trends on Russian coal market

Energy balance

Stage	Coal	Others	Natural Gas
1 stage	17%	31%	52%
2 stage	18%	31%	51%
3 stage	19%	36%	45%

- Coal
- Others
- Natural Gas

Energy consumption

Bil. Kwh

Stage	Value
1 stage	1100
2 stage	1417
3 stage	1952
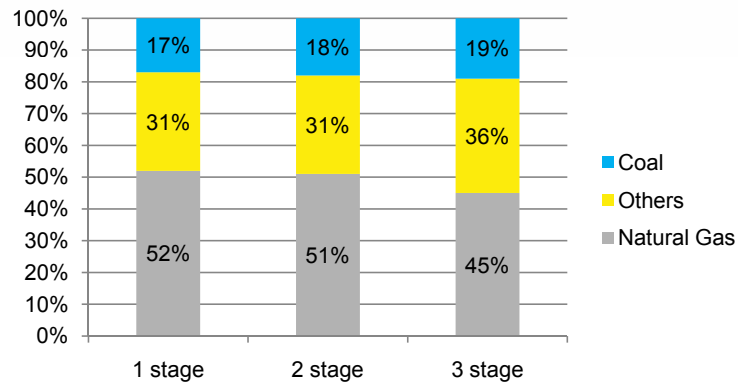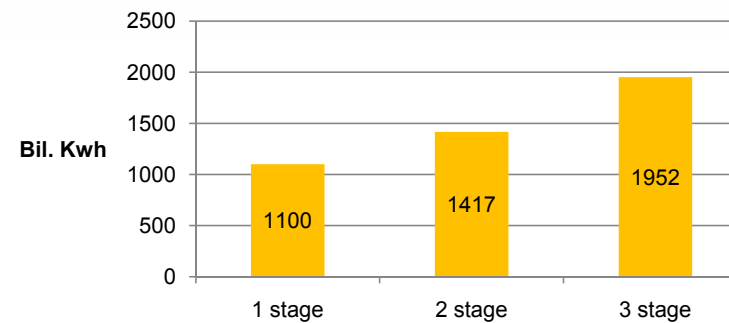
Coal consumption by thermal power plants, mln.

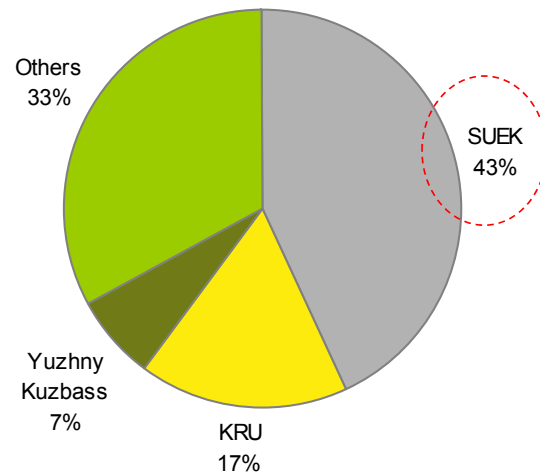| Stage	Value
2008	79
1 stage	101
2 stage	137
3 stage	185
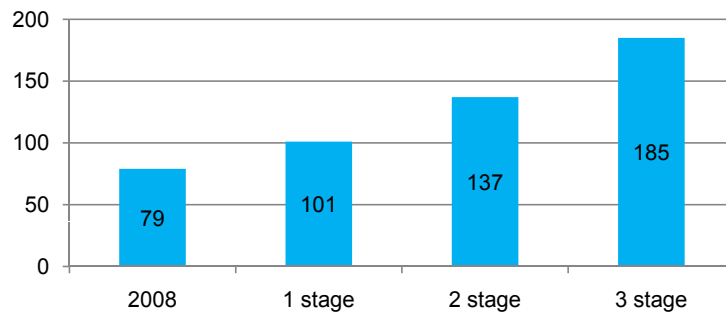
Russia is going to modernize economics in innovation way and make infrastructure for future growth.

