Below is a brief description of several key aspects of the current Russian and PRC legal and regulatory regimes applicable to the Group's mining business. The information contained in this section, to the extent that it constitutes matters of Russian law, is applicable to each relevant Russian company, except Giproruda, CJSC SGMTP, LLC Rubicon and LLC Petropavlovsk-Iron Ore, which are not mining companies.

PART A. RUSSIAN LAWS AND REGULATIONS

RUSSIAN LAWS AND REGULATIONS RELATING TO EXPLORATION FOR AND PRODUCTION OF MINERALS

General

The exploration for, production, sale and distribution of, minerals (including iron ore) in Russia is regulated by general Russian civil legislation governing the operation of the mining industry and specific legislation relating to quality standards, industrial safety, environment protection and other related matters.

Save as set out below, as at the date of this prospectus, the Directors believe that the Group is in compliance with all applicable regulatory requirements and has obtained (or is in the process of obtaining) all relevant and necessary permits and licences for its operations which are required as at the date hereof and the Sponsor, having conducted due and careful enquiry, is not aware of any material breaches of the relevant and necessary permits and licences for its operations which are required as at the date hereof. As at the end of 2009, the amount of net assets held by two of the Group's subsidiaries, LLC TOK and CJSC SGMTP, and the Group's associate company, Uralmining, were below the minimum level required by Russian law. In addition, although the amount of net assets held by three of the Group's subsidiaries, LLC Olekminsky Rudnik, LLC KS GOK and LLC GMMC are above the minimum level required by Russian law, such amounts are below that of their respective charter capitals. This is a common position for certain mineral exploration companies in Russia, whose only cash flow is in relation to exploration expenditure. These Russian companies in the Group may therefore be subject to involuntary liquidation by the court upon an application by the registration authorities. Under Russian law, commencement of the liquidation procedure does not mean automatic liquidation and the courts in such circumstances would usually grant a grace period to the company in question to rectify the breach. There are currently no liquidation procedures commenced against any of the Group's Russian companies, but if such liquidation procedure is commenced, and on notification by the courts to rectify the breach, the Group intends to take the necessary measures to rectify the breach within a given grace period and the relevant company may, amongst other things, reduce its charter capital or increase the amount of its net assets so as to comply with Russian corporate law within the time frame granted. However, there can be no assurance that a Russian court would follow this approach should a claim be made against any of these Russian companies of the Group.

No approval or consent is required from the Russian government or any other regulatory authority in relation to the Listing.

The Group has appointed local employees in Russia to liaise and address any concerns from local regulatory and governmental bodies with the aim of ensuring continuous compliance

with relevant regulatory requirements after Listing. The Group will also seek external assistance, including legal assistance for compliance and regulatory matters, where necessary.

Federal, regional and local regulatory authorities governing the mining industry

At the federal level, regulatory authority over the mining industry is divided primarily between the following Ministries:

- The Ministry of Industry and Trade, whose responsibilities include the development of governmental policy in respect of the mining industry, related industrial standards and the development of trade policy;

- The Ministry of Natural Resources and Ecology, whose responsibilities include the development of governmental policy and regulation in relation to exploration, use, restoration and protection of natural resources and the environment; and

- The Ministry of Economic Development of Russia, whose responsibilities include the encouragement of investment and support of scientific research.

Further, the following federal executive authorities regulate and supervise the mining sector, and are responsible for compliance control, management of state property and the provision of services relevant to the Group's activities:

- The Federal Service for Environmental, Technological and Nuclear Supervision (under the jurisdiction of the Ministry of Natural Resources and Ecology) oversees compliance with industrial safety and ecological standards in the area of subsoil use, conducts ecological expertise at the federal level, and performs regular audits of subsoil licence holders. It is also responsible for: (i) the issue of permits and licences in respect of certain industrial activities and activities relating to safety and environmental protection (such as permits for use of certain types of equipment and technical devices at hazardous industrial sites; licences for use of industrial explosive materials; surveyor's works and storage, usage; and processing, transportation and emplacement of wastes of hazard classes I to IV); (ii) keeping registers of hazardous industrial objects; and (iii) regulation of waste disposal;

- The Federal Service for the Supervision of the Use of Natural Resources (under the jurisdiction of the Ministry of Natural Resources and Ecology) oversees compliance with the terms and conditions of subsoil licences and certain matters of environmental legislation and controls geological exploration, use and protection of subsoil. Its competencies also include organisation of carrying out of necessary research, tests, examinations, evaluations and establishment of consultative and expert bodies;

- The Federal Agency for Subsoil Use (under the jurisdiction of the Ministry of Natural Resources and Ecology) organises tenders and auctions and issues licences, each in respect of subsoil use, and approves design documentation for subsoil production activities;

- The Federal Agency for Water Resources (under the jurisdiction of the Ministry of Natural Resources and Ecology) is responsible for supervising the use and protection of water resources;

- The Federal Service for Consumer Rights Protection and Human Welfare (under the jurisdiction of the Ministry of Healthcare and Social Development) controls and supervises the sanitary and epidemiological welfare of the population of Russia and serves to protect consumer rights;

- The Federal Agency for Technical Regulation and Metrology (under the jurisdiction of the Ministry of Industry and Trade) determines and oversees levels of compliance with mandatory general and industrial standards;

- The Federal Service for Labour and Employment (under the jurisdiction of the Ministry of Healthcare and Social Development) controls and supervises compliance with labour legislation;

- The Federal Customs Service is responsible for the development of state customs policies and regulation of customs procedures; and

- The FAS (i) supervises compliance with antimonopoly legislation; (ii) investigates violations of antimonopoly legislation; (iii) prevents monopolistic activity, unfair competition and other violations of antimonopoly legislation; and (iv) exercises state control over business concentration. FAS also oversees the acquisition of controlling stakes in companies and dominant market positions by business enterprises.

In addition to the above, there are a number of other federal regulators that, together with their structural subdivisions, have authority over other matters relevant to the Russian mining industry, such as defence, internal affairs, security, border services, justice, tax enforcement and rail transport.

Regional authorities with jurisdiction over a specific area in which a mining company operates have control over regional and local land-use allocations, enjoy certain taxation powers and have authority over certain other local matters.

Licensing

General

The Group is required to obtain various licences, authorisations and permits from Russian governmental authorities to conduct its operations. The Federal Law No. 128-FZ dated 8 August 2001 "On Licensing of Certain Types of Activities", as amended (the "Licensing Law"), is the primary legislation on designation of activities which can only be performed pursuant to licences issued by the relevant Russian authorities and establishment of procedures for issue of such licences. The activities that require a licence, authorisation or permit under the Licensing Law include the following:

- use of subsoil (see the sub-section headed "Subsoil licensing" below);

- storage, usage, processing, transportation and emplacement of wastes of hazard classes I to IV;
- storage of explosive industrial materials;
- usage of explosive industrial materials;
- operation of explosive and flammable production facilities;
- surveyor's works;
- fire-fighting; and
- transportation activities.

Licences are usually issued for a minimum period of five years. Licences for the use of natural resources may be issued for shorter or longer periods. Upon expiration, a licence may be extended upon application to the relevant licensing authority, but any extension is usually subject to prior compliance with the relevant regulations. Certain types of licences may be issued for the expected operational life of a deposit, and certain licences may have unlimited terms. A licence may be suspended if a licensee is successfully prosecuted for breaches of the licence's terms and conditions. If a licensee fails to remedy or mitigate a breach of the licence conditions within a period established by the licensing authority, that authority may apply to court for the termination of the relevant licence. The subsoil licences could also be terminated by the licensing authorities without prosecuting the licensee through a court procedure if it notifies a licensee about a relevant violation and the licensee fails to remedy such violation within a period of three months. Further information is set out in the sub-section headed "Subsoil licence termination" below.

Licensing regulations and terms of its licences and permits require the Group to comply with numerous industrial standards, employ personnel with appropriate qualifications, maintain certain equipment and systems of quality controls, maintain insurance coverage, monitor operations, make appropriate filings and, upon request, submit specified information and documents to the relevant licensing authorities responsible for control and inspection of its activities.

A number of activities, which currently require licensing pursuant to the Licensing Law, will be carved out of the current licensing regime under the Licensing Law with the enactment of technical regulations under the Federal Law No. 184-FZ dated 27 December 2002 "On Technical Regulation", as amended (the "Technical Regulation Law"), and will instead be governed by such technical regulations. The Technical Regulation Law superseded the Law of the Russian Federation No. 5151-1 dated 10 June 1993 "On Certification of Goods and Services" and Law of the Russian Federation No. 5154-1 dated 10 June 1993 "On Standardisation". The technical regulations issued under the Technical Regulation Law are unified normative-technical acts specifying the mandatory requirements relating to products (including buildings and constructions) or processes (connected with products) of engineering (including investigation), production, construction, assembling, setting up, operation, storage, transportation, sales and utilisation. Each technical regulation to be adopted under the Technical Regulation Law will come into force not earlier than six months after its official

publication. The Technical Regulation Law does not currently contain an exhaustive list of technical regulations to be adopted thereunder.

