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# **Far eastern Asia's Investment case and Its upcoming strategy**

**2008. 7. 3.**



**LG International Corp.**



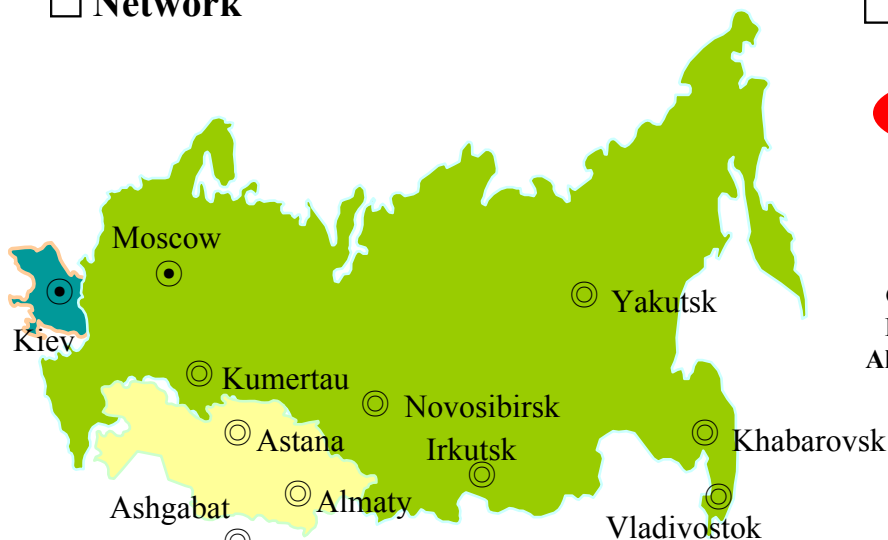
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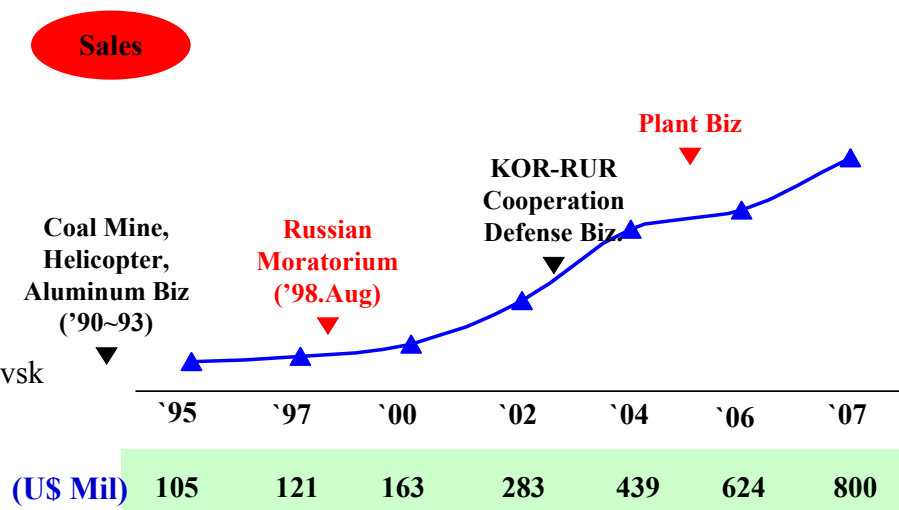
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# 1. Russian Business Summary of LG International Corp.

## □ Network



## □ Business Result



- ▶ Opened Moscow Office : Jan 1<sup>st</sup>, 1990
  - ▶ 2 branch offices in Russia/CIS(Moscow, Almaty), 3 liaison office, 3 territory base : total 38 people( dispatched 7, local employee 31)
  - ▶ Major Business : Coal, Machine/Chemicals, Aviation, Defense Industry, Plant
  - ▶ the sales in 2007 : US\$800 million
- ※ LG group's Russian Biz : US\$4 billion (30% of total Biz between Korea and Russia)



## 2. Case Study of Resource Development: Erel Coal Mine #1

### A. Erel Summary

#### Location of Coal Mine



#### Summary

- Main purpose : Erel bituminous coal investment
- Background : Ensuring the stable supply of Coal and Marketing right  
Expand business area and reputation in Russian Federation
- Coporation name : Erel LTD. (incorporated for Bituminous Coal Production / Sales )
- Shareholders : Kolmar LLC (56.9%), LGI(35.2%) and Yakutugol(Mechel) (7.9%).