Active development of coal generation is high prospective for coal mining industry in Russia

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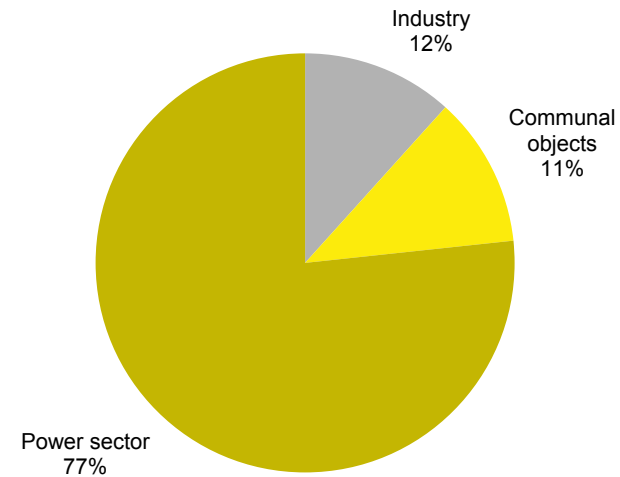**SUEK**
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SUEK Position in Russia

- SUEK is No.6 in total fuel production in Russian in 2007
- SUEK's share in Russian power generation is 7% with total installed capacity of 12.8 GW
- SUEK is No.1 in Russian domestic coal market – 28% of Russian coal production and 43% of steam coal

Russian Thermal Coal Market
Total Supply: 144.3 mt[1]

Major SUEK Customers in Russia

Others
33%

SUEK
43%

Yuzhny
Kuzbass
7%

KRU
17%

Industry
12%

Communal
objects
11%

Power sector
77%

10　　　(1) Excluding import from Kazakhstan (21.3 mt)

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Key threats and challenges

1 — Electricity consumption in Russia and worldwide can be lower than planned as a result of financial crises

2 — Postponing of the new coal fired power plants construction or fuel switch for the new generation from initially planned coal to gas

3 — Real growth of gas prices lower than projected, thus gas generation remains competitive to coal

4 — Logistical constraints, including sea ports and railways

5 — Growing concerns of environmental implications of increasing coal generation

6 — Competitive cash costs

7 — Debt cost and availability

8 — Ruble strengthening is negative for coal exporters

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Environmental concerns of the industry are on the agenda

Historic low focus on ecology due to:

- Vast availability of cheap fuels, especially gas

- Predominant use of gas in powergen with 50% CO_2 compared to coal

- Predominant use of CHP generating lower CO_2 emissions

- Reduction in Russian emissions in 1990s so only now reaching Kyoto 1990 benchmark

- Russian coal is low in sulphur so low SO_2 emissions

- Lack of available Kyoto credits to finance ecology investment

Huge potential of clean coal technologies application:

- Coal mine degasification

- Coal bed methane

- Underground coal gasification

- Bricketting, enrichment etc

- CTL

- Enhanced combustion technologies

- UES enhanced thermal efficiency programm

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SUEK in the Far East

OAO «Primorskugol»
Coal extraction 4,7 mt, more than 3000 empl.
Vanino Port Terminal
Cargo turnover – 12 mt of coal p.a.
OAO «Urgalugol»
Coal extraction 2,3 mt, more than 2000 empl.
34% a share in OAO «DEK»
16 power stations with installed capacity 5840 MWt

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SUEK meeting challenges– Vanino Port Terminal

Description

- SUEK is completing construction of a coal terminal in the Vaninio Port (Muchke Bay)

- Vanino construction began in 2005 in order to provide capacity for export sales and decrease the risk of non-controlled growth of transhipment costs

- Vanino Terminal main characteristics
  - Cargo turnover – **12 mt** of coal p.a. with potential to increase to **24 mt** p.a.
  - Terminal capacity allows for long-term storage and transhipment of coal directly from railway to sea vessels with 25-170 ths t carrying capacity