Subsoil licensing

In Russia, the extraction of minerals requires a subsoil licence issued by the Federal Agency for Subsoil Use with respect to an identified mineral deposit, as well as the right (through ownership, leasehold or other right) to use the land plot where such licensed mineral deposit is located (usually granted by a local authority). In addition, operating permits and licences are required for specific mining or mining-related activities.

The primary law regulating subsoil licensing is the Law of the Russian Federation No. 2395-1 dated 21 February 1992 "On Subsoil", as amended (the "Subsoil Law"), and the regulations adopted thereunder, which set out the regime for granting licences for the exploration and production of mineral resources and use of subsoil.

Currently, there are two main types of subsoil licenses: (1) exploration licences, which are non-exclusive licences granting the licensee right to carry out geological exploration and assessment activities within the licence area; and (2) production licences, which grant the licensee an exclusive right to extract minerals from the relevant licence area. In practice, many of the licences are issued as combined (exploration and production) licences, which grant the right to explore, assess, extract and produce minerals from the mining allotment within the relevant licence area.

Production licences and combined exploration and production licences are primarily awarded either through a tender or an auction process conducted by special commissions of the Federal Agency for Subsoil Use. Decisions on the holding of an auction or a tender are taken by (1) the government of the Russian Federation in relation to subsoil deposits of federal importance; (2) state authorities of the subject of the Russian Federation in relation to subsoil deposits containing "common" mineral resources (such as clay, sand or limestone) or the subsoil deposits of local importance; and (3) the Federal Agency for Subsoil Use or its local bodies in relation to other subsoil plots. While a representative of the relevant region may be involved in such processes, a separate consent of regional authorities is no longer required in order to issue subsoil licences. The winning bidder in a tender is selected on the basis of the submission of the most technically competent, financially attractive and environmentally sound proposal that meets the published tender terms and conditions. At an auction, the success of a bid is determined primarily by the attractiveness of the financial proposal. In limited circumstances, production licences may also be issued without holding an auction or a tender, for instance, to holders of exploration licences who discover mineral resource deposits through exploration work conducted at their own expense.

Typically, an application or tender for a subsoil licence requires the candidate to produce documentation evidencing, amongst other things, sufficient scientific and technical level of programmes for geological study and exploitation of the subsoil, appropriative recovery rate, involvement in the socio-economic development of the region and the effectiveness of measures related to the protection of the environment.

The register kept by the Federal Agency for Subsoil Use is the definitive record of the holders of minerals licence rights under the Subsoil Law. Transfers of exploration licences must be registered with the Federal Agency for Subsoil Use to be effective.

Charges

Charges with respect to the exploration, evaluation and extraction of minerals include: (i) licence fees for the use of subsoil under the Subsoil Law (which may include regular payments for exploration of minerals and certain one-off payments) and (ii) the mineral extraction tax under the Tax Code of the Russian Federation (the "Tax Code"). Failure to make these payments could result in the suspension or termination of the subsoil licence. The mineral extraction tax is calculated as the value of the mineral resources extracted from the subsoil based on the prices at which the extracted minerals were sold (excluding VAT and excise taxes), subject to the transfer pricing provisions of the Tax Code. The Russian tax authorities have powers to investigate the market price of the product sold and, in the event that the actual sale price is different to such market price by more than 20 per cent., to recalculate the mineral extraction tax due. Taxpayers are required to calculate the tax base separately for each type of mineral resource extracted and pay tax on a monthly basis. In particular, Chapter 26 of the Tax Code sets out a tax rate of 4.8 per cent. for conditioned ferrous metal ores. Subsoil users include the mineral extraction tax paid to the state budget in their deductible expenses, decreasing the taxable base of the corporate profits tax due.

Term of subsoil licences

The term of a subsoil licence is set forth in the licence conditions. Exploration licences have a maximum term of five years; whereas production and combined licences are generally granted for a term of the expected operational life of the field based on the approved feasibility study. The term of a subsoil licence runs from the date the licence is registered with the Federal Agency for Subsoil Use. Upon the expiration of a subsoil licence, the licence and the rights under such licence revert to the Russian State.

Extension of subsoil licences

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or to vacate the land once the use of the subsoil is complete, provided the user has complied with the terms and conditions of the licence and the relevant regulations. In order to change any condition of a subsoil licence, including extension of its term, a company must file an application with the licensing authority to amend the licence.

Transfer of subsoil licences

Licences are granted to a particular licensee; however, in certain circumstances as set out in the Subsoil Law, a licence may be transferred to another party at no consideration. Such circumstances include the reorganisation of the licensee, transfer of the licence from a subsidiary to its parent company, or from the parent company to its subsidiary (either an existing or newly established company) or from a subsidiary to another subsidiary of the same parent company, provided in each case that, among other things, that the transferee is incorporated under the laws of the Russian Federation and possesses the assets, equipment and authorisations necessary to conduct the exploration or production activity that is covered by the transferred licence.

Licensing agreements

A licence granted under the Subsoil Law is generally accompanied by a licensing agreement executed by the federal authorities and the licensee. The licensing agreement sets out the terms and conditions for the use of the subsoil licence and certain environmental, safety and production commitments, including the date for bringing the field into production; agreed annual volume of extraction of the natural resources; agreed mining and other exploratory and development activities; protection of the environment within the licensed area; provision of geological information and data to the relevant authorities; and submission on a regular basis of formal progress reports to the regional authorities. The licence agreement may also contain commitments with respect to social and economic development of the region in which the licence area is located. When the licence expires, the licensee must return the land to a condition adequate for future use. Although most of the conditions set out in a licence are based on mandatory provisions contained in Russian law, certain provisions in a licensing agreement are left to the discretion of the licensing authorities and are often negotiated between the parties. The terms and conditions of a licensing agreement form part of the licence conditions.

Subsoil licence termination

If the subsoil licensee fails to fulfil the licence conditions, the federal authorities may, upon giving notice to the licensee, terminate the licence. A subsoil licensee who cannot, due to material changes in circumstances, meet the pre-agreed deadlines or achieve the pre-agreed volumes of exploration work or production output set forth in the licence, may apply to the relevant licensing authority for amendment of the relevant licence conditions. Such authority will exercise discretion within the framework of the Subsoil Law as to whether to grant the requested amendment or not.

The Subsoil Law and other Russian legislation contain extensive provisions in relation to the limitation, suspension or termination of the rights of a subsoil licensee. A licensee can be fined or its rights can be limited, suspended or terminated for repeated breaches of the applicable Russian law. Government authorities, such as the Federal Service for the Supervision of the Use of Natural Resources and the Federal Service for Environmental, Technological and Nuclear Supervision, undertake periodic reviews for ensuring compliance by subsoil licence users with the terms of their licences and applicable legislation. Moreover, if the Group does not comply with the term of the particular licence or continues to carry out any activity on the licensed area after revocation of such licence, it may be subject to administrative liability in the form of fine up to RUR1 million and/or administrative suspension of business activity for up to 90 days. Additionally, individuals could, in certain cases, incur criminal liability in the form of fines of up to RUR500,000 or imprisonment for up to 5 years.

A licensee can be fined for failing to comply with the conditions of the subsoil licence. The subsoil licence can also be revoked, suspended or limited without court intervention in certain circumstances, including:

- breach or violation of material terms and conditions of the licence by the licensee;
- repeated violation of the subsoil regulations by the licensee;

- failure by the licensee to commence operations within the required period of time or to produce required volumes, as specified in the licence;
- occurrence of an emergency situation such as natural disasters or war;
- upon the emergence of a direct threat to the life or health of individuals working or residing in the area affected by the operations under the licence;
- at the request of the licensee;
- upon liquidation of the licensee; and
- non-submission of reporting data in accordance with the legislation.

The Subsoil Law does not specify which terms of the licence are material for the purposes of the limitation, suspension or termination of the rights of a subsoil user in the event of a breach or violation of material terms and conditions of the licence. For instance, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for the limitation, suspension or termination of the rights of a subsoil user. Consistent overproduction or underproduction and failure to meet obligations to finance a project (to the levels set out in the licensing agreement) are also likely to constitute violations of material licence terms.