## 2. Case Study of Resource Development: Erel Coal Mine #2

### B. Progress

#### History

- 1993. Apr : Decided to Investment
- 1994. Oct : Registered for Incorporation
- 1996. Jul : Capital Increase to buy a coal mine
- 2000. Nov : Decided to Coal Mine Expansion
- 2000. Dec : Borrowed Kores Fund  
for Oversea resource investment
- 2003. Sep : Founded the Board of Director

#### History of Investment

- 1994. Jun : Capital Contribution
- 1996. Jul : Additional Capital Contribution  
for buying a coal mine

#### Present Condition of Production

- Coal reserves : 38 million tonnes
- On Production from 1996
- Mining Method : Open Cut & Highwall Mining
- Production amount :  
bituminous coal 780 kt/y('07)
- class of coal : Thermal / Coking bituminous coal

#### Present Condition of Sales

- Export : 520 kt/y (export) / 260 kt/y (domestic)
- Farestern Export : 450 kt/y (aprox.)
- Transportation : Rail Road  
\* Mine → Farestern port (Vostochny) : 2,500km
- Major customer
  - Korea : Gencos / Cement company
  - Japan : Gencos / Cement company
  - Taiwan : Cement company / IPP



## 2. Case Study of Resource Development: Erel Coal Mine #3

### C. Future Plan : Expanding mine

#### Background

##### External Changes In Coal Business

- Erel mine reserves are in exhausting
- Far eastern asia's increasing demand of coal

#### Impact of Investment

##### Ensuring Stable Coal Supply

- Maintaining the Erel coal mine business and expanding the mine
- Ensuring marketgin right and suply to far eastern coal demand

#### Summary

- Erel win the auction to new open pit just beside existing open pit
- Reserves : on the valuation process
- Erel expect to extend his mine life
- Coal spec. : Thermal / Coking coal



## 2. Case Study of Resource Development: Erel Coal Mine #4

### D. Main Factor for Successful Investment

- ▶ Synergy Effect by selecting good Russian Partner and Strategic Cooperation
  - ☞ Partner : Yakutugol - Major Government Enterprise
  - ☞ Maintaining Close Relationship → Maximize the efficiency of mine operation
  - ☞ LGI took marketing right → Market controlling power
  
- ▶ Relationship with the Government of Republic of Sakha(Yakutia)
  - ☞ Smooth business conducting by Mutual Cooperation with the government level  
(Close human network with the man with influencing power)
  - ☞ Improved LGI's name value in Republic of Sakha(Yakutia)
  - ☞ Created more business opportunity in addition to coal business (uranium , iron ore, port, etc)
  
- ▶ Management of Invested Company
  - ☞ Regular management by Board of Director
  - ☞ Close supervision by LGI's Russian network

### 3. Future Plan of Russian Business (main consideration to Sakha)

#### Integrated Development of Southern Yakutia

##### Summary

- **Background** : Inducing the Investment for the economic development plan of Sakha
- **Total Investment** : US\$16.2 billion
- **Major Contents** :
  - Mining (Coal, Iron Ore, Uranium)
  - Infra (Power Plant, etc)

##### On reviewing

- **Elkon Uranium Project**
- **Iron Ore Complex**
- **Construction (Power Plant, Port, Plant)**

##### Present condition

- **2007. Oct** Invited Sakha President to Korea
  - Held Investor relation conference
  - LGI was appointed monopolized window

#### Inaglinakaya bituminous coal project

##### Summary

- **Building a Coal Complex** in Sakha republic
- **Mining License** : Yakutskie Ugli - Novye Tekhnologii
- **Location** : Neryungri city in Southern Sakha
- **Mineable Reserve** : 41 million tonnes
- **Mine type** : Underground (LongWall)
- **Production** : 2 Mtpa (premium Coking Coal)
- **Remark** : project financing promotion (first case in Russian Federation)
- **benefit** : not necessary to build new infra for mine

##### Present condition

- **2007 Oct** - MOU assigned for Joint Development
- **2008 Jun** - Start to development
- **2009 Dec** - Regular Coal Generation