- In the first quarter of 2009, total volume of coal transshipment in Vanino reached 370 th t
  - Total 2009 transshipment volume is expected to reach 6 mt, increasing to the full capacity of 12 mt p.a. by 2011
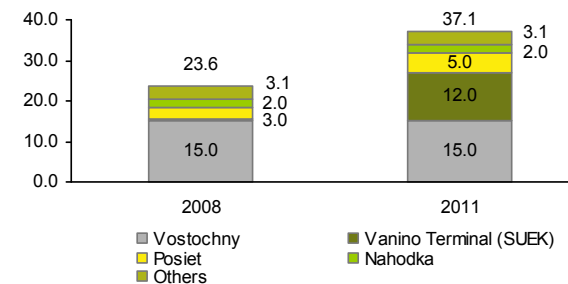
Geography

Russian Far East Ports' Capacities, mt / year

- Vanino will be the second largest coal port in Russia by 2011 with the potential to become No.1 in the long-term

Far East Ports, mt

	2008	2011
Others	3.1	3.1
Nahodka	2.0	2.0
Posiet	3.0	5.0
Vanino Terminal (SUEK)		12.0
Vostochny	15.0	15.0
Total	**23.6**	**37.1**

Legend: Vostochny, Vanino Terminal (SUEK), Posiet, Nahodka, Others

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SUEK meeting challenges – Tugnuiskiy opencast

- Tugnuiskiy opencast, located in Buryatia and Chita Region, is an important mine within SUEK, with hard coal reserves of 120 mt [1] and 2008 production of 5.8 mt. Nikolskoe minefield with 274 mt proven reserves is close to Tugnuiskiy opencast.
  - 2/3 of production is exported to Asia

Production, mln.t

15
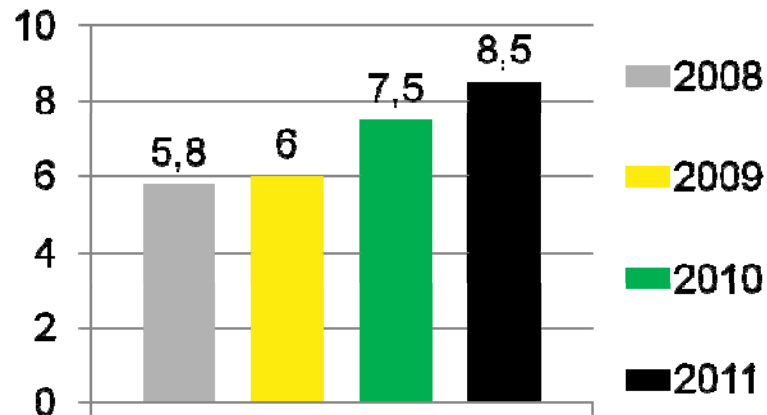
SUEK meeting challenges – Tugnuisky Washing Plant

Description

- To increase exports, SUEK commissioned building of a new washing plant investing over US$50m to date

- Construction of the washing plant will allow to decrease ash, moisture and sulphur levels and increase calorific value of the coal produced by the Tugnui mine

- These improvements will significantly improve coal quality and further increase its desirability in the export market

- Plant's capacity is 4.5 mt of coal per year

Tugnuiskiy Washing Plant

Source: Company.

Coal Quality – Tugnuiskiy Opencast

	Coal Class	Moisture	Ash	Sulphur	Calorific Value, Kcal/kg
Current – 2008	Hard	9.2%	19.3%	0.39%	5,350
Planned – 2010	Hard	8.9%	15.4%	0.36%	6,450

Key Operational Indicators – Tugnui Mine

| Resources, mt [1]	Proven and Probable Reserves, mt [1]	2008 Prod-n, mt	2008 Export, mt	Share owned, %	License expiry
181	120	5.8	3.9	100%	31/12/17

(1) Per SRK Consulting report as of 1/1/2007.