It is generally considered that failure to comply with the following terms and conditions of the licence agreement could be classified as material for the purpose of limitation, suspension or early termination of the right to use subsoil:

(i) development phases, including volumes, types of works and terms of performance of such works;

(ii) payment obligations, including lump-sum payments, regular payments for subsoil use, etc; and

(iii) reporting obligations, including quarter and annual reports and statistic forms.

As a general rule under the Subsoil Law, the subsoil user is liable for costs of conservation and liquidation of underground equipment utilised in the subsoil works. In addition, the Subsoil Law specifically establishes that in the event of early termination of the licence due to the user causing direct threats to human life and health, or due to material or repeated violations of the licence, or if the licence is terminated at the user's request, then the user will be liable for all such costs. The state will cover conservation and liquidation expenses if the licence is terminated due to an emergency situation, such as natural disasters, flooding, war and other similar circumstances, or in the event of direct threat to human life and health not caused by the user.

Rights of appeal

If the licensee does not agree with a decision of the licensing authorities, including a decision relating to licence suspension or termination or the refusal to re-issue an existing licence, the

licensee may appeal the decision through administrative or judicial proceedings. In certain cases, the licensee has the right to attempt to remedy the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such three-month period, no termination or other action may be taken.

Licences of the Group

Further information about the subsoil licences that have been issued to the Group is set out in the sub-section headed "(C) Further information about the business" in Appendix VIII — "Statutory and General Information" to this prospectus.

Russian export and import duties

Exports of iron ore from Russia are primarily regulated by the Customs Code Law of Russia and the Law of the Russian Federation No. 5003-1 dated 21 May 1993 "On Customs Tariff", as amended and treaties between Russia and its trading partners. The applicable export duty on the Group's ferrous ores and concentrates amounts to 5 per cent. of the relevant customs value.

Any legal entity that fails to comply with the terms of payment of export duties may be subject to administrative fines up to RUR 300,000, and individuals may incur criminal liability in the form of fines up to RUR 500,000 or imprisonment for up to 5 years.

RUSSIAN LAWS AND REGULATIONS RELATING TO LAND USE RIGHTS

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction on a land plot, without obtaining the appropriate land use rights. A licence to use subsoil resources may be issued subject to the prior consent of the land resources authorities or the owner of land to allocate the land plot for the purposes of the use of subsoil resources. Land use rights are obtained for the parts of the licence area actually being used, including the plot being mined, access areas and areas where other mining-related activity is occurring.

Under the Land Code, companies generally have one of the following rights with regard to land in the Russian Federation: (i) ownership; (ii) lease; (iii) right of free use for a fixed term; or (iv) right of perpetual use.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which, through public auctions or tenders or through private negotiations, can sell, lease or grant other rights of use over the land to third parties.

Under the Land Code, the right of perpetual use ceased to exist as of 1 January 2010, and thus entities holding any such right that was obtained prior to the enactment of the Land Code are required, by 1 January 2012 and, in certain circumstances, by 1 January 2015, either to purchase the affected land from, or to enter into a lease agreement with, the relevant federal, regional or municipal authority-owner of such land.

Land possession and land use rights are evidenced by the cadastral passport and extracts from the Unified State Register of Rights to Real Estate and Transactions Therewith.

RUSSIAN LAWS AND REGULATIONS RELATING TO RESTRICTIONS ON FOREIGN INVESTMENTS

Adopted on 29 April 2008, the new Federal Law No. 57-FZ, "On the Procedure for Foreign Investments in Legal Entities of Strategic Importance for State Defence and National Security" (the "Foreign Investments Restrictions Law") and Federal Law No 58-FZ dated 29 April 2008 "On introducing amendments in certain legal acts of the Russian Federation and declaring null and void certain provisions of legal acts of the Russian Federation in connection with the adoption of the Federal Law on the manner of conducting of foreign investments into companies having strategic significance for securing the defence of the country and the security of the State" (the "Amendment Law"), restrict access of foreign investors to certain industries in Russia. The Foreign Investments Restrictions Law treats, *inter alia*, the geological study of subsoil and/or the exploration and extraction of minerals from subsoil deposits of federal importance as activity of strategic importance.

The Subsoil Law sets out the criteria for classifying subsoil deposits as deposits of federal importance based on the nature of the mineral deposit. The first criterion is based on the size of the reserves estimates of the deposit. A deposit is of federal importance if it contains more than: 70 million tonnes of oil; 50 billion cubic metres of gas; 50 tonnes of gold; or 500 thousand tonnes of copper deposits. The second criterion is based on the rareness of the minerals' occurrence, and generally applies to rough diamonds, uranium, pure quartz, cobalt, tantalum, nickel, beryllium, lithium, niobium and platinum group metals. The third criterion relates to the location of deposits on inland sea waters, territorial sea and continental shelf. The last criterion relates to the location of subsoil deposit on defence and security lands or lands adjacent thereto. The official list of subsoil deposits of federal importance is published by the Federal Agency for Subsoil Use. Subsoil deposits included in this official list are treated as subsoil deposits of federal importance regardless of changes in the criteria indicated above.

Foreign investors are obliged to obtain prior consent from the governmental commission headed by the Russian Prime Minister for the acquisition of more than 5 per cent. (where a foreign company with state participation is a party to the transaction) or more than 10 per cent. (where a foreign company without state participation is a party to the transaction) of the shares in companies which hold subsoil licences in relation to deposits of federal importance. Transactions made without prior consent of the governmental commission where required will be deemed null and void.

As of the date of this prospectus, none of the deposits to which the Group holds subsoil licences has been given the status of a subsoil deposit of federal importance. There can be no assurance however that one or more of these deposits will not be so designated in the future.

RUSSIAN LAWS AND REGULATIONS RELATING TO NATURAL MONOPOLIES

General

The Group is dependent on natural monopolies for the supply of gas and electricity and use of railway transportation.

The Government of the Russian Federation, the FAS and the Federal Tariffs Service (the "FTS") are currently the main regulatory authorities for natural monopolies. The principal means of regulating the activities of natural monopolies by the relevant authorities are:

- regulating prices; and
- requiring natural monopolies to provide certain levels of products or services to certain consumers.

The list of goods and services set out in the Russian Federation Government Resolution No. 239 dated 7 March 1995 "On Measures to Improve State Regulation of Prices (Tariffs)" identifies products and services of natural monopolies (i.e., gas, electricity and heating, transhipment of oil through pipelines, railway services and port services), defence industry products and various social goods (such as certain drugs, prosthetics and orthopaedic appliances), prices for which are regulated by the Russian State.

In sectors where natural monopolies exist and, in the case of products purchased exclusively or primarily by the Russian State (such as defence products), pricing is based on production costs. Generally, the procedures and principles used for regulating the prices of goods and services regulated by the Russian State differ depending on the type of goods or services in question.

Regional governments regulate prices for products and services classified as local natural monopolies. These include gas and solid fuel sold to the general public, transportation of passengers and luggage by public transport in municipal transport networks, communal services to households, water supply, and sewage services. At the regional government level, prices for electricity provided by the regional electrical power plants are also regulated, as well as prices for communal passenger transportation (except railways) and other public utilities. The regional executive bodies and local executive authorities must comply with pricing decisions taken at the federal level by bodies authorised to regulate the activity of natural monopolies.

Natural gas

Domestic natural gas prices are generally regulated by the government of the Russian Federation. Since 2006, the Russian Government began to implement a steady increase in the regulated domestic gas prices to enable Gazprom, Russia's majority state-owned monopoly gas supplier, to reach the same profitability in the markets as it derives from export sales by 2011. The amendments to the Russian Federation Government Resolution No. 1021 dated 29 December 2000 "On State Regulation of Prices for Gas and Tariffs for Gas Transportation Services on the Territory of the Russian Federation" which came into force on 28 May 2007 have permitted an increase in the commercial tariff natural gas prices with respect to gas volumes delivered after 1 July 2007, over and above the increases which have been previously agreed, by a maximum of 50 per cent. in 2008; by 40 per cent. from 1 January 2009; by 30 per cent. from 1 July 2009; by 20 per cent. from 1 January 2010, and by 10 per cent. from 1 July 2010, finally reaching Western European gas price levels from January 2011. According to the report titled "Scenario conditions for functioning of the economy of the Russian Federation, main parameters of the forecast of the social and economic development of the Russian Federation for 2009 and the planning period of the

years 2010 and 2011", published in May 2008 by the Russian Ministry of Economic Development, wholesale regulated gas prices are expected to rise by a maximum of 25 per cent. in 2008; 20 per cent. in 2009; 28 per cent. in 2010 and 40 per cent. in 2011. Wholesale regulated gas prices, as determined by the FTS, regarding gas volumes with respect to which long-term gas supply contracts have been already entered into, are expected to be increased by the FTS basing on forecasts for social-economic development in Russia.