## 4. Matters to be attended when you make investment to Russia

### ■ Precaution for Russian business

- Understanding of Russian way of thinking and business practice
  - Beginning the business, Russians tend to pay attention to the whole picture rather to details
- Creating close personal relations in Russia
  - Svyaz' means 'relation' in Russian. It means that creating close domestic and foreign relationship with people such as administration officials, partners of JV is important
- Increase of sensitiveness in relation to the changes of national policy
  - Strengthening governmental control in energy industry and reformation of state enterprises in this industry
  - Foreign companies are prohibited to obtain more than 50 % of strategic resources deposits (especially oil and gas deposits) (ex: Sakhalin 1 - ExxonMobile, Sakhalin II - Shell, Kharyaga oil/gas deposit - Total, Kovykta gas condensate field – TNK BP)
- Importance of creating strategically cooperative relations with Russian state enterprises (especially in energy industry)

### ■ Case study : LG International's Russian Business

- First Korean company to serve as a bridge between Russia and Korea before the establishment of diplomatic relations between two countries
  - possibility to create close relationship with political figures from the beginning
  - maintenance of relationship with influential political figures in various spheres
- Creating reliability of LG International in Russia and elevation of name-recognition of Russia in Korea by coal mine investment, import of helicopter and etc
  - During the visit of the President Putin to Korea in 2001 he announced LGI's Russian helicopter business as the model of Russian-Korean business
- business maintenance within the limit of Russian national policy

## Appendix 1. General information of Republic of Sakha of Russian Federation #1

General information	
Size	3.1 million km <sup>2</sup>
Population	0.95 million
Capital	Yakutsk
Major industry	Mining industry – 47%

Political information	
Form of government	Presidential system (Republic within the Russian Federation)
Chief of state	Shtyrov V.A.(reelected in April'07.)
Parliament	Bicameral system

Kind of mineral	Present situation
Coal	<ul style="list-style-type: none"> <li>○ 5% of total coal reserves in Russia, 45% of coal reserves in Far-Eastern region of Russia</li> <li>○ 44 coal mines, total amount of reserves - 9.7 billion tons</li> </ul>
Diamond	<ul style="list-style-type: none"> <li>○ 90% of total production in Russia, 25% of the world resources of diamond</li> </ul>
Oil and natural gas	<ul style="list-style-type: none"> <li>○ initial development stage, 35% of total amount of reserves in Russia</li> <li>○ minable reserves: gas - 2.3 trillion m<sup>3</sup>, oil - 0.3 billion tons</li> <li>○ presumptive amount of reserves : gas - 9.4trillion m<sup>3</sup>, oil - 2.4 billion tons</li> </ul>
Gold	<ul style="list-style-type: none"> <li>○ more than 20% of total amount of reserves in Russia</li> </ul>
Tin	<ul style="list-style-type: none"> <li>○ more than 50% of total amount of reserves in Russia</li> </ul>
Antimony	<ul style="list-style-type: none"> <li>○ more than 90% of total amount of reserves in Russia</li> </ul>



## Appendix 1. General information of Republic of Sakha of Russian Federation #2

Size – 3.1 million km<sup>2</sup> (15 times bigger than Korean peninsular)

Population – 0.95 million

Natural resources of Republic of Sakha is worth US\$ 3 trillion

*Shares of natural resources of Republic of Sakha compared to the world reserves:*