(1) Per SRK Consulting report as of 1/1/2007.

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SUEK meeting challenges – Urgal mine

Description

- Urgal mine field has coal reserves of 405mt [1] and 2008 production of 2,3 mt

- Located in Khabarovsk region

- Investments into increase of coal extraction on Urgal mine and into port Vanino have created new prospects for exports increase

Production, mln.t
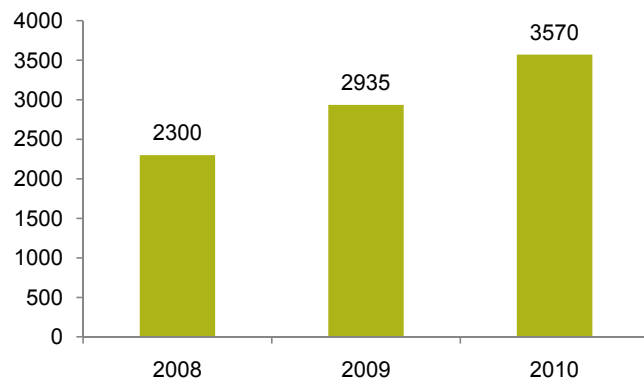
Source: Company.

Coal Quality – Urgal mine

|	Coal Class	Moisture	Ash	Sulphur	Calorific Value, Kcal/kg
Current – 2008	Hard	9.2%	34%	0.2%	4680
Planned (after building of washing plant)	Hard	9.0%	18%	0.2%	6000

Key Operational Indicators – Urgal Mine

Resources, mt [1]	Proven and Probable Reserves, mt [1]	2008 Prod-n, mt
452	405	2,3

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SUEK's Integrated Management System

In early 2008 the Company's top management resolved to have an integrated management system meeting ISO 9000, ISO 14000, OHSAS 18000 international standards developed and deployed at SUEK enterprises

In 2009 head office and the biggest enterprises in mining and energy sector were certified.

The certification on international standards ISO 9000, ISO 14000, OHSAS 18000 laid the foundation of management systems integration within SUEK.

SUEK's Integrated Management System
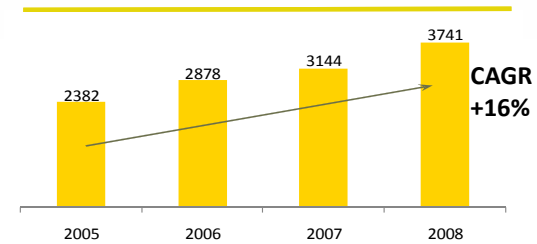
18
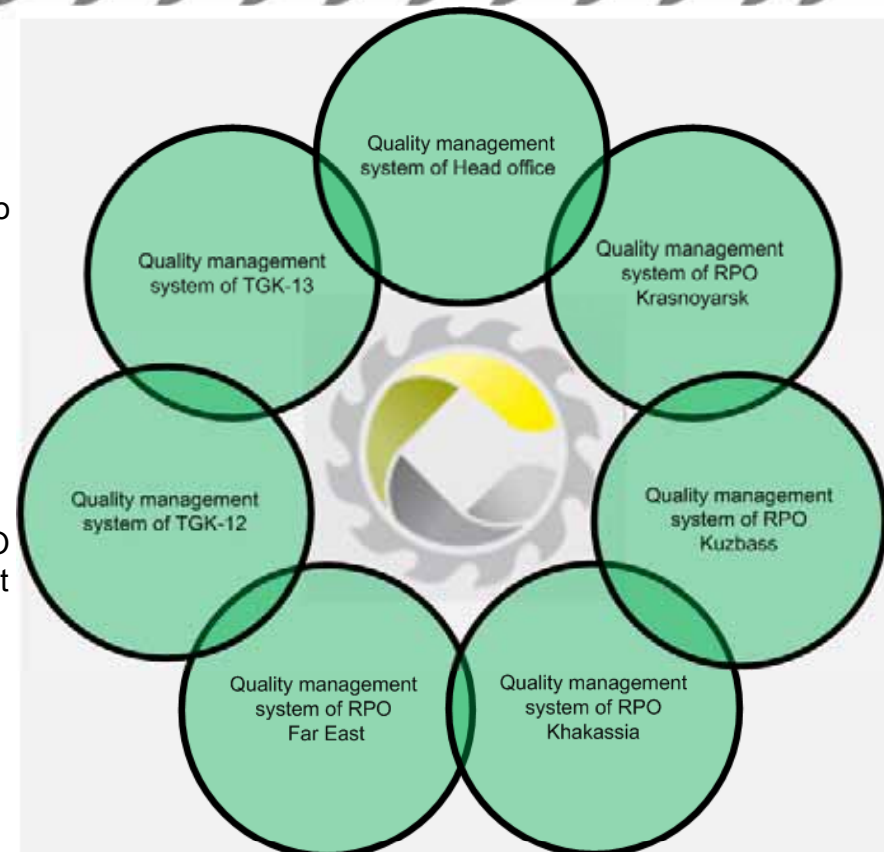
SUEK's Integrated Management System