Electricity

In July 2001, Russia announced its intention to implement reforms in the electricity power sector with the Russian Federation Government Resolution No. 526 dated 11 July 2001 "On Restructuring the Electric Power Industry of the Russian Federation". This was followed by several legislative initiatives, most notably the Federal Law No. 35-FZ dated 26 March 2003 "On the Electric Power Industry". On 1 July 2008, Russian Joint Stock Company "Unified Energy System of Russia" ("UES"), which controlled stakes in various assets throughout the system, including power plants, vertically integrated energy companies, the federal high voltage transmission grid and the energy dispatch system, was wound up. As a result of this reorganisation, the electricity power sector is now comprised of the following companies:

- Wholesale generation companies ("OGKs"): One of the key principles of the reorganisation plan is the separation of generation capacity assets from the transmission and distribution assets. The plan envisages the creation of several different categories of generation companies which would be privatised and open for foreign investment, while at the same time prescribing the consolidation of transmission and grid assets into separate corporate entities which would continue to be largely controlled and regulated by the Russian State. The restructuring plan calls for the consolidation of various heat and power generation companies throughout Russia. Seven OGKs are currently established (as approved by Government Instruction No. 1254-r, dated 1 September 2003).

- Territorial generation companies ("TGCs"): 14 TGCs have been created from the regional generation companies and consolidated on a regional basis. Each TGC consists of a stand-alone operating company with its ownership interest initially held by UES, and each subject to privatisation.

- Federal grid company ("FGC"): The FGC was established in 2002. FGC acts as the manager of the unified national electric grid, the high voltage backbone transmission and dispatch grid of the entire power system. The main source of revenue for the company will be through tariff revenues earned from the transmission of power through the national grid. The Russian State is currently the main shareholder of FGC, owning 79.11 per cent. of shares in the charter capital thereof.

- Systems operation-centralised dispatch (the "System Operator"): The System Operator is a company established in 2002 and wholly-owned by the Russian State. The System Operator is responsible for securing sustainable operation of all of the technological aspects of the transmission system and would provide services, transmission and equipment to individual generation companies.

Since 1 September 2006, new rules of operation of wholesale and retail electricity markets have come into force. As a consequence, the wholesale electricity (capacity) market saw a transition to regulated contracts to be concluded between buyers and generation companies. In accordance with the Russian Federation Government Resolution No. 205 dated 7 April 2007 "On Amending Certain Acts of the Russian Federation Government Related to the Calculation of Electricity Volumes sold at Free (Competitive) Prices"; there are plans to replace regulated contracts by free (unregulated) ones by 2011.

Railway transportation tariffs

Russian Railways has historically been the only provider of transport services for many types of freight over large parts of the country. Tariffs have therefore been regulated in the absence of a market to establish market transport prices. Currently the price for transport of all commodities is regulated, regardless of where transport takes place and regardless of whether competition exists from road, air or shipping transportation modes.

Tariffs are calculated according to formulas set out in the tariff schedules. Basic methodologies followed by the current tariff schedules had been formulated in the Tariff Price List No. 10-01, which came into force on 28 August 2003, and which regulates pricing of freight traffic (the "Price List 10-01"). Periodic revision of the tariff rates and structures are undertaken to respond to changes in economic conditions for socially important parts of the economy, including large industrial customers of the railways. Price List 10-01 is subject to annual, and occasionally supplemental, indexation.

Domestic rail tariffs are currently set under the regulatory supervision of the Federal Energy Commission (the "FEC"), which also regulates electricity and coal tariffs. Price List 10-01 identifies three broad classes of commodities and therefore introduces a three-class tariff system. The basic objective of the three-class tariff system is to ensure that the transportation cost is not higher than the target percentage of the delivered price of the product: lower tariffs apply to transportation of low value commodities in order to stay within the target percentage while higher tariffs apply to transportation of high value products. In addition, there are over 40 series of coefficients to differentiate tariffs within the classes according to the specific commodity and other circumstances such as particular routings. The three classes of commodities are as follows.

- Class I: coal, ore (including iron ore), timber, aggregates. Class I commodities generally travel at a tariff level of 75 per cent. of the Class II commodity tariff at distances below 1,200 km falling in steps to a level of only 55 per cent. of Class II commodities at a distance of 5,001 km and more. The reference distances are based largely on the distance to market, especially for export commodities.

- Class II: oil, grain, fertilisers, food, semi-finished goods.

- Class III: chemicals, ferrous and non-ferrous metals, machinery, finished goods. Class 3 tariffs are set at 154 per cent. to 174 per cent. of the tariff in Class II commodities at all distances.

RUSSIAN LAWS AND REGULATIONS RELATING TO PROTECTION OF THE ENVIRONMENT

The Group is subject to various laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air, water and soil, processing, management and disposal of hazardous substances and waste, decommissioning and clean-up operations in respect of contaminated sites, and flora and fauna protection. Environmental matters in Russia are regulated primarily by the Federal Law No. 7-FZ dated 10 January 2002 "On Environmental Protection", as amended (the "Russian Environmental Law"), as well as by a number of other federal and local laws and regulations.

Pay-to-pollute

The Russian Environmental Law establishes a "pay-to-pollute" regime administered by the federal and local authorities. The Ministry of Natural Resources has issued methodological guidelines relating to the calculation of the permissible impact on the environment, whilst the Federal Service for Environmental, Technological and Nuclear Supervision sets limits for emissions and the disposal of substances as well as for waste disposal. A company whose activities are subject to the Russian Environmental Law may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of the additional environmental impact. As a condition to such approval, a plan for the reduction of emissions or disposals must be developed by the company and approved by the appropriate governmental authority.

Fees, as set out in the Russian Federation Government Regulation No. 344 dated 12 June 2003 "On Rates of Payments for Pollutant Emissions into the Air by Stationary and Mobile Sources, Pollutants Disposals into Surface and Underground Waters, Disposal of Production and Consumption Waste", are assessed on a sliding scale for both statutory and individually approved limits on emissions and other pollution in excess of these limits. The lowest level of fees is imposed for pollution within the statutory limits, intermediate level of fees apply for pollution within the individually approved limits but above the statutory limit, and the highest level of fees is charged for pollution exceeding such limits. Payment of such fees does not relieve a company of its responsibility to take environmental protection measures, undertake restoration and clean-up activities and compensate for any damage caused to the environment.

Environmental approval

The impact of certain activities that may affect the environment must be approved by the environmental expert commissions appointed by the Ministry of Natural Resources and Ecology in accordance with the Federal Law No. 174-FZ dated 23 November 1995 "On Ecological Expert Examination", as amended (the "Law on Ecological Expert Examination") and the Russian Environmental Law. The Russian Environmental Law envisages that an assessment of effects on the environment shall be conducted in respect of planned economic or other activities, which are capable of exerting a direct or indirect effect on the environment, as set forth in the Law on Ecological Expert Examination.

Conducting operations that may cause damage to the environment without the mandatory state ecological expert review may result in civil, administrative or criminal liability as set out in the sub-section headed "Environmental liability" of this section, as well as in revocation of licences, including the subsoil licence. However, a positive state ecological expert review does not relieve the company from obligation to pay compensation for any damage caused to the environment at any time.

Under the Russian environmental legislation, the Group is required to, among other things, comply with the regulatory documents regarding the water protection areas; take necessary actions for reduction or avoidance of pollution made by the mining enterprise activity; carry out an analysis of baseline of the environment within the licensed areas; monitor conditions of the environment within the licensed areas; and construct and exploit pollution control facilities.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their respective regional branches) are each involved in the environmental control, implementation and enforcement of the environmental laws and regulations and compliance monitoring. The Russian Federal Government, the Ministry of Natural Resources and Ecology and the Ministry of Agriculture are responsible for coordinating activities of these regulatory authorities. Such regulatory authorities, along with the other state authorities, individuals and public and non-governmental organisations also have the right to initiate lawsuits to recover damages caused to the environment. The limitations statute for such lawsuits is twenty years from the date when the relevant supervising authority became aware or should have become aware of the damage caused.