Diamond – 26%

Coal – 10% \*compared to the total amount of Russian coal reserves

Oil/gas – 35% \* compared to the total amount of Russian coal reserves

Tin – 5%

Antimony – 4.5%

Uranium – 3.4%

Iron ore – 2%

Timber– 47% of total area of Russia, 2.5% of the world

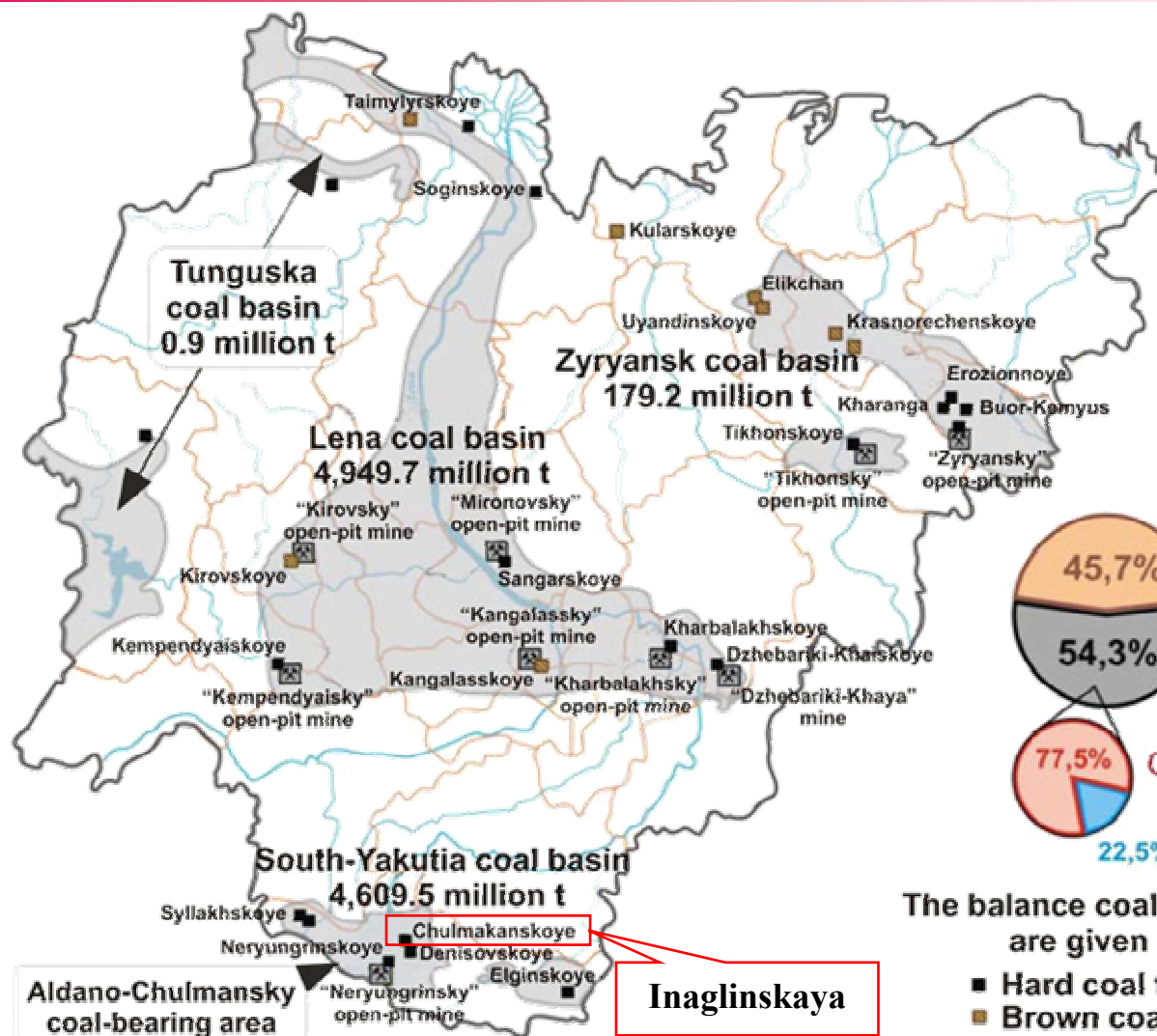


Potential for the development of hydraulic power

500 billion kW, 1/5 of total hydraulic power of Russia

\* The Lena takes 10<sup>th</sup> place among the rivers of the world

## Appendix 2. Coal Industry in Republic of Sakha(Yakutia)



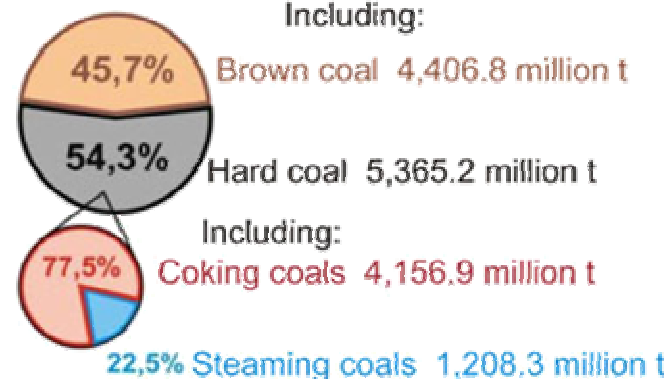
Speculative coal resources  
of Sakha Republic (Yakutia)  
(of categories P1+P2+P3)  
as of 01.01.2001

**923.8 billion t**

Balance coal resources  
of Sakha Republic (Yakutia)  
(of categories A+B+C1)  
as of 01.01.2003

**9,772 billion t**

Including:



The balance coal reserves of categories A+B+C1  
are given by basin as of 01.01.2003

- Hard coal field
- Brown coal field
- Coal mining

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# THANK YOU!

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