At the moment, the following documents regulate the integrated management system at SUEK:

- **Quality Policy In mining sector**

- **Quality Policy In energy sector**

- **Environmental Policy**

- **Industrial Safety and Labor Protection Policy**

The integrated management system determines procedures of the Company's governance and improvement of operation as related to the quality of products, environmental footprint, and ensuring occupational health and safety.

In future, further development, deployment and certification of integrated management systems at all enterprises of SUEK will help ensure consistent management approaches and continuous improvement of the Company's operation in the defined areas.

Labor efficiency, tons/employees/year

Year	Value
2005	2382
2006	2878
2007	3144
2008	3741

CAGR +16%

Labor efficiency in comparison to other companies, tons/employees/year

Company	Value
СУЭК	3741
Кузбассразрезуголь	2316
Сибуглемет	2040
Мечел	1488
Евраз групп	1128
Русский уголь	900
СДС	876
Северсталь	660

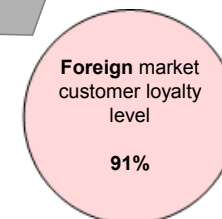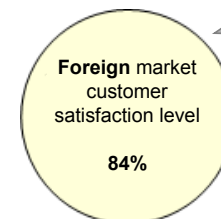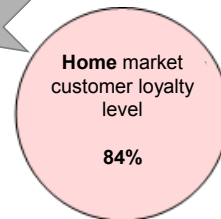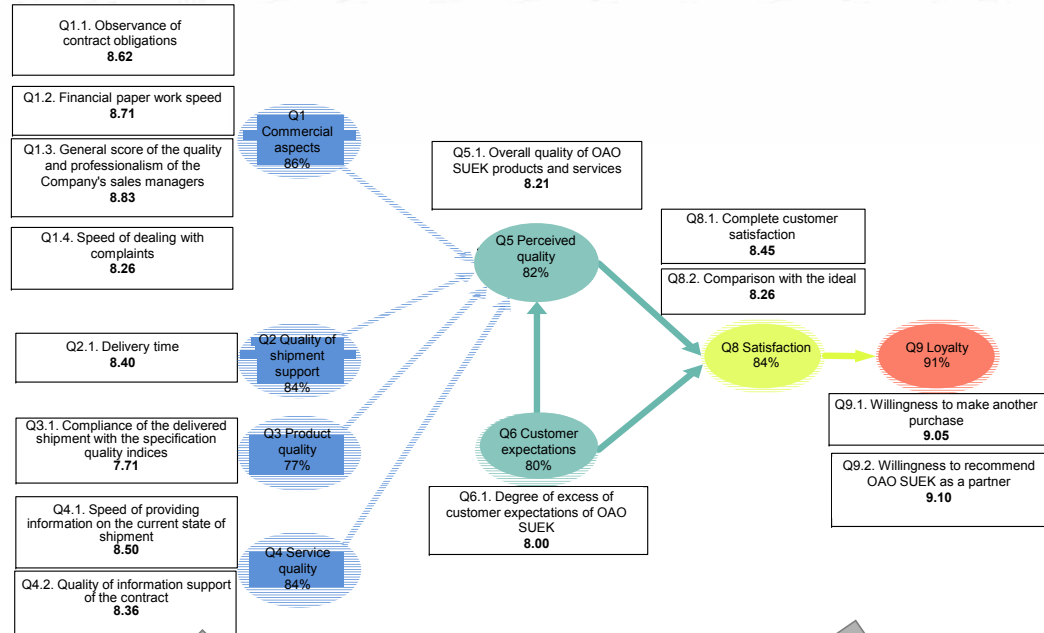19