Environmental liability

If operations of a legal entity violate environmental requirements or cause harm to the environment or to any individual or other legal entity, the environmental authorities may suspend the operations of such legal entity; or a court action may be brought, which, if successful, may result in prohibition or suspension of such operations and may require the legal entity to remedy the effects of the violation. Any legal entity and its employees who fail to comply with the environmental requirements and regulations may be subject to administrative fines of up to RUR1 million and/or administrative suspension of business activity for up to 90 days and/or civil liability in the form of compensation of losses; in addition, the individuals in default may be subject to criminal liability in the form of fines up to RUR120,000 or imprisonment for up to 5 years. Courts may also impose clean-up obligations on violators in lieu of, or in addition to, imposing fines. A court may impose an obligation to finance and conduct reclamation measures pursuant to an expert report approved by the court.

As a general rule, under the Russian Environmental Law, a legal entity or individual who causes harm to the environment by pollution, depletion, contamination or by irrational use of natural resources, degradation or destruction of environmental systems, natural complexes or

physical landscape must compensate the Russian State for such damage in full. Damages are generally payable by the polluter if the fault of the polluter is proven; however, in certain cases the polluter may be strictly liable without fault. In particular, if the polluter's activity is connected with the increased risk of environmental harm (such as performance of construction works, use of mechanical devices or high voltage electricity, explosive substances or various other circumstances), the polluter must compensate the harm caused by its activity, unless the harm is proven to be the result of force majeure.

Compensation for harm to the environment is calculated pursuant to rates or estimating procedures approved by the environmental authorities. If the relevant rates or estimating procedures do not exist, courts calculate an amount of damages based on the principle of full compensation of all costs for recovery of losses, including any lost profit.

The Russian Environmental Law provides that mandatory environmental insurance may be introduced in Russia. Currently, however, environmental insurance is not mandatory under the Russian law, but voluntary environmental insurance is available. The Ministry of Natural Resources (predecessor of the Ministry of Natural Resources and Ecology) recommended in its Sample Regulation on Procedure for Voluntary Environmental Insurance in Russia approved on 3 December 1992, under No. 04-04/72-6132, that a voluntary environmental insurance policy should cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities.

Subsoil licences generally require a level of environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low. However, failure to comply with the clean-up requirements may lead to suspension of the mining works.

RUSSIAN LAWS AND REGULATIONS RELATING TO HEALTH AND SAFETY

The Group, as an employer of workers at its sites, is responsible for maintaining a safe working environment that meets applicable industrial safety requirements. The principal law regulating industrial safety is the Federal Law No. 116-FZ dated 21 July 1997 "On Industrial Safety of Dangerous Industrial Facilities", as amended (the "Health and Safety Law"). The Health and Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where the processing of minerals is conducted and certain hazardous substances are used. The Health and Safety Law also contains a comprehensive list of dangerous substances and their permitted concentrations, and extends to facilities and sites where these substances are used. Regulations adopted pursuant to the Health and Safety Law further address safety rules for mining and production operations conducted by the Group.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of regulated industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision or other relevant regulatory authority.

Legal entities that operate such regulated industrial facilities and sites have a wide range of obligations under the Russian law, in particular under the Health and Safety Law and the Labour Code of the Russian Federation No. 197-FZ dated 30 December 2001, as amended (the "Labour Code"). Examples include: limiting access to such regulated industrial sites to qualified specialists, maintaining industrial safety controls and maintaining insurance for third-party liability for injuries caused in the course of operation of industrial sites. The Health and Safety Law also requires employers to conduct personnel training programmes, create systems to cope with, and inform the Federal Service for Environmental, Technological and Nuclear Supervision of, any industrial accidents and maintain these systems in good working order. Employers' compliance with the requirements under the applicable legislation in respect of terms and conditions of employment is monitored by the Labour Inspection, which is subordinate to the Federal Service for Labour and Employment.

Any company or individual (including company directors and other managers) violating the industrial safety rules may incur administrative fines up to RUR 40,000 and/or administrative suspension of business activity up to 90 days and/or civil liability in the form of compensation of losses, and individuals may also incur criminal liability in the form of fines up to RUR 80,000 or imprisonment up to 7 years. A company that violates safety rules in a way that negatively impacts upon the health of an individual may also be obliged to compensate the individual for any loss of earnings, as well as for any health-related damages and, in certain cases, activity of the company may be suspended until the violation is resolved. A prolonged suspension of activity may also trigger revocation provisions under the subsoil licence since the subsoil user will not be able to comply with the terms of the licence agreement.

RUSSIAN LAWS AND REGULATIONS RELATING TO EMPLOYMENT AND LABOUR

Labour matters in Russia are primarily governed by the Labour Code.

Employment contracts

As a general rule, employment contracts are concluded for an indefinite term with all employees. Russian labour legislation imposes express restrictions on the execution of employment contracts with a definite term of duration. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of performance of such duties as well as in other cases expressly identified by Federal Law.

An employer may terminate an employment contract only on the basis of specific grounds set out in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to the employee's incompetence;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties;

- provision by the employee of false documents or misleading information prior to entry into the employment contract; and

- grounds specified in the employment agreement with the head of the company or members of the management board.

An employee made redundant or dismissed from an enterprise due to its liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides for additional protections for, or favourable treatment of, certain categories of employees, such as pregnant women, workers under the age of 18, workers engaged in dangerous labour conditions or those working in hostile climatic conditions.

Any termination of an employment contract by an employer that is inconsistent with the Labour Code requirements may be invalidated by the court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and the Russian courts generally tend to lean in favour of employees' rights in the majority of cases. Where an employee is reinstated by the court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for any mental distress.

Working hours and salary

The Labour Code sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Statutory annual paid vacation leave is typically 28 calendar days, though employees who perform work in harmful and/or dangerous conditions may be entitled to additional paid vacation ranging from 6 to 36 calendar days. The minimum salary in Russia, as established by the Federal Law, is RUR4,330 per month, as from 1 January 2009.

Trade unions

Although recent Russian labour regulations have curtailed the authority and activities of trade unions, they still retain significant influence over the employees and may affect operations of large industrial companies in Russia. The activities of trade unions are generally governed by the Federal Law No. 10-FZ dated 12 January 1996 "On Trade Unions, Their Rights and Guarantees of Their Activity" (as amended) and the Labour Code of the Russian Federation. Trade unions enjoy certain rights in negotiating collective bargaining agreements and representing their members and other employees in individual and collective labour disputes with the employers.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and, if there is an immediate threat to the lives or health of employees, to suspend work. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws.

Around a quarter of the individuals currently employed by Giproruda are members of a primary trade union organisation which forms part of the St. Petersburg territorial organisation of the Mining & Metallurgical Trade Union of Russia.

GENERAL OVERVIEW OF THE RUSSIAN TAX SYSTEM

Tax and Levies Legislation

The following laws and documents regulate taxpayers' and authorities' rights and obligations regarding taxation:

- The Constitution of the Russian Federation;
- International agreements and treaties (in particular, double taxation treaties), concluded by the Russian Federation;
- The two-part Tax Code of the Russian Federation ("Tax Code"). The first part describes the general principles and rules for taxation, tax control, and the provisions on tax violations. The second part of the Tax Code details the various procedures for paying separate Russian taxes;
- Various laws adopted by the subjects of the Russian Federation on the taxation issues within the authority established by Russian Federation legislation;
- Various laws that regulate the procedure for levying non-significant taxes, which is not included in the second part of the Tax Code (in particular, individual property tax, etc.);
- Various laws that affect taxpayers' rights and obligations and the procedure for determining the taxable base (accounting legislation, legislation on investments and their protection, procedural legislation, etc.);
- Customs payments are governed separately by the Customs Code of the Customs Union of the Russian Federation, Republic of Kazakhstan and Belarus and the Customs Code of the Russian Federation;
- Social insurance contributions are governed by separate Federal Law;
- Regulations from executive authorities, and in particular clarifications of the Ministry of Finance, which can significantly affect procedures for the application of tax rules;
- The Russian legal system does not include case law, and each court ruling technically binds only the parties involved. Nevertheless, the Supreme Arbitrazh Court of the Russian Federation and the Constitutional Court of the Russian Federation issue rulings and guidance for the consistent application of laws and compliance with the main constitutional principles, and this guidance plays an important role in defining the approaches to the application of tax rules.

Russian tax and customs laws and regulations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant local, regional and federal authorities, which have wide discretion to do so. As a result, the Group may be liable for any amounts of unpaid taxes and incur administrative liability. In addition, individuals may be subject to criminal liability in the form of fines up to RUR500,000 or imprisonment up to 6 years.

Principles of taxation

The main principles of taxation applied in Russia are as follows:

- Taxes and levies may be introduced only through legislation adopted in the established procedure. Other means of imposing taxes are illegal;
- International legislation prevails over Russian legislation on taxes and levies, i.e. the rules of international legislation apply in cases when international treaties or conventions, to which the Russian Federation is a party, establish taxation rules that differ from Russian legislation;
- The Tax Code of the Russian Federation summarises the general tax principles, rights and obligations of taxpayers and tax authorities, a description of taxes payable and other provisions;
- Principles for the validity of tax legislation have been established. In accordance with the first part of the Tax Code, acts that deteriorate taxpayers' situations are not retroactive, whereas acts that exempt taxpayers from their obligations or reinforce the protection of taxpayers' rights are retroactive;
- All ineradicable discrepancies in the legislation on taxes and levies are construed in favour of taxpayers;
- The rights and obligations of the authorities authorised to control the tax sphere, as well as taxpayers' rights and obligations, are defined; and
- The rules for conducting tax audits are defined.

The system of taxes and levies in the Russian Federation

The Russian tax system is regulated by the Tax Code and provides for revenues on three budgetary tiers: federal, regional and local. All taxes are legislated at the federal level, although regional and local authorities have the power to set (or reduce) rates and establish procedures for regional or local taxes. Regional authorities can grant concessions with respect to the portion of federal tax payable to the regional budget (this primarily relates to the profits tax).

Federal taxes and levies

At present, the most important federal taxes and levies are:

- Corporate profits tax;

- Value-added tax (VAT);
- Mineral resources extraction tax;
- Excise taxes;
- Personal income tax;
- Obligatory social insurance contributions;
- Payments for the use of natural resources.

Regional taxes

Regional taxes are regulated by both federal legislation and legislations of subjects of the Russian Federation. Most commonly, the basic tax elements (namely, the tax base, rate limits, taxpayers) are established at the federal level, while exact rates, the payment procedure and term for paying the tax are determined at the regional level. Essentially, concessions on regional taxes are established by regional or federal legislation.

The most important regional taxes include:

- Property tax;
- Transport tax.

Local taxes

Local taxes are established by both federal legislation and acts of the governing bodies of a municipality. Certain elements of local taxes (rate limits, basis) are currently established at the federal level. Tax concessions and the taxation procedure are usually established by acts of the governing bodies of a municipality. The following are the most important local taxes and levies:

- Land tax; and
- Individual property tax.

The table below provides general data on the taxation of legal entities:

Tax/*Tax Level*	Current Tax Rates
VAT *Federal Tax*	18 per cent. — standard rate applicable to all supplies of goods, works, and services on the Russian territory, that do not qualify for another rate or exemption. 10 per cent. — rate applicable to supplies of certain food, medical and children's goods. 0 per cent. — rate applicable for the exportation of goods to a destination outside Russia, to transportation of exported goods by Russian organisations, and to some other operations. Exempt supplies include certain banking transactions, the sale of securities, importation of technological equipment which is not produced in Russia and named in the list approved by the Government.
Corporate Income Tax *Federal Tax*	20 per cent. — on profit of Russian companies or foreign companies that have a permanent establishment in Russia (2 per cent. to the federal budget and 18 per cent. to the regional budget). Regional part may be decreased by the regional authorities to 13.5 per cent. for certain categories of taxpayers. 0 per cent. — on income of Russian companies in the form of dividends received from Russian or foreign companies which qualify as "strategic investments". An investment is considered strategic when: • the owner (recipient of dividends) owns at least 50 per cent. of the capital of the payer of dividends, or owns depository receipts entitling it to receive at least 50 per cent. of the total amount of paid dividends. • the share or depository receipts have been owned for at least 365 days on the day dividends are declared. This 0 per cent. rate does not apply to dividends distributed from jurisdictions that are blacklisted by the Ministry of Finance. 9 per cent. — on income in the form of dividends received by Russian companies from Russian and foreign companies that are not "strategic investments". Unless otherwise provided by international agreements, the following withholding tax rates apply to income of foreign companies from sources in Russia, provided that a foreign company does not have a permanent establishment in Russia: 15 per cent. — on income in the form of dividends received by foreign companies from Russian companies.

Tax/*Tax Level*	Current Tax Rates
	20 per cent. — on capital gains (determined as gross income less confirmed expenses) from sale of shares in Russian companies, which assets by more than 50 per cent. consist of immovable property. 20 per cent. — on other income, including interest and royalties.
Mineral resources extraction tax *Federal Tax*	The method of MRET calculation depends on the type of mineral resource. For mineral resources, except crude oil and natural gas, the MRET is calculated as the value of the resource extracted (determined based on specific rules) multiplied by the respective ad valorem tax rates (e.g. 4.8 per cent. for ferrous metals, 6 per cent. for products containing gold).
Property Tax *Regional Tax*	Not more than 2.2 per cent. of the depreciated value of the taxable property according to accounting data.
Transport Tax *Regional Tax*	2 to 50 Roubles per horsepower, depending on the engine power, or 200 Roubles per vehicle for other air-water means of transportation having no engine. Regional legislation may raise or reduce the specified rates, however, by no more than ten times.
Obligatory Social Insurance Contributions *Payments to social funds*	26 per cent. in 2010 (34 per cent. starting from 2011). The same tax base has been established for contributions to all funds. In 2010 the tax base is limited to RUR 415,000 per annum per individual. Income of the foreign nationals not having a residence permit is exempt from taxation.
Obligatory Accident Insurance Contributions (OAIC)	Rates vary from 0.2 per cent. to 8.5 per cent. of the taxable remuneration, depending on the level of professional risk associated with the employer's activity.

PART B: PRC LAWS AND REGULATIONS

Save as set out below, the Directors believe that, as at the date of this prospectus, the Group is in compliance with all material applicable PRC regulatory requirements.

Jiatai Titanium

Employees

Jiatai Titanium has entered into service agreements with certain employees. These service agreements do not contain a number of mandatory provisions required of labour contracts which are recognised under PRC laws, and as a result Jiatai Titanium may be ordered by the labour authority to rectify such non-compliance by entering into labour contracts which contain all necessary mandatory provisions and to compensate its employees for any losses caused by such non-compliance.

In addition, Jiatai Titanium has not completed social insurance registration or opened housing fund accounts for all its employees. Jiatai Titanium is required under PRC laws to register with the social insurance authority and the housing fund authority, and pay social insurance premiums and make housing fund contributions respectively for its employees.

For its failure to complete social insurance registration, the labour authority is entitled to order Jiatai Titanium to complete registration within a specified time limit, and may impose a fine ranging from RMB1,000 to RMB10,000 on the personnel directly responsible. The labour authority or tax authority is also entitled to order Jiatai Titanium to pay, for each employee whose social insurance premium has not been paid by Jiatai Titanium, the outstanding amount within a specified time limit and impose a 0.2 per cent. penalty on the outstanding amount if Jiatai Titanium does not pay within that time limit. The affected employees are also entitled to unilaterally terminate the employment contract and to be fully indemnified by Jiatai Titanium for the unpaid social insurance premiums and relevant compensation.

For Jiatai Titanium's failure to complete housing fund registration or open housing fund accounts for its employees, the housing fund authority is entitled to order Jiatai Titanium to complete housing fund registration or open the housing fund account within a specified time limit and impose a penalty of RMB10,000 to RMB50,000 on Jiatai Titanium if Jiatai Titanium does not complete registration or open account within that time limit. The housing fund authority is also entitled to order Jiatai Titanium to pay, for each employee whose housing fund contribution has not been paid by Jiatai Titanium, the outstanding amount within a specified time limit and apply to the court to enforce performance of the payments if Jiatai Titanium fails to do so within that time limit.

The Directors believe that the aggregate amount of outstanding payments and contributions is approximately US$10,000. If ordered by the labour authority, tax authority or the housing fund authority to carry out any of the above actions or to make the relevant payments, the Group intends to do so within the stated time period. Further, if the Group is successful in its bid to acquire the Chinalco Interest, as set out in the sub-section headed "Jiatai Titanium" of the section headed "Business" in this prospectus, and if not ordered by the labour authority to make rectifications to the service agreements before then, the Group may, where appropriate and amongst other things, arrange with the consent of the relevant employees for those employees to be directly employed by a worker dispatch service provider instead. A labour contract complying with PRC laws will be entered into by the employee and the worker dispatch service provider, and Jiatai Titanium will enter into a worker dispatch service agreement with the worker dispatch service provider. Upon entering into the worker dispatch service agreement, and assuming that the transfer takes place in compliance with PRC laws and the worker dispatch service provider pays the social insurance premiums and makes housing fund contributions as required by PRC law, Jiatai Titanium will no longer be obliged to pay social insurance premiums or make housing fund contributions for those employees in the future.

Property

The land grant price charged by the local government for Jiatai Titanium's land use right over Jiamusi Property was significantly lower than the minimum criteria as stipulated under the National Standards for the Minimum Industrial-use Land Grant Price (全國工業用地出讓最低價標準) effective on 1 January 2007. Under PRC law, there is no express

penalty or consequence against a grantee (in this case Jiatai Titanium) to whom a land use right is granted at a lower price than the statutory minimum. There is, however, a possibility that Jiatai Titanium may be required to make additional payments for the land use right in respect of that same property in the future.

Further, Jiatai Titanium was required under the terms of the land use right grant contract in respect of the Jiamusi Property to commence construction of buildings on the land before 1 July 2009 unless an extension of time was granted by the grantor, Jiamusi Municipal Land and Resources Bureau (佳木斯市國土資源局). As the construction of buildings on the Jiamusi Property has not yet commenced nor has an extension of time in which to commence construction been granted, Jiatai Titanium may be liable for statutory idle land fees under the terms of the land use right grant contract. Under PRC laws and regulations, this statutory idle land fee may be up to 20 per cent. of the land grant price of RMB83,300,000 which amounts to approximately RMB16,660,000. If construction is delayed for two or more years, the grantor is also entitled under the terms of the land use right grant contract to reacquire the land use right without paying any compensation.

Vanadium JV

Employees

The social insurance premiums for some of the Vanadium JV's employees have not been paid by the Vanadium JV as required under PRC law. Those relevant employees at the Vanadium JV were transferred from Jianlong (the Group's joint venture partner at the Vanadium JV) and the process of transferring the social insurance accounts for those employees has recently been completed.

The labour authority or tax authority is entitled to order the Vanadium JV to pay, for each employee whose social insurance premium has not been paid by the Vanadium JV, the outstanding amount within a specified time limit and impose a 0.2 per cent. penalty on the outstanding amount if the Vanadium JV does not pay within that time limit. The affected employees are also entitled to unilaterally terminate the employment contract and to be fully indemnified by Vanadium JV for the unpaid social insurance premiums and relevant compensation.

If ordered by the labour authority or tax authority to make the relevant payments, the Vanadium JV will do so within the stated time period.

Save as otherwise disclosed under this section of the prospectus, the Group has obtained all relevant and necessary permits and licences for its operations in the PRC which are required as at the date hereof. No approval or consent is required from the PRC government or any other regulatory authority in relation to the Listing.

The Group is represented in the PRC by a number of employees placed to liaise with and address any concerns from local governmental bodies in relation to the Group's operation in the PRC. The Group will also seek external assistance, including legal assistance for compliance and regulatory matters, where necessary. The Group has a representative office in the PRC, located in Beijing.

Below is a brief description of several key aspects of the current PRC legal and regulatory regimes applicable to the Group's business.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Business activities may be carried on by foreign investors in the PRC through one of several kinds of business entities: Sino-foreign equity joint ventures ("EJV"), Sino-foreign cooperative joint ventures ("CJV") and wholly foreign-owned enterprises ("WFOE"). These business entities are collectively known as foreign-invested enterprises ("FIE"). Foreign investors not intending to establish a separate legal entity (i.e. FIE) may set up a representative office in the PRC. The key difference between a representative office and a FIE is that only the latter are allowed to engage in direct business activities in the PRC; a representative office may only conduct business liaison activities and market studies for and on behalf of the foreign registered company, and is prohibited from carrying on direct business activities, entering into contracts in the PRC, or receiving monies for any goods or services.

The establishment, operation and management of corporate entities in the PRC are principally governed by the Company Law of the PRC (《中華人民共和國公司法》) effective in 1994, as amended in 1999, 2004 and 2005 respectively. The Company Law is applicable to all limited liability companies and companies limited by shares incorporated in the PRC (including FIEs in the corporate form of limited liability companies and companies limited by shares), but if any PRC laws governing foreign investments contain any other provisions, such provisions shall prevail. In addition to the Company Law of the PRC, FIEs are also governed by numerous laws and regulations on foreign investments, mainly including: the Sino-foreign Equity Joint Ventures Law of the PRC (《中華人民共和國中外合資經營企業法》) effective in 1979, as amended in 1990 and 2001 respectively; the Implementation Rules of the Sino-foreign Equity Joint Ventures Law of the PRC (《中華人民共和國中外合資經營企業法實施條例》) effective in 1983, as amended in 1986, 1987 and 2001 respectively; the Sino-foreign Cooperative Joint Ventures Law of the PRC (《中華人民共和國中外合作經營企業法》) effective in 1988, as amended in 2000; the Implementation Rule of the Sino-foreign Cooperative Joint Ventures Law of the PRC (《中華人民共和國中外合作經營企業法實施細則》) effective in 1995; the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法》) effective in 1986, as amended in 2000; and the Implementation Rules of the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》) effective in 1990, as amended in 2001.

Normally, there are two stages in establishing a FIE in the PRC, namely the approval stage and the registration stage. The application for approval shall be filed with the Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent branches ("MOFCOM"); upon the MOFCOM granting the application and issuing the certificate of approval, the application for registration shall thereafter be filed with State Administration of Industry and Commerce (中華人民共和國國家工商行政管理總局) or its competent branches ("SAIC") to obtain a business licence. The date of issuance of the business licence shall be the establishment date of the FIE. Both Jiatai Titanium and Vanadium JV were incorporated as, and are existing in the form of, EJVs under PRC law, and have obtained the certificate of approval from the MOFCOM and the business licence from the SAIC.

The current corporate law regime in the PRC requires all FIEs to have their business scope approved by and registered with the relevant governmental authorities, depending on the type of business they wish to engage in. The PRC government has published some guidelines for the various industries sectors, each with its own special set of rules which set out the parameters for permitted foreign investment. These guidelines can be found in the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) effective in 2002 and the Catalogue for the Guidance of Foreign Investment (《外商投資產業指導目錄》) promulgated and amended from time to time by the MOFCOM and the National Development and Reform Commission (國家發展與改革委員會), which basically divides industries into four broad categories, namely (1) encouraged, (2) restricted, (3) prohibited and (4) permitted. Industries classified under the encouraged and permitted categories are generally open to foreign investment unless specifically restricted by any other applicable PRC regulations; the restricted category does allow the setting up of FIEs, but the approval process is usually stricter than those prescribed in the encouraged and permitted categories. In addition, some of the restricted industries are limited to equity or cooperative joint ventures, while in some cases the PRC partner is required to hold the majority interests in such joint ventures; the industries classified under the prohibited category are strictly out-of-bound to foreign investors. The production and sale of titanium sponge and vanadium products, the business scope of Jiatai Titanium and the Vanadium JV respectively, fall into the permitted category.

PRC LAWS AND REGULATIONS RELATING TO QUALITY

The revised Product Quality Law of the PRC (《中華人民共和國產品品質法》) was promulgated on 8 July 2000 and became effective on 1 September 2000. The State Council's (國務院) product quality supervision authority is in charge of the nationwide supervision of product quality, while the local product quality supervision authority at or above the county level is responsible for supervising the product quality within its respective administrative region. Producers and sellers shall establish internal quality management systems, implement strict job quality specifications and corresponding quality evaluation procedures. The PRC State encourages the enterprises to ensure that the quality of their products achieve and surpass the industrial, national and international standards.

An enterprise producing products that fail to comply with national standards or specific industrial standards for ensuring the physical health and safety of humans and the protection of property, will be ordered to halt the production and sale of its products; the products illegally produced and/or sold, together with the illegal proceeds therefrom (if any), will be confiscated; a fine of up to three times the value of the products illegally produced or sold will be imposed upon the producer or seller; and where there have been serious violations of these standards, the business licence of the enterprise will be revoked and criminal investigations may be instigated.

PRC LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) effective in 2002, the Implementation Rules on Work Safety Licenses of Dangerous Chemicals Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》) effective in 2004 and the Implementation Rules on Safety Approval for Dangerous Chemicals Construction Projects (《危險化學品建設專案安全許可實施辦法》) effective in 2006, (a) the enterprises that produce or store

dangerous chemicals shall be equipped with the conditions for safe production as provided in the relevant laws, regulations, national standards and industrial standards. Any entity that is not equipped with the conditions for safe production may not engage in production and business operation activities; (b) before the commencement of a construction project in relation to production and storage of dangerous chemicals, a safety assessment report shall be submitted to the competent production safety supervision authority for approval, and acceptance inspection by the competent production safety supervision authority shall be required before such project can commence its operations; and (c) the enterprises that produce or generate dangerous chemicals shall apply for and obtain the work safety licence before commencing its production.

An enterprise that illegally produces, operates or stores any dangerous product without approval will be ordered to cease the illegal activity or to close down its operations, with any illegal proceeds being confiscated. A fine of between one and five times the amount of the illegal proceeds will be imposed if such proceeds are more than RMB100,000, or, if there are no illegal proceeds or if the illegal proceeds are less than RMB100,000, a fine of between RMB20,000 and RMB100,000 will be imposed. In cases where serious consequences have resulted from this illegal activity, criminal investigations may be instigated.

Any enterprise that produces or generates dangerous chemicals without obtaining a work safety licence will be ordered to halt production with confiscation of its illegal proceeds, and a fine of between RMB100,000 and RMB500,000 will be imposed. In cases where serious consequences have resulted from this illegal activity, criminal investigations may be instigated.

PRC LAWS AND REGULATIONS RELATING TO OCCUPATIONAL HEALTH

Pursuant to the Law of the PRC on the Prevention and Treatment of Occupational Diseases (《中華人民共和國職業病防治法》) effective in 2002, an enterprise that engenders the harm of occupational diseases shall report to the relevant health authority and adopt the management measures for the prevention and treatment of occupational disease. Before the commencement of a construction project that may engender the harm of occupational diseases, a report on preliminary evaluation of the harm of occupational diseases shall be submitted to the relevant health authority for approval, and acceptance inspection by the relevant health authority shall be required before such project can commence its operations.

Any enterprise that (a) fails to submit a report on the preliminary evaluation of the harm of occupational diseases before the commencement of a construction project that may give rise to occupational diseases, or starts construction before this report has been examined and approved by the health authority; or (b) uses protective facilities against occupational disease without completing the acceptance inspection by the health authority, shall be ordered to rectify this within a prescribed time limit. A fine of between RMB100,000 and RMB500,000 will be imposed if the non-compliance has not been rectified within this time limit. In severe circumstances, the construction of the project will be suspended or ordered to close down.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The PRC laws and regulations on environmental protection mainly include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) effective in 1989; the Air Pollution Prevention Law of the PRC (《中華人民共和國大氣污染防治法》) effective in 1987, as amended in 1995 and 2000 respectively; the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) effective in 1984, as amended in 1996 and 2008 respectively and the related implementing regulations (《中華人民共和國水污染防治法實施細則》) effective in 2000; the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) effective in 1998; the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建設專案竣工環境保護驗收管理辦法》) effective in 2002; and the Solid Waste Pollution Environmental Prevention Law of the PRC (《中華人民共和國固體廢物污染環境防治法》) effective in 1995, as amended in 2004.

Pursuant to the laws and regulations stated above, an enterprise that discharges and dispenses toxic and hazardous materials including waste water, solid waste and waste gases, shall comply with the applicable national and local standards, as well as reporting to and registering with the applicable environmental protection authority. Failure to comply could result in a warning, an order, or a penalty against the enterprise. Before commencing a construction project, an environmental impact appraisal report shall be submitted to the relevant environmental protection authority for approval. An acceptance inspection by the relevant environmental protection authority is required before the completed project can commence its operations.

The Group's proposed construction projects in the PRC have obtained the environmental protection authority's approvals regarding the projects' environmental impact appraisal reports.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign exchange

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) effective in 1996, as amended in 1997 and 2008 respectively. Under such Regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of the PRC, unless the prior approval of the State Administration of Foreign Exchange (國家外匯管理局) ("SAFE") is obtained and prior registration with the SAFE is made.

Any enterprise that illegally settles and/or transfers foreign exchange into or out of the PRC shall be ordered to repatriate such foreign exchange or conduct corrections in accordance with the SAFE's requirements. A fine of up to 30 per cent. of the amount of the relevant foreign exchange will be imposed. In severe circumstances, a fine of up to the entire amount of the foreign exchange may be imposed, and criminal investigations may be instigated.

Dividend distribution

The dividends paid by the foreign-invested enterprise to its overseas shareholder are deemed as income of the shareholder and are taxable in the PRC. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) became effective on 1 January 2008 and its implementation rules (《中華人民共和國企業所得稅法實施條例》), dividends payable to foreign investors are subject to the PRC withholding tax at the rate of 10 per cent. unless the foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a double taxation arrangement (《對所得避免雙重徵稅和防止偷漏稅的安排》) between the PRC and Hong Kong, which became effective on 1 January 2007, companies incorporated in Hong Kong will be subject to a withholding tax at the rate of 5 per cent. on dividends it receives from a company incorporated in the PRC if it holds 25 per cent. or more equity interests in the PRC company, or 10 per cent. if it holds less than 25 per cent. equity interests in the PRC company.

According to the PRC Administration Law of Tax Collection (《中華人民共和國稅收徵收管理法》), where a taxpayer or withholding agent fails to pay or underpays an amount of tax that is due and payable in respect of a dividend, and such failure remains uncorrected after rectification is ordered by the tax authority, the tax authority may, in addition to pursuing the payment of the outstanding tax by mandatory measures, impose a fine of between 50 per cent. of the outstanding tax and five times the outstanding tax on such taxpayer or withholding agent.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise income tax

The Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) became effective on 1 January 2008, replacing the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》) and Provisional Regulations of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅暫行條例》). The new Enterprise Income Tax Law of the PRC imposes a single uniform tax rate of 25 per cent. for most domestic enterprises and foreign-invested enterprises and contemplates various transitional periods and procedures. The Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) which was promulgated and became effective on 26 December 2007 further clarifies that from 1 January 2008, the enterprises that enjoyed a "Two year exemption and three year half payment" of enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions according to the then applicable tax laws, administrative regulations and relevant documents may, after the enactment of the new Enterprise Income Tax Law of the PRC, continue to enjoy such benefits until the expiration of the applicable period. Enterprises whose preferential treatment period has not commenced due to the fact that no profits had been generated in prior years will enjoy such preferential tax treatment beginning from 1 January 2008 and lasting until the expiry of such period.

Value-added tax

The revised Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) were promulgated on 10 November 2008 and became effective

on 1 January 2009, which apply to both domestic and foreign investment enterprises that sell goods, provide processing services or import goods in the PRC. Except for certain specified categories of goods sold or imported, the value-added tax rate for the sale or import of which is 13 per cent., the tax rate for the sale or import of other goods sold or imported and for the provision of processing services is 17 per cent..

In respect of both enterprise income tax and value added tax, according to the PRC Administration Law of Tax Collection (《中華人民共和國稅收徵收管理法》), where a taxpayer or withholding agent fails to pay or underpays an amount of tax that is due and payable, and such failure remains uncorrected after rectification is ordered by the tax authority, the tax authority may, in addition to pursuing the payment of the outstanding tax by mandatory measures, impose a fine of between 50 per cent. of the outstanding tax and five times the outstanding tax on such taxpayer or withholding agent.

PRC LAWS AND REGULATIONS RELATING TO LABOUR

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》) effective in 1995 and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) effective in 2008, if an employment relationship is established between an entity and its employees, written labour contracts shall be executed. The above laws also provide the maximum number of working hours per day and per week, respectively. The employers shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the State on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards. If an employer fails to execute a written labour contract with its employee within one month after the date on which that employee is hired, the employer will be liable to pay double the salary of such employee. If such failure continues for more than one year after the date on which the employee is hired, an open-ended labour contract (《無固定期限勞動合同》) shall be executed with such employee.

Pursuant to the Regulations on Occupational Injury Insurance (《工傷保險條例》) effective in 2004 and the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) effective in 1995, PRC companies shall pay occupational injury insurance premiums and maternity insurance premiums for their employees. If an employer fails to pay occupational injury insurance premiums for an employee, the labour administrative authority may order rectification. If the employee suffers from any occupational injury during the period in which the employer has not participated in occupational injury insurance, the employer shall make compensation to the extent of the occupational injury insurance benefits which the employee would have been entitled to, had the relevant premiums been paid.

Pursuant to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) effective in 1999 and the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) effective in 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. Both PRC companies and their employees are required to contribute to the social insurance plan. If an employer fails to make social insurance contributions for its employees, the labour administrative authority may order rectification. In severe circumstances, a fine of between RMB1,000 and RMB10,000 may be imposed.

Pursuant to the Regulations on the Administration of Housing Fund (《住房公積金管理條例》) effective in 1999, as amended in 2002, PRC companies shall register with the competent housing fund management centre and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5 per cent. of an individual employee's monthly average wage during the preceding year. If an employer fails to make housing fund contributions for its employees, the labour administrative authority may order rectification, and a fine of between RMB10,000 and RMB50,000 may be imposed.