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Customer Satisfaction Index

A regular practice at OAO SUEK is monitoring the customer satisfaction index using ACSI methodology.

The Company regularly monitors the customer satisfaction at home and foreign markets.

The methodology helps to track information on the products as perceived by SUEK customers, levels of their satisfaction and loyalty. It also helps to receive timely information about customer needs.

• **Home** market customer satisfaction level – **73%**

• **Home** market customer loyalty level – **84%**

• **Foreign** market customer satisfaction level – **84%**

• **Foreign** market customer loyalty level – **91%**

Q1.1. Observance of contract obligations
8.62

Q1.2. Financial paper work speed
8.71

Q1.3. General score of the quality and professionalism of the Company's sales managers
8.83

Q1.4. Speed of dealing with complaints
8.26

Q1 Commercial aspects
86%

Q5.1. Overall quality of OAO SUEK products and services
8.21

Q5 Perceived quality
82%

Q8.1. Complete customer satisfaction
8.45

Q8.2. Comparison with the ideal
8.26

Q2.1. Delivery time
8.40

Q2 Quality of shipment support
84%

Q3.1. Compliance of the delivered shipment with the specification quality indices
7.71

Q3 Product quality
77%

Q4.1. Speed of providing information on the current state of shipment
8.50

Q4.2. Quality of information support of the contract
8.36

Q4 Service quality
84%

Q6 Customer expectations
80%

Q6.1. Degree of excess of customer expectations of OAO SUEK
8.00

Q8 Satisfaction
84%

Q9 Loyalty
91%

Q9.1. Willingness to make another purchase
9.05

Q9.2. Willingness to recommend OAO SUEK as a partner
9.10

Home market customer satisfaction level

73%

Home market customer loyalty level

84%

Foreign market customer satisfaction level

84%

Foreign market customer loyalty level

91%

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SUEK strategic development: road to leadership

2004

Coal production

- Increase of production volume up to 150 mln. t/year till 2020
- Significant increase of coal production efficiency, keeping lowest production costs in Russia
- Expanding coal types product mix
- Construction of new coal preparation plants
- Attention to environment protection issues

Leadership in coal production on national market

2006

Power generation

- Acquisition of large stakes in power generation assets with total installed capacity of 13GW
- Obtaining control over target power assets
- Improvement of power generation efficiency
- Use of modern technologies and best contractors for new capacities

Efficient coal based power generating company

- Implementation of clean coal technologies in power generation and attention to environment protection

2008

Sales and logistics

- Sales volume growth using coal and electricity businesses integration
- Sustaining leadership on export market based on maximum profitability and sales flexibility balance
- Coal sales growth by expanding to new regions

Best logistics channels, reliable supplier

- Using most efficient existing supply chains
- Overcoming logistic infrastructure limitations by constructing new infrastructure

2010

Business development towards high value added products

High level processing coal products

- Coal washing factories
- Utilization of coal mine methane
- Semi-coke production
- Ash wastes processing, construction materials and mineral components
- Coal chemistry

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Thank you!